

Financial Statements
and Other Reports

University of Florida Development Corporation

*Year ended June 30, 2022
with Report of Independent Auditors*



University of Florida Development Corporation

Financial Statements
and Other Reports

Year ended June 30, 2022

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Report of Independent Auditors

Board of Directors
University of Florida Development Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of University of Florida Development Corporation (the Organization) which comprise the statement of net position as of June 30, 2022, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2022, and the related changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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Auditor's Responsibility for the Audit of the Financial Statements (continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Organization's internal control over financial reporting and compliance.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
December 8, 2022

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Introduction

Management's Discussion and Analysis (MD&A) provides a financial performance review that is designed to focus on the financial activities, resulting changes, and currently known facts for the fiscal years ended on June 30, 2022, and 2021, of the University of Florida Development Corporation (UFDC) and blended component unit Innovation Square, LLC, herein referred to as the "Organization." The MD&A should be read in conjunction with the accompanying presented financial statements.

Overview of the Financial Statements and Financial Analysis

The financial section of this report consists of three parts: MD&A (this section), the financial statements, and notes to the financial statements.

The Organization's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applied to an enterprise fund using an accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

Included in the financial statements are the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows, and the related notes.

Financial Analysis of the Organization

Statements of Net Position

The statements of net position reflect the assets and liabilities of the Organization, using the accrual basis of accounting, and present the financial position of the Organization at a specified time. Assets less liabilities equal net position, which is one indicator of the Organization's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Organization's financial condition.

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

The following schedule summarizes the Organization's statements of net position as of June 30, 2022 and 2021:

	2022	2021
Assets		
Current assets	\$ 4,896,569	\$ 2,962,822
Capital assets, net	8,724,349	—
Long term lease receivable	6,312,414	8,980,288
Total assets	\$ 19,933,332	\$ 11,943,110
Liabilities		
Current liabilities	\$ 753,318	\$ 498,145
Noncurrent liabilities	5,075,709	4,864,829
Total liabilities	5,829,027	5,362,974
Deferred inflows of resources	7,500,693	
Net Position		
Net investment in capital assets	\$ 3,648,650	\$ 4,115,459
Unrestricted	2,954,962	2,464,677
Total net position	\$ 6,603,612	\$ 6,580,136

GASB 87

The GASB issued Statement No. 87 for fiscal years beginning after June 15, 2021, which requires organizations to recognize lease assets on the balance sheet and to disclose information about leasing arrangements. See Note 10 for details from the implementation of this standard.

Capital Assets

At June 30, 2022 and 2021, respectively, the Organization had \$15,002,781, and \$14,523,147 in capital assets, less accumulated depreciation of \$6,278,432, and \$5,542,859 for net capital assets of \$8,724,349 and \$8,980,288. Depreciation charges for the fiscal year ended June 30, 2022 and 2021, totaled \$735,573, and \$729,865, respectively.

Please refer to the notes to financial statements for additional explanation.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

Statements of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the Organization's revenue and expense activity, categorized as operating, and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The Organization functions as a single enterprise fund. The primary source of operating revenues was from rental income, which accounted for 87% of operating revenues in fiscal year 2022, and 99% of operating revenues in fiscal year 2021. The increase in operating revenues was primarily due to a refund received for real estate taxes paid in prior years, see Note 11. Operating expenses increased primarily due to higher property taxes, salaries, and repairs and maintenance.

The following summarizes the Organization's activity for the fiscal years ended June 30, 2022, and 2021:

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 2,169,717	\$ 1,922,102
Operating expenses	<u>(2,301,157)</u>	<u>(1,999,626)</u>
Operating loss	(131,440)	(77,524)
Nonoperating revenues (losses)	154,916	(202,121)
Increase (decrease) in net position	<u>\$ 23,476</u>	<u>\$ (279,645)</u>

Statements of Cash Flows

The statement of cash flows provides information about the Organization's financial results by reporting the major sources and uses of cash. This information will assist in evaluating the Organization's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash provided by the operating activities of the Organization. Cash flows from capital and related financing activities include cash provided by and cash used in the acquisition of capital assets.

The following summarizes the Organization's cash flows for the fiscal year ended June 30, 2022:

	<u>2022</u>	<u>2021</u>
Cash flows from:		
Operating activities	\$ 412,439	\$ 598,653
Capital and related financing activities	<u>(463,322)</u>	<u>(578,379)</u>
Net (decrease) increase in cash and cash equivalents	(50,883)	20,274
Cash and cash equivalents, beginning of year	2,677,176	2,656,902
Cash and cash equivalents, end of year	<u>\$ 2,626,293</u>	<u>\$ 2,677,176</u>

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Economic Outlook

Innovation Square, a 25-acre development that bridges the main University of Florida (University) campus and downtown Gainesville, FL, will incorporate retail, commercial, residential, and office space, and is planned as a “new urbanist” development to appeal to the growing cadre of citizens who desire an in-town experience for work and residence. This urban neighborhood will also accommodate spin-off companies primarily from University research and serve as a home for companies recruited to Gainesville nationally and internationally.

The outlook for this development is positive, with interest by developers and companies hoping to locate near the University. Innovation Square has attracted several new companies and, along with its community stakeholders, continues to recruit nationwide. Roads, utility infrastructure, and a park have been completed and will enable further development to proceed more smoothly. The location relative to the University should insulate the development from any potential economic downturn and the lack of viable commercial alternatives in the in-town area will make Innovation Square, with development ready parcels, the most attractive alternative.

Contacting the Organization’s Financial Management

If you have any questions about this report or need additional information, contact the Organization’s management at:

University of Florida Development Corporation
720 SW 2nd Avenue
Suite 108
Gainesville, FL 32601

University of Florida Development Corporation

Statement of Net Position

June 30, 2022

Assets

Current assets:

Cash and cash equivalents	\$ 2,626,293
Accounts receivable	207,459
Short-term lease receivable	1,480,938
Interest receivable	56,825
Due from related party	513,715
Prepaid expenses	<u>11,339</u>
Total current assets	4,896,569

Noncurrent assets:

Capital assets not being depreciated:	
Land	2,320,284
Construction in progress	845,687
Capital assets, net of accumulated depreciation:	
Land improvements	101,308
Buildings and improvements	5,457,070
Long term lease receivable	<u>6,312,414</u>
Total noncurrent assets	<u>15,036,763</u>
Total assets	<u>\$ 19,933,332</u>

Liabilities

Current liabilities:

Accounts payable	\$ 196,779
Accrued property taxes	155,022
Unearned rental revenue	116,643
Tenant deposits payable	3,921
Accrued liabilities	<u>141,000</u>
Total current liabilities	613,365

Noncurrent liabilities:

Unearned rental revenue, noncurrent	139,953
Note payable to Shands	<u>5,075,709</u>
Total noncurrent liabilities	<u>5,215,662</u>

Total liabilities	<u>5,829,027</u>
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Deferred inflow of resources:

Leases	7,500,693
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Net position

Net investment in capital assets	3,648,640
Unrestricted	<u>2,954,972</u>
Total net position	<u>\$ 6,603,612</u>

See accompanying notes.

University of Florida Development Corporation

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2022

Operating revenues:	
Rent	\$ 1,876,999
Other	<u>292,718</u>
Total operating revenues	<u>2,169,717</u>
Operating expenses:	
Professional fees and other services	314,641
Utilities	271,993
Repairs and maintenance	180,804
Memberships and dues	199,109
Property taxes	468,685
Insurance	11,855
Depreciation	735,573
Salaries	85,930
Other operating expenses	<u>32,567</u>
Total operating expenses	<u>2,301,157</u>
Operating loss	(131,440)
Non-operating expenses:	
Interest revenue	365,796
Interest expense	<u>(210,880)</u>
Total non-operating expenses	<u>154,916</u>
Increase in net position	23,476
Net position, beginning of year	<u>6,580,136</u>
Net position, end of year	<u>\$ 6,603,612</u>

See accompanying notes.

University of Florida Development Corporation

Statement of Cash Flows

Year ended June 30, 2022

Cash flows from operating activities	
Rent receipts	\$ 1,874,834
Other receipts	292,718
Cash paid to vendors for goods and services	<u>(1,755,113)</u>
Net cash provided by operating activities	<u>412,439</u>
Cash flows from capital financing activities	
Purchase or construction of capital assets	<u>(463,322)</u>
Net cash used in capital and related financing activities	<u>(463,322)</u>
Net decrease in cash and cash equivalents	(50,883)
Cash and cash equivalents at beginning of year	<u>2,677,176</u>
Cash and cash equivalents at end of year	<u>\$ 2,626,293</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (131,440)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	735,573
Changes in operating assets and liabilities:	
Accounts receivable	(161,927)
Accounts payable	(66,936)
Due to related party	(371,747)
Funds held by University	85,930
Due from related party	877
Prepaid assets and other expenses	8,120
Accrued property taxes	181,435
Unearned rental revenue	(8,446)
Tenant deposits payable	<u>141,000</u>
Net cash provided by operating activities	<u>\$ 412,439</u>

See accompanying notes.

University of Florida Development Corporation

Notes to Financial Statements

Year ended June 30, 2022

1. Summary of Significant Accounting Policies

Reporting Entity

University of Florida Development Corporation (the Organization) is a not for profit entity organized March 28, 2011, for the purpose of promoting the educational mission and purposes of the University of Florida (the University) and promoting, managing, assisting, and developing research in the sciences, technology, business, architecture, agriculture, engineering, and any other fields that further such mission and educational purposes and promote economic development. The Organization is a direct support organization of the University as defined by Section 1004.28, Florida Statutes.

On August 13, 2012, Shands Teaching Hospital and Clinics, Inc. (Shands) formed Innovation Square, LLC, a manager managed, limited liability company for charitable, educational, and scientific purposes and exclusively to further the charitable purposes of its members, the Organization and Shands. On October 18, 2012, the Organization made a contribution of cash to the capital of Innovation Square. Shands had a 77.3% ownership and the Organization had a 22.7% ownership of Innovation Square. The members of Innovation Square, LLC's governing board are identical to those of the Organization's governing board, and the Organization is the managing member and vested with operational responsibility of Innovation Square, LLC. Innovation Square, LLC is a blended component unit of the Organization. On December 11, 2018, the Organization purchased from Shands its ownership interest to obtain 100% ownership of Innovation Square. Transactions between the Organization and Innovation Square, LLC have been eliminated from the accompanying financial statements.

The Organization is a discretely presented component unit of the University and is to be included in the University's Annual Financial Report (AFR).

The Organization is reported as a special purpose entity engaged in business type activities.

Basis of Accounting

The financial statements of the Organization have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under these methods, revenues are recorded when earned and expenses are recognized when they are incurred.

The Organization distinguishes operating revenues and expenses from nonoperating and other items. Operating revenues are those revenues that are generated from the primary operations of the Organization. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the Organization. All other expenses are reported as nonoperating expenses.

University of Florida Development Corporation

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

The Organization follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, an amendment to GASB Statement No. 34 for public colleges and universities to allow the use of the guidance for special-purpose government engaged only in business-type activities, engaged only in governmental activities, or engaged in both governmental and business-type activities in their separately issued reports.

Cash and cash equivalents

The Organization considers all short-term, highly liquid investments that are readily convertible to known amounts of cash with an original maturity of three months or less at the date of acquisition to be cash equivalents.

Capital Assets

Capital assets are stated at cost. Costs of \$2,000 or more are capitalized, and expenditures for repairs and maintenance are expensed in the period incurred. Depreciation is provided over the estimated useful lives of the respective assets using the straight line method. The useful lives of these assets range from 5 to 25 years. When items of equipment and other property are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Capital assets donated are reported at fair value at the time of the donation; however, capital assets donated by related organizations are recorded based on the net book value of these assets in the accounting records of the related organization on the date of donation.

Income Taxes

The Organization is a not for profit corporation established under the laws of the State of Florida and is generally exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements. Innovation Square, LLC, is a Florida limited liability corporation. While Innovation Square, LLC is not a tax exempt entity, it carries out its business activities in a manner consistent with the charitable, education and scientific purposes of its member, which is a not for profit corporation organized under Chapter 617, Florida Statutes, and is exempt from federal taxation. Therefore, no provision for income taxes has been made in the accompanying financial statements.

University of Florida Development Corporation

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Organization and Innovation Square, LLC file tax returns in the U.S. federal jurisdiction. The Organization and Innovation Square, LLC have reviewed and evaluated the relevant technical merits of each of their tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Organization and Innovation Square, LLC. The Organization's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Accounts Receivable

Accounts receivable, which represent unpaid rent and amounts due for reimbursement of construction costs, are stated at the amount management expects to collect from outstanding balances. No amounts due at June 30, 2022, are considered to be uncollectible.

Revenue Recognition

The Organization recognizes revenue in the period in which revenue is earned.

Unearned revenue

Current unearned revenues arise from receipt of rental income prior to the period earned. The unearned revenues are recognized as revenue in the period in which revenue is earned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated subsequent events through December 8, 2022, the date the financial statements were available to be issued. During the period from June 30, 2022 to December 8, 2022, the Organization did not have any material recognizable subsequent events except for those described in Note 12.

University of Florida Development Corporation

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements

In June 2016, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance was effective for fiscal years beginning after December 15, 2019. In response to the coronavirus pandemic, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which extended this effective date by 18 months. The Organization implemented GASB Statement No. 87 as of July 1, 2021.

2. Cash and Cash Equivalents

At June 30, 2022, aggregate bank balances were \$2,626,293. Deposits are maintained with commercial banks which are organized under the laws of the United States and are insured by the Federal Deposit Insurance Corporation up to \$250,000 for all accounts at each financial institution.

University of Florida Development Corporation

Notes to Financial Statements

3. Capital Assets

Capital assets consist of the following at June 30, 2022:

	Balance July 1, 2021	Additions	Reclass	Deletions	Balance June 30, 2022
Capital assets not being depreciated					
Land	\$ 2,320,284	\$ -	\$ -	\$ -	\$ 2,320,284
Construction in progress	<u>374,042</u>	<u>471,645</u>	<u>-</u>	<u>-</u>	<u>845,687</u>
Total capital assets not being depreciated	<u>2,694,326</u>	<u>471,645</u>	<u>-</u>	<u>-</u>	<u>3,165,971</u>
Capital assets being depreciated					
Land improvements	113,293	-	-	-	113,293
Building and improvements	11,688,919	7,989	-	-	11,696,908
Moveable equipment	<u>26,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,609</u>
Total capital assets being depreciated	<u>11,828,821</u>	<u>7,989</u>	<u>-</u>	<u>-</u>	<u>11,836,810</u>
Less: accumulated depreciation					
Land improvements	(7,453)	(4,532)	-	-	(11,985)
Buildings and improvements	(5,508,797)	(731,041)	-	-	(6,239,838)
Moveable equipment	<u>(26,609)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,609)</u>
Total accumulated depreciation	<u>(5,542,859)</u>	<u>(735,573)</u>	<u>-</u>	<u>-</u>	<u>(6,278,432)</u>
Total capital assets being depreciated, net	<u>6,285,962</u>	<u>(727,584)</u>	<u>-</u>	<u>-</u>	<u>5,558,378</u>
Total capital assets, net	<u>\$ 8,980,288</u>	<u>\$ (255,939)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,724,349</u>

University of Florida Development Corporation

Notes to Financial Statements

4. Notes Payable

The Organization issued a note payable to buyout the remaining interest that Shands held in Innovation Square, LLC on December 11, 2018. At June 30, 2022, there is debt outstanding totaling \$5,075,709. The Organization incurred \$210,880 of interest expense during fiscal year ending June 30, 2022, which was added to the note payable principal. Principal amounts will only be due and payable on an annual basis if the Organization meets the net cash balance threshold as determined by the agreement. Any remaining unpaid balance is due on June 30, 2039. There were no principal amounts due at June 30, 2022.

5. Related Party Transactions

Shands, other component units, and several departments within the University lease space in buildings owned by Innovation Square, LLC. Rent earned pursuant to leases with Shands and the University in fiscal year ended June 30, 2022, totaled \$1,023,846.

The table below summarizes the related party activity for fiscal year ended June 30, 2022.

	2022	
	<u>Shands</u>	<u>University</u>
Revenue	\$ 165,772	\$ 858,074

6. Construction Commitments

As of June 30, 2022, renovation is continuing on the roof of the 720 SW 2nd Ave. building. Costs incurred are currently presented as construction in progress on the statement of net position. The Organization estimates the cost to renovate the roof to be approximately \$1,700,000.

7. Risk Management

The Organization purchased conventional commercial insurance coverage for potential exposures in the areas of property and general liability. This insurance was purchased from commercial insurers and is designed to insure against such risks and minimize the Organization's financial exposure.

University of Florida Development Corporation

Notes to Financial Statements

8. Blended Component Unit

Condensed component unit information for Innovation Square, LLC, UFDC, blended component unit, as of and for the year ended June 30, 2022, is as follows:

Condensed Statement of Net Position

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Assets				
Current assets	\$ 4,896,569	\$ 8,043,898	\$ (8,043,898)	\$ 4,896,569
Capital assets, net	8,724,349	-	-	8,724,349
Lease receivable	<u>6,312,414</u>	<u>-</u>	<u>-</u>	<u>6,312,414</u>
Total assets	<u>\$ 19,933,332</u>	<u>\$ 8,043,898</u>	<u>\$ (8,043,898)</u>	<u>\$ 19,933,332</u>
Liabilities				
Current liabilities	\$ 753,318	\$ -	\$ -	\$ 753,318
Noncurrent liabilities	<u>-</u>	<u>5,075,709</u>	<u>-</u>	<u>5,075,709</u>
Total liabilities	<u>\$ 753,318</u>	<u>\$ 5,075,709</u>	<u>\$ -</u>	<u>\$ 5,829,027</u>
Deferred inflow	<u>\$ 7,500,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,500,693</u>
Net position				
Net investment in capital assets	\$ 8,724,359	\$ -	\$ (5,075,709)	\$ 3,648,650
Unrestricted	<u>2,954,962</u>	<u>2,968,189</u>	<u>(2,968,189)</u>	<u>2,954,962</u>
Total net position	<u>\$ 11,679,321</u>	<u>\$ 2,968,189</u>	<u>\$ (8,043,898)</u>	<u>\$ 6,603,612</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Operating revenues	\$ 2,169,717	\$ -	\$ -	\$ 2,169,717
Depreciation expense	(735,573)	-	-	(735,573)
Other operating expense	<u>(1,565,584)</u>	<u>-</u>	<u>-</u>	<u>(1,565,584)</u>
Operating loss	(131,440)	-	-	(131,440)
Non-operating revenue	365,796	-	-	365,796
Non-operating expense	<u>-</u>	<u>(210,880)</u>	<u>-</u>	<u>(210,880)</u>
Increase (decrease) in position	234,356	(210,880)	-	23,476
Net position, beginning of year	<u>11,444,965</u>	<u>2,079,171</u>	<u>(6,944,000)</u>	<u>6,580,136</u>
Net position, end of year	<u>\$ 11,679,321</u>	<u>\$ 1,868,291</u>	<u>\$ (6,944,000)</u>	<u>\$ 6,603,612</u>

University of Florida Development Corporation

Notes to Financial Statements

8. Blended Component Unit (continued)

Condensed Statement of Cash Flows

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Net cash provided by (used in):				
Operating activities	\$ 412,439	\$ -	\$ -	\$ 412,439
Capital and related financing activities	<u>(463,322)</u>	<u>-</u>	<u>-</u>	<u>(463,322)</u>
Net increase in cash and cash equivalents	(50,883)	-	-	(50,883)
 Cash and cash equivalents, beginning of year	<u>2,677,176</u>	<u>-</u>	<u>-</u>	<u>2,677,176</u>
Cash and cash equivalents, end of year	<u>\$ 2,626,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,626,293</u>

9. Condominium Association

Innovation Square, LLC is an ownership member of the Clarence T. Ayers Medical Plaza Condominium Association, Inc. (Association) located at 720 SW 2nd Avenue, Gainesville, Florida. The Association is for the North Tower only of the Clarence T. Ayers Medical Plaza Building (Building) and associated parking lots near the Building. Innovation Square, LLC owns approximately 85% of the property comprising the Association and is in the process of acquiring other units within the Building.

University of Florida Development Corporation

Notes to Financial Statements

10. Operating Leases

In June 2017, the GASB issued Statement No. 87. Leases to increase transparency and comparability among organizations by recognizing lease assets on the balance sheet and disclosing key information about leasing arrangements. The new standard is effective for fiscal years beginning after June 15, 2021.

	<u>Year ending June 30, 2022</u>
Lease-related revenue	
Lease revenue	
Office Space	\$ <u>1,672,378</u>
Total lease revenue	1,672,378
Interest revenue	365,796
Variable and other revenue	<u>-</u>
Total	<u>\$ 2,038,174</u>

Future lease revenue is as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>
2023	\$ 1,480,938	\$ 293,965	\$ 1,774,903
2024	1,541,547	236,803	1,778,350
2025	943,785	188,218	1,132,003
2026	904,640	148,160	1,052,800
2027	825,511	110,384	935,895
2028-2032	794,237	328,031	1,122,268
2033-2037	-	315,822	315,822
2038-2042	-	347,405	347,405
2043-2047	-	361,082	361,082
2048-2052	-	382,145	382,145
2053-2057	-	420,360	420,360
2058-2062	-	462,396	462,396
2063-2067	-	508,636	508,636
2068-2072	-	528,661	528,661
2073-2077	127,438	432,062	559,500
2078-2082	362,543	252,906	615,449
2083-2087	534,828	142,165	676,993
2088-2092	<u>277,885</u>	<u>15,302</u>	<u>293,187</u>
Total	<u>\$ 7,793,352</u>	<u>\$ 5,474,503</u>	<u>\$ 13,267,855</u>

11. Contingencies

As of June 30, 2022, the Organization received a favorable ruling with Alachua County on certain units being qualified for tax exempt status. The Organization received a property tax refund of approximately \$258,000 as a result of the favorable ruling. This is included in other revenues on the statement of revenues, expenses, and changes in net position.

University of Florida Development Corporation

Notes to Financial Statements

12. Subsequent Events

In September of 2022, the Organization and Shands Teaching Hospital (Shands) entered into an agreement whereby the remaining balance (\$5,075,709) of the note owed to Shands will be forgiven. In consideration of the loan forgiveness between the Organization and Shands, The University of Florida Board of Trustees (UFBOT) will provide Shands the long-term use of property located at 1600 SW 14th Street, Gainesville, Florida, comprising of 2.19 acres and all existing improvements.

Title to the property is held by the Board of Trustees of the Internal Improvement Trust Fund (TIITF) and is currently managed by UFBOT under TIITF Lease No. 2734 (Master Lease). The property will be assigned to Shands through an amendment to the existing Restated and Amended Lease Agreement (Shands Lease) dated 1993 between Shands and UFBOT, adding the property to the defined Leased Premises, allowing full use and future development of the property as provided therein and subject to the Master Lease.

Other Reports

Report of Independent Auditors on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Trustees
University of Florida Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University of Florida Development Corporation (the Organization), which comprise the statement of net position as of June 30, 2022, and the related statement of revenues, expenses, and changes in net positions and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
December 8, 2022