

**UNIVERSITY OF FLORIDA
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
University of Florida Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Florida Development Corporation, a component unit of the University of Florida, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University of Florida Development Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

University of Florida Development Corporation management's is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Florida Development Corporation as of June 30, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

- 1 -

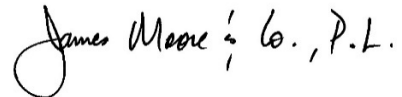
Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 November 11, 2020 on our consideration of the University of Florida Development Corporation'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 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 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 the University of Florida Development Corporation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large, looped initial "J".

Gainesville, Florida
November 11, 2020

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 and 2019**

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, 2020, 2019 and 2018, 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.

The following schedule summarizes the Organization's statements of net position as of June 30, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Current assets	\$ 2,680,613	\$ 2,367,865	\$ 2,344,986
Capital assets, net	9,131,773	9,688,400	10,119,990
Total assets	<u>\$ 11,812,386</u>	<u>\$ 12,056,265</u>	<u>\$ 12,464,976</u>
Liabilities			
Current liabilities	\$ 289,897	\$ 285,816	\$ 297,834
Noncurrent liabilities	4,662,708	4,444,000	-
Total liabilities	<u>\$ 4,952,605</u>	<u>\$ 4,729,816</u>	<u>\$ 297,834</u>
Net Position			
Net investment in capital assets	\$ 4,469,065	\$ 5,244,400	\$ 10,119,990
Unrestricted	2,390,716	2,082,049	2,047,152
Total net position	<u>\$ 6,859,781</u>	<u>\$ 7,326,449</u>	<u>\$ 12,167,142</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

Capital Assets

At June 30, 2020, 2019 and 2018, respectively, the Organization had \$13,944,767, \$13,782,283, and \$13,509,758 in capital assets, less accumulated depreciation of \$4,812,994, \$4,093,883, and \$3,389,768 for net capital assets of \$9,131,772, \$9,688,400, and \$10,119,990. Depreciation charges for the fiscal years ended June 30, 2020, 2019 and 2018, totaled \$719,111, \$704,115, and \$646,585, respectively.

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

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present 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 94% of operating revenues in fiscal years 2020 and 100% of operating revenues in fiscal years 2019 and 2018. The increase in operating expenses in 2020 was mainly due to increased professional fees and repairs and maintenance. The increase in nonoperating expenses in 2020 is due to the buyout of the remaining interest that Shands held in Innovation Square, LLC.

The following summarizes the Organization's activity for the fiscal years ended June 30, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 1,745,078	\$ 1,888,946	\$ 1,616,749
Operating expenses	<u>(1,993,038)</u>	<u>(2,285,639)</u>	<u>(2,238,989)</u>
Operating loss	(247,960)	(396,693)	(622,240)
Nonoperating revenues (losses)	<u>(218,708)</u>	<u>(4,444,000)</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ (466,668)</u>	<u>\$ (4,840,693)</u>	<u>\$ (622,240)</u>

Statements of Cash Flows

The statements of cash flows provide 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 (used in) 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.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

The following summarizes the Organization's cash flows for the fiscal years ended June 30, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash flows from:			
Operating activities	\$ 465,027	\$ 372,851	\$ 45,521
Capital and related financing activities	(162,484)	(272,525)	(481,818)
Net increase (decrease) in cash and cash equivalents	302,543	100,326	(436,297)
Cash and cash equivalents, beginning of year	2,354,359	2,254,033	2,690,330
Cash and cash equivalents, end of year	<u>\$ 2,656,902</u>	<u>\$ 2,354,359</u>	<u>\$ 2,254,033</u>

Economic Outlook

The Innovation District (formally 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 long-term outlook for this development remains positive, with steady interest from developers and companies interested in locations close to the University and downtown Gainesville. Short term, however, remains unclear as the COVID-19 pandemic continues and directly impacts the way we live and work. Many businesses have been financially impacted, forcing layoffs and furloughs across the nation. Locally, the retail sector has experienced the most severe impact, followed by office and student housing. Though the pandemic is viewed as temporary, and at some point a vaccine or other spread control will contain the virus, long term trends will likely emerge that could have an impact on commercial real estate and dense residential projects. More employees working from home, for example, will likely impact the demand for office space and office layouts. Gainesville and Alachua County may be positively impacted from the increased desire to relocate out of major cities into less densely populated areas. As the pandemic subsides and the economy recovers, the Innovation District is poised to capture increased development activity due to its location, available pad ready sites and existing utility infrastructure.

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
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 2,656,902	\$ 2,354,359
Accounts receivable	23,711	13,506
Total current assets	2,680,613	2,367,865
Noncurrent assets		
Capital assets not being depreciated:		
Land	2,320,284	2,320,284
Construction in progress	20,424	101,123
Capital assets, net of accumulated depreciation:		
Land improvements	110,372	9,735
Buildings and improvements	6,676,569	7,247,812
Movable equipment	4,124	9,446
Total noncurrent assets	9,131,773	9,688,400
Total assets	\$ 11,812,386	\$ 12,056,265
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	\$ 77,982	\$ 98,725
Accrued property taxes	138,347	123,742
Unearned rental revenue	59,875	50,994
Tenant deposits payable	13,585	12,355
Due to related party	108	-
Total current liabilities	289,897	285,816
Noncurrent liabilities		
Note payable to Shands	4,662,708	4,444,000
Total liabilities	\$ 4,952,605	\$ 4,729,816
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	\$ 4,469,065	\$ 5,244,400
Unrestricted	2,390,716	2,082,049
Total net position	\$ 6,859,781	\$ 7,326,449

The accompanying notes to financial statements
are an integral part of these statements.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Rent	\$ 1,741,677	\$ 1,772,417
Other	3,401	116,529
Total operating revenues	<u>1,745,078</u>	<u>1,888,946</u>
Operating expenses		
Professional fees and other services	311,113	462,662
Utilities	289,825	313,443
Repairs and maintenance	188,511	252,401
Memberships and dues	182,667	214,502
Property taxes	270,106	291,854
Insurance	22,748	11,559
Depreciation	719,111	704,115
Supplies	-	11,255
Other operating expenses	8,957	23,848
Total operating expenses	<u>1,993,038</u>	<u>2,285,639</u>
Operating loss	<u>(247,960)</u>	<u>(396,693)</u>
Non-operating expenses		
Interest	218,708	-
Buyout of remaining minority investor's interest in Innovation Square	-	(4,444,000)
Decrease in net position	<u>(466,668)</u>	<u>(4,840,693)</u>
Net position, beginning of year	7,326,449	12,167,142
Net position, end of year	<u><u>\$ 6,859,781</u></u>	<u><u>\$ 7,326,449</u></u>

The accompanying notes to financial statements
are an integral part of these statements.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Rent receipts	\$ 1,741,583	\$ 1,871,172
Other receipts	3,401	116,529
Cash paid to vendors for goods and services	(1,279,957)	(1,614,850)
Net cash provided by operating activities	<u>465,027</u>	<u>372,851</u>
Cash flows from capital and related financing activities		
Purchase or construction of capital assets	(162,484)	(272,525)
Net cash used in capital and related financing activities	<u>(162,484)</u>	<u>(272,525)</u>
Net increase in cash and cash equivalents	<u>302,543</u>	<u>100,326</u>
Cash and cash equivalents, beginning of year	2,354,359	2,254,033
Cash and cash equivalents, end of year	<u><u>\$ 2,656,902</u></u>	<u><u>\$ 2,354,359</u></u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (247,960)	\$ (396,693)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	719,111	704,115
Changes in assets and liabilities:		
Accounts receivable	(10,205)	74,456
Accounts payable	(20,743)	25,581
Due to related party	108	-
Prepaid assets and other expenses	-	2,991
Accrued property taxes	14,605	(61,898)
Unearned rental revenue	8,881	13,432
Tenant deposits payable	1,230	10,867
Net cash provided by operating activities	<u><u>\$ 465,027</u></u>	<u><u>\$ 372,851</u></u>
Supplemental disclosure of noncash capital and related financing activities		
The following items are recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statements of cash flows:		
Buyout of remaining minority investor's interest in Innovation Square through issuance of note payable	\$ -	\$ (4,444,000)

The accompanying notes to financial statements
are an integral part of these statements.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies of the University of Florida Development Corporation (UFDC) and its blended component unit, Innovation Square, LLC, herein collectively referred to as the “Organization,” which affect the accompanying financial statements.

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

(a) **Reporting entity**—UFDC is a not-for-profit entity organized March 28, 2011, for the purpose of promoting the educational mission and purposes of 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. UFDC 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, UFDC and Shands. On October 18, 2012, UFDC made a contribution of cash to the capital of Innovation Square. Shands had a 77.3% ownership and UFDC had a 22.7% ownership of Innovation Square. The members of Innovation Square, LLC’s governing board are identical to those of UFDC’s governing board, and UFDC is the managing member and vested with operational responsibility of Innovation Square, LLC. Innovation Square, LLC is a blended component unit of UFDC. On December 11, 2018, UFDC purchased from Shands its 77.3% to obtain 100% ownership of Innovation Square. Transactions between UFDC and Innovation Square, LLC have been eliminated from the accompanying financial statements.

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

(b) **Measurement focus, basis of accounting, and financial statement presentation**—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.

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 governments 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.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(1) **Summary of Significant Accounting Policies:** (Continued)

(c) **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.

(d) **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.

(e) **Income taxes**—UFDC 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 members, both of which are not-for-profit corporations organized under Chapter 617, Florida Statutes, and are exempt or have applied to be exempt from federal taxation. Therefore, no provision for income taxes has been made in the accompanying financial statements.

UFDC and Innovation Square, LLC file tax returns in the U.S. federal jurisdiction. UFDC 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 UFDC 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.

(f) **Use of estimates**—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(g) **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, 2020 or 2019 are considered to be uncollectible.

(h) **Revenue recognition**—The Organization recognizes revenue in the period in which revenue is earned.

(i) **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.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(2) **Cash and Cash Equivalents:**

At June 30, 2020 and 2019, aggregate bank balances were \$2,703,824 and \$2,356,884, respectively. 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 (FDIC) up to \$250,000 for all accounts at each financial institution.

(3) **Capital Assets:**

Capital assets consist of the following at June 30, 2020:

	Balance July 1, 2019	Additions	Reclass	Deletions	Balance June 30, 2020
Capital assets not being depreciated					
Land	\$ 2,320,284	\$ -	\$ -	\$ -	\$ 2,320,284
Construction in progress	101,123	20,424	(101,123)	-	20,424
Total capital assets not being depreciated	<u>2,421,407</u>	<u>20,424</u>	<u>(101,123)</u>	<u>-</u>	<u>2,340,708</u>
Capital assets being depreciated					
Land improvements	12,170	-	101,123	-	113,293
Buildings and improvements	11,322,097	142,060	-	-	11,464,157
Movable equipment	26,609	-	-	-	26,609
Total capital assets being depreciated	<u>11,360,876</u>	<u>142,060</u>	<u>101,123</u>	<u>-</u>	<u>11,604,059</u>
Less: Accumulated depreciation					
Land improvements	2,435	486	-	-	2,921
Buildings and improvements	4,074,285	713,303	-	-	4,787,588
Movable equipment	17,163	5,322	-	-	22,485
Total accumulated depreciation	<u>4,093,883</u>	<u>719,111</u>	<u>-</u>	<u>-</u>	<u>4,812,994</u>
Total capital assets being depreciated, net	<u>7,266,993</u>	<u>(577,051)</u>	<u>101,123</u>	<u>-</u>	<u>6,791,065</u>
Total capital assets, net	<u>\$ 9,688,400</u>	<u>\$ (556,628)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,131,773</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) **Capital Assets:** (Continued)

Capital assets consist of the following at June 30, 2019:

	Balance July 1, 2018	Additions	Reclass	Deletions	Balance June 30, 2019
Capital assets not being depreciated					
Land	\$ 2,320,284	\$ -	\$ -	\$ -	\$ 2,320,284
Construction in progress	110,914	56,774	(66,565)	-	101,123
Total capital assets not being depreciated	<u>2,431,198</u>	<u>56,774</u>	<u>(66,565)</u>	<u>-</u>	<u>2,421,407</u>
Capital assets being depreciated					
Land improvements	12,170	-	-	-	12,170
Buildings and improvements	11,039,781	215,751	66,565	-	11,322,097
Movable equipment	26,609	-	-	-	26,609
Total capital assets being depreciated	<u>11,078,560</u>	<u>215,751</u>	<u>66,565</u>	<u>-</u>	<u>11,360,876</u>
Less: Accumulated depreciation					
Land improvements	1,948	487	-	-	2,435
Buildings and improvements	3,375,978	698,307	-	-	4,074,285
Movable equipment	11,842	5,321	-	-	17,163
Total accumulated depreciation	<u>3,389,768</u>	<u>704,115</u>	<u>-</u>	<u>-</u>	<u>4,093,883</u>
Total capital assets being depreciated, net	<u>7,688,792</u>	<u>(488,364)</u>	<u>66,565</u>	<u>-</u>	<u>7,266,993</u>
Total capital assets, net	<u>\$ 10,119,990</u>	<u>\$ (431,590)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,688,400</u>

(4) **Note Payable:**

The Organization issued a note payable to buy out the remaining interest that Shands held in Innovation Square, LLC on December 11, 2018. At June 30, 2020 and 2019, there is debt outstanding totaling \$4,662,708 and \$4,444,000, respectively. The Organization incurred \$218,708 of interest expense during fiscal year June 30, 2020 of which Shands added to the note payable total. 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, 2020 and 2019, respectively.

(5) **Related Party Transactions:**

Neither UFDC nor Innovation Square, LLC has employees, but in prior years, the Organization paid for services rendered by employees of the University and Shands. During the fiscal years ended June 30, 2020 and 2019, no amount was incurred for services provided by employees of the University or Shands.

Shands, 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 years ended June 30, 2020 and 2019, totaled \$819,971 and \$926,387, respectively.

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(5) **Related Party Transactions:** (Continued)

Operational expenses for services rendered to the Organization and Clarence T. Ayers Medical Plaza Condominium Association, Inc. (Ayers) are disbursed from the Organization's account and reconciled each month through reimbursement. As of June 30, 2020, a total of \$108 was due from the Organization to Ayers for an expense to be refunded.

The Organization purchased postage, office supplies, web hosting services, printing services, and ID cards from the University during fiscal years ended June 30, 2020 and 2019 at a cost of \$618 and \$875, respectively.

The table below summarizes the related party activity for fiscal years ended June 30, 2020 and 2019.

	<u>2020</u>		<u>2019</u>	
	<u>Shands</u>	<u>University</u>	<u>Shands</u>	<u>University</u>
Revenue	\$ 291,581	\$ 528,390	\$ 410,229	\$ 516,158
Expenses	-	618	-	875

(6) **Construction Commitments:**

As of June 30, 2020, the Organization has plans to renovate the roof of the 720 SW 2nd Ave. building. Architectural plans are current presented as Construction in Progress on the financial statements. In addition, HVAC software upgrade expenses are presented as Construction in Progress. The Organization estimates the cost to renovate the roof to be approximately \$2,100,000.

(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.

(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, 2020, 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	\$ 2,680,613	\$ 6,944,000	\$ (6,944,000)	\$ 2,680,613
Capital assets, net	9,131,773	-	-	9,131,773
Total assets	<u>\$ 11,812,386</u>	<u>\$ 6,944,000</u>	<u>\$ (6,944,000)</u>	<u>\$ 11,812,386</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(8) **Blended Component Unit:** (Continued)

Liabilities				
Current liabilities	\$ 289,897	\$ -	\$ -	\$ 289,897
Noncurrent liabilities	-	4,662,708	-	4,662,708
Total liabilities	<u>\$ 289,897</u>	<u>\$ 4,662,708</u>	<u>\$ -</u>	<u>\$ 4,952,605</u>
Net position				
Net investment in capital assets	\$ 9,131,773	\$ -	\$ (4,662,708)	\$ 4,469,065
Unrestricted	2,390,716	2,281,292	(2,281,292)	2,390,716
Total net position	<u>\$ 11,522,489</u>	<u>\$ 2,281,292</u>	<u>\$ (6,944,000)</u>	<u>\$ 6,859,781</u>

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

	Innovation Square, LLC	UFDC	Eliminations	Total Organization
Operating revenues	\$ 1,745,078	\$ -	\$ -	\$ 1,745,078
Depreciation expense	(719,111)	-	-	(719,111)
Other operating expense	(1,273,927)	-	-	(1,273,927)
Operating loss	(247,960)	-	-	(247,960)
Non-operating expense	-	(218,708)	-	(218,708)
Decrease in net position	(247,960)	(218,708)	-	(466,668)
Net position, beginning of year	11,770,449	2,500,000	(6,944,000)	7,326,449
Net position, end of year	<u>\$ 11,522,489</u>	<u>\$ 2,281,292</u>	<u>\$ (6,944,000)</u>	<u>\$ 6,859,781</u>

Condensed Statement of Cash Flows

	Innovation Square, LLC	UFDC	Eliminations	Total Organization
Net cash provided by (used in):				
Operating activities	\$ 465,027	\$ -	\$ -	\$ 465,027
Capital and related financing activities	(162,484)	-	-	(162,484)
Net increase in cash and cash equivalents	302,543	-	-	302,543
Cash and cash equivalents, beginning of year	2,354,359	-	-	2,354,359
Cash and cash equivalents, end of year	<u>\$ 2,656,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,656,902</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(8) **Blended Component Unit:** (Continued)

Condensed component unit information for Innovation Square, LLC, UFDC blended component unit, as of and for the year ended June 30, 2019, is as follows:

Condensed Statement of Net Position

	Innovation Square, LLC	UFDC	Eliminations	Total Organization
Assets				
Current assets	\$ 2,367,865	\$ 6,944,000	\$ (6,944,000)	\$ 2,367,865
Capital assets, net	9,688,400	-	-	9,688,400
Total assets	<u>\$ 12,056,265</u>	<u>\$ 6,944,000</u>	<u>\$ (6,944,000)</u>	<u>\$ 12,056,265</u>
Liabilities				
Current liabilities	\$ 285,816	\$ -	\$ -	\$ 285,816
Noncurrent liabilities	-	4,444,000	-	4,444,000
Total liabilities	<u>\$ 285,816</u>	<u>\$ 4,444,000</u>	<u>\$ -</u>	<u>\$ 4,729,816</u>
Net position				
Net investment in capital assets	\$ 9,688,400	\$ -	\$ (4,444,000)	\$ 5,244,400
Unrestricted	2,082,049	2,500,000	(2,500,000)	2,082,049
Total net position	<u>\$ 11,770,449</u>	<u>\$ 2,500,000</u>	<u>\$ (6,944,000)</u>	<u>\$ 7,326,449</u>

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

	Innovation Square, LLC	UFDC	Eliminations	Total Organization
Operating revenues	\$ 1,888,946	\$ -	\$ -	\$ 1,888,946
Depreciation expense	(704,115)	-	-	(704,115)
Other operating expense	(1,581,524)	-	-	(1,581,524)
Operating loss	<u>(396,693)</u>	<u>-</u>	<u>-</u>	<u>(396,693)</u>
Decrease in net position	(396,693)	-	-	(396,693)
Buyout of Shands interest	-	-	(4,444,000)	(4,444,000)
Net position, beginning of year	12,167,142	2,500,000	(2,500,000)	12,167,142
Net position, end of year	<u>\$ 11,770,449</u>	<u>\$ 2,500,000</u>	<u>\$ (6,944,000)</u>	<u>\$ 7,326,449</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(8) **Blended Component Unit:** (Continued)

Condensed Statement of Cash Flows

	Innovation Square, LLC	UFDC	Eliminations	Total Organization
Net cash provided by (used in):				
Operating activities	\$ 372,851	\$ -	\$ -	\$ 372,851
Capital and related financing activities	(272,525)	-	-	(272,525)
Net increase in cash and cash equivalents	100,326	-	-	100,326
Cash and cash equivalents, beginning of year	2,254,033	-	-	2,254,033
Cash and cash equivalents, end of year	<u>\$ 2,354,359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,354,359</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, FL. 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 83% of the property comprising the Association and is in the process of acquiring other units within the Building.

(10) **Operating Leases:**

The Organization acts as the lessor of certain real properties to various tenants. At June 30, 2020, the Organization had non-cancellable operating leases with 20 commercial tenants. Future minimum rentals to be received on non-cancellable leases are as follows:

Fiscal Year Ending June 30	Amount
2021	\$ 1,491,067
2022	1,272,223
2023	1,033,226
2024	699,804
2025	99,947
Thereafter	-
Total future minimum rentals	<u>\$ 4,596,246</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(11) **Contingencies:**

As of June 30, 2020, UFDC is currently in dispute with the County on certain units being qualified for tax-exempt status. UFDC estimates that if the County denies tax exempt status, estimated back payments for property taxes in fiscal years 2018 and 2019, and for current fiscal year 2020 will result in additional \$276,606 in property tax expense. UFDC believes a favorable outcome is probable and does not anticipate to pay these additional property taxes.

(12) **Recently Issued Accounting Pronouncements:**

GASB issued Statement No. 87, Leases, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions in GASB 87 are effective for periods beginning after June 15, 2021. The Organization is currently evaluating the impact this statement will have on its financial statements.

GASB issued Statement No. 89, Interest Cost in Construction, in June 2018. GASB 89 was made to enhance the comparability of information about capital assets and the cost of borrowing for a reported period, and aims to simplify accounting for interest cost incurred before the end of a construction period. The provisions in GASB 89 are effective for periods beginning after June 15, 2021. The Organization is currently evaluating the impact this statement will have on its financial statements.

(13) **Subsequent Events:**

During the year ended June 30, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to UFDC as of November 11, 2020, management believes that a material impact on the UFDC's financial position and results of future operations is reasonably possible.

**INDEPENDENT AUDITORS' REPORT 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**

To the Board of Directors,
University of Florida Development Corporation:

We have audited in accordance with 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 (UFDC) which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the years ended and the related notes to the financial statements and have issued our report thereon dated November 11, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered UFDC's internal control over financial reporting (internal control) as a basis for designing the 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 UFDC's internal control. Accordingly, we do not express an opinion on the effectiveness of UFDC'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.

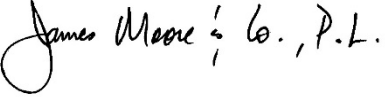
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UFDC's financial statements are free of 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, 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 UFDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering UFDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.

Gainesville, Florida
November 11, 2020