

**UNIVERSITY OF FLORIDA  
INVESTMENT CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**JUNE 30, 2018 AND 2017**  
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## INDEPENDENT AUDITORS' REPORT

The Board of Directors,  
University of Florida Investment Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of Florida Investment Corporation (UFICO), a direct support organization and component unit of the University of Florida, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the UFICO's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

UFICO's management 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.

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UFICO as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

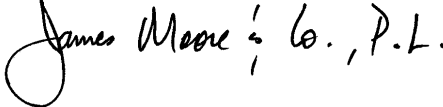
***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 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 a report dated August 13, 2018 on our consideration of UFICO's internal control over financial reporting and 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 UFICO'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, looping initial "J".

Gainesville, Florida  
August 13, 2018

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018 AND 2017**

**INTRODUCTION**

The University of Florida Investment Corporation (UFICO), a not-for-profit corporation, is a direct support organization of the University of Florida (UF). UFICO is self-supporting, and does not receive any State support. UFICO's purpose is to promote the educational purposes of UF by providing investment research, advice, counsel, and management to UF and affiliated organizations.

**OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

The Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of UFICO for the fiscal years ended June 30, 2018 and 2017, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statement Nos. 37, 38, 63, and 65. The MD&A, the financial statements, and the notes thereto are the responsibility of UFICO management.

Pursuant to GASB Statement No. 63, UFICO's financial report includes three basic financial statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows.

The Statements of Net Position consist of current and non-current assets and liabilities. The Statements of Revenues, Expenses, and Changes in Net Position characterize revenues and expenses as either operating or non-operating. Finally, the Statements of Cash Flows consist of cash flows from operating, capital and related financing, and investing activities.

**SUMMARY OF NET POSITION**

The Statements of Net Position reports all financial and capital resources of UFICO at the end of the fiscal year. Net position over time can be a useful indicator of an entity's financial position. The condensed Statements of Net Position follows:

**UFICO's Net Position**

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Current assets	\$ 2,019,118	\$ 2,095,898
Long term assets	1,307,462	989,893
Total assets	3,326,580	3,085,791
Current liabilities	1,601,557	1,561,517
Long term liabilities	1,307,462	989,414
Total liabilities	2,909,019	2,550,931
Total unrestricted net position	\$ 417,561	\$ 534,860

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018 AND 2017**  
(Continued)

**Highlights**

UFICO's total assets exceeded total liabilities as of June 30, 2018 and 2017 by \$417,561 and \$534,860, respectively.

UFICO's total assets increased by \$240,789 or 7.8% in 2018. The biggest component of this change was in management fees receivable, which increased by \$659,844 mainly due to an increase in management fee revenue and the timing of fee payments from investors. In addition, cash and cash equivalents decreased by \$426,460 in 2018 primarily due to cash used in operating activities of \$439,278.

In addition, total liabilities increased by \$358,088 or 14.0% in 2018. The increase is mainly related to the deferred compensation plan having more participants and the participants being in the plan for a longer period of time.

**SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The Statements of Revenues, Expenses, and Changes in Net Position present the revenues earned and expenses incurred during each year. The operating revenues and expenses are related to providing investment management services. Non-operating revenues are not related to investment management services, such as interest income. UFICO strives to operate on a financial breakeven basis generating revenue sufficient to cover operating costs. Expenses are the driver for revenue that is billed to investors. A condensed Summary of Revenues, Expenses, and Changes in Net Position follows:

**UFICO's Revenues, Expenses, and Changes in Net Position**

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Operating revenues		
Management fees, net	\$ 4,260,192	\$ 3,643,079
Total operating expenses	(4,390,309)	(3,487,501)
Operating income (loss)	(130,117)	155,578
Non-operating revenues	12,818	4,345
Change in net position	\$ (117,299)	\$ 159,923

**Highlights**

The management fee revenue for the current year increased \$617,113 or 16.9% over the prior year. The increase over the prior year is due to additional fees needed to offset increases in salaries, benefits, and payroll taxes.

Total operating expenses for the current year were also in line with budget and increased by \$902,808 or 25.9% over the prior year. The increase relates to salary, benefits, and payroll taxes as the investment team was fully staffed.

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018 AND 2017**  
(Continued)

**SUMMARY OF CASH FLOWS**

The Statements of Cash Flows provide information about UFICO's cash receipts and disbursements. The operating activities presents cash flows related to UFICO's operating income or loss along with changes in receivables and payables in the Statements of Net Position. The investing activities present cash flows from purchases, proceeds, or income received from investing activities.

**UFICO's Cash Flows**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash provided by (used in):		
Operating activities	\$ (439,278)	\$ 582,150
Investing activities	12,818	4,345
Net change in cash and cash equivalents	(426,460)	586,495
Cash and cash equivalents, beginning of year	1,663,001	1,076,506
Cash and cash equivalents, end of year	<u>\$ 1,236,541</u>	<u>\$ 1,663,001</u>

**Highlights**

The decrease in cash flow in the current year is due to the cash impact of the increase in management fees receivable. Expenses were incurred before the associated revenue was received, billed to, and collected from investors.

**ECONOMIC OUTLOOK**

UFICO's economic outlook is closely related to and largely dependent on the management fees received. Management fees are directly related to assets under management. This income source is expected to remain fairly stable, with moderate growth over the long-term.

**CONTACTING MANAGEMENT**

This financial narrative is designed to provide you with a general overview of UFICO's finances and to show accountability for the various revenues we receive. If you have questions about this report or need additional financial information, please contact:

University of Florida Investment Corporation  
4510 NW 6<sup>th</sup> Place, 2<sup>nd</sup> Floor  
Gainesville, FL 32607  
(352) 392-1693

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,236,541	\$ 1,663,001
Due from investment funds	191,437	226,608
Management fees receivable - current portion	402,563	17,712
Due from University of Florida	175,000	175,000
Prepaid expenses and other current assets	13,577	13,577
Total current assets	2,019,118	2,095,898
<b>Property and equipment, net</b>	-	479
<b>Management fees receivable, less current portion</b>	1,140,192	865,199
<b>Investments - deferred compensation - 457(b) plan</b>	167,270	124,215
<b>Total assets</b>	3,326,580	3,085,791
<b><u>LIABILITIES</u></b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	1,466,417	1,543,805
Deferred compensation - current portion	135,140	17,712
Total current liabilities	1,601,557	1,561,517
<b>Long-term liabilities</b>		
Deferred compensation, less current portion	1,140,192	865,199
Deferred compensation - 457(b) plan	167,270	124,215
Total long-term liabilities	1,307,462	989,414
<b>Total liabilities</b>	2,909,019	2,550,931
<b><u>NET POSITION</u></b>		
<b>Net position</b>		
Unrestricted	\$ 417,561	\$ 534,860

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



**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating revenues</b>		
Management fees, net	\$ 4,260,192	\$ 3,643,079
Total operating revenues	<u>4,260,192</u>	<u>3,643,079</u>
<b>Operating expenses</b>		
Salaries, benefits and payroll taxes	3,922,377	3,126,322
Services purchased	7,500	7,500
Travel	135,974	104,138
General operating	324,458	249,541
Total operating expenses	<u>4,390,309</u>	<u>3,487,501</u>
<b>Operating income (loss)</b>	<u>(130,117)</u>	<u>155,578</u>
<b>Nonoperating revenues</b>		
Interest	12,818	4,165
Gain on sale of furniture and equipment	-	180
Total nonoperating revenues	<u>12,818</u>	<u>4,345</u>
<b>Change in net position</b>	<u>(117,299)</u>	<u>159,923</u>
<b>Net position, beginning of year</b>	534,860	374,937
<b>Net position, end of year</b>	<u>\$ 417,561</u>	<u>\$ 534,860</u>

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

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Cash received from management fees	\$ 3,300,348	\$ 3,952,766
Cash paid to vendors	(475,590)	(115,330)
Cash paid to employees	(3,264,036)	(3,255,286)
Net cash provided by (used in) operating activities	(439,278)	582,150
<b>Cash flows from investing activities</b>		
Interest income	12,818	4,165
Proceeds from sale of furniture and equipment	-	180
Net cash provided by investing activities	12,818	4,345
<b>Net increase (decrease) in cash and cash equivalents</b>	(426,460)	586,495
<b>Cash and cash equivalents, beginning of year</b>	1,663,001	1,076,506
<b>Cash and cash equivalents, end of year</b>	\$ 1,236,541	\$ 1,663,001
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>		
Operating income (loss)	\$ (130,117)	\$ 155,578
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization expense	479	719
Changes in assets and liabilities:		
Due from investment funds	35,171	(137,564)
Management fees receivable	(659,844)	9,687
Due from University of Florida	-	250,000
Accounts payable and accrued expenses	(77,388)	313,417
Deferred compensation payable	392,421	(9,687)
Total adjustments	(309,161)	426,572
Net cash provided by (used in) operating activities	\$ (439,278)	\$ 582,150

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

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

(1) **Significant Accounting Policies:**

The following is a summary of the more significant accounting policies and practices of the University of Florida Investment Corporation, which affect the elements of the accompanying financial statements.

(a) **Organization**—The University of Florida Investment Corporation (UFICO) is a not-for-profit entity that commenced business July 1, 2004, to promote the educational purposes of the University of Florida (“the University” or “UF”) by providing investment research, advice, counsel and management to and for the University of Florida Board of Trustees and affiliated organizations of the University. UFICO functions as a direct support organization of the University and is a component unit (for accounting purposes only) of the University.

In May 2009, UFICO, LLC (the Subsidiary) was formed and its sole member is UFICO. The Subsidiary began operations on July 1, 2009, for the purpose of acting as general partner or managing member of the investment funds managed by UFICO. The Subsidiary has no significant commitments or contingencies as general partner or managing member of the investment funds managed by UFICO. Further, the Subsidiary has no capital ownership or profit/loss sharing in the investment funds managed by UFICO. There was no financial activity for the Subsidiary during the years ended June 30, 2018 and 2017.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The financial statements of UFICO have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reports.

For financial reporting purposes, UFICO is considered a special purpose government entity engaged only in business-type activities. Accordingly, UFICO prepares its financial statements using the economic resources measurement focus and the accrual basis of business enterprises. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

The entire net position of UFICO is considered to be unrestricted, in accordance with the purpose and bylaws of UFICO.

(c) **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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates relate to the unpaid portion of employee incentive compensation at year-end. These estimates impact the calculation of the noncurrent portion of management fees receivable, accrued expenses, and deferred compensation. These estimates may be adjusted as more current information becomes available, and any adjustment could be material.

(d) **Cash and cash equivalents**—Cash and cash equivalents consist of cash in operating accounts and cash invested in money market funds, and have original maturities of three months or less.

(e) **Management fees receivable**—Management fees receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are considered uncollectible after management has used reasonable collection efforts are written off through a charge to the

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

valuation allowance and a credit to management fees receivable. No amounts due at June 30, 2018 and 2017, are considered to be uncollectible. Management fees that have been earned but are not due to be collected during the next fiscal year are reflected as noncurrent assets in the accompanying statements of financial position.

(f) **Property and equipment**—Furniture, equipment and leasehold improvements purchased with a cost of \$5,000 or more are capitalized and depreciated over their estimated useful lives, generally five years using the straight-line method. Depreciation expense was \$479 and \$719 for the years ended June 30, 2018 and 2017, respectively.

(g) **Income taxes**—UFICO is generally exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur, including changes to UFICO's status as a not-for-profit entity. Management believes the Organization met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax, therefore no provision for income taxes has been provided in these financial statements. UFICO's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

(h) **Classification of Revenues**—UFICO classifies its revenues as operating or nonoperating according to the following criteria:

- *Operating Revenues*—Include activities that have the characteristics of exchange transactions, such as royalty and licensing fees.
- *Nonoperating Revenues*—Include activities that have characteristics of nonexchange transactions, such as investment income.

(i) **Net position**—Net position may be classified and displayed in three components:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets
- Restricted - consists of assets that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets. Restricted net position consists of capital contributions received for specific future capital projects.
- Unrestricted – consists of assets that are available to UFICO for any legal use.

UFICO did not have restricted assets for the years ended June 30, 2018 and 2017.

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

(2) **Management Fees:**

Management fees are billed and received at the beginning of each quarter and are computed based on UFICO budgeted management fees and the market value of the assets as reported by the custodian at the previous quarter-end. The asset valuations used in the fee calculations include all funds and assets under management, including cash and accrued income. Annualized fees charged were 0.15% and 0.13% of assets under management for the years ended June 30, 2018 and 2017, respectively. In addition, UFICO aims to maintain a reserve based on next fiscal year budgeted expenses and rebates management fees that are in excess of the reserve. Management fees earned during the years ended June 30, 2018 and 2017, were derived from UFICO's agreements with the University of Florida and various affiliated organizations of UF (collectively, the UF entities) as described in Note 3.

(3) **Related Party Transactions:**

The University of Florida Foundation (the Foundation) processes various disbursements on behalf of UFICO, and UFICO reimburses the Foundation for these disbursements. The Foundation provides these services to UFICO for an annual fee of \$7,500 for each of the years ended June 30, 2018 and 2017. Included in accounts payable and accrued expenses at June 30, 2018 and 2017, is \$314,941 and \$363,671, respectively, due to the Foundation.

UFICO pays various investment expenses and enters into various agreements on behalf of the investment funds that it manages. The investment funds reimburse these expenses to UFICO on a quarterly basis. Included in due from investment funds at June 30, 2018 and 2017, is \$191,437 and \$226,608, respectively, due to UFICO from these investment funds.

UFICO has management agreements with each of the UF entities. These agreements range from three to five years with one-year automatic extensions unless terminated by either party. Information regarding management fees receivable and investment balances at June 30 is as follows:

	<b>Management Fees Receivable</b>		<b>Investment Balance (In Millions)</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
University of Florida Foundation	\$ 1,045,510	\$ 607,756	\$ 1,758	\$ 1,635
University of Florida	260,503	154,919	674	736
University of Florida Athletic Association	1,229	5,974	6	6
Florida Proton Therapy Institute	-	-	31	26
Shands Teaching Hospital & Clinics	235,513	114,262	548	510

The management fees receivable above are presented on a gross basis. There were rebates payable to investors of \$300,000 as of June 30, 2017 and no rebates payable at June 30, 2018.

The management fees receivable is related to the deferred compensation liability described in Note 6.

UFICO has an agreement with UF where excess operating cash is held by UF on behalf of UFICO. All earnings, losses and associated fees related to these funds will be retained or paid by UF. UFICO has same day liquidity in regards to these funds up to \$10,000,000. A withdrawal of more than \$10,000,000 requires two days written notice. The balances of these funds held by UF are \$175,000 at June 30, 2018 and 2017. These funds are shown as Due from University of Florida on the Statements of Net Position.

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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(4) **Cash and Cash Equivalents:**

UFICO maintains an operating cash account with a national bank with a bank balance of \$123,107 and \$300,057 at June 30, 2018 and 2017, respectively. This account is federally insured up to FDIC limits.

UFICO also maintains a money market account with a bank balance of \$1,113,434 and \$1,362,944 at June 30, 2018 and 2017, respectively. This account is not insured by the FDIC.

(5) **Property and Equipment:**

Property and equipment and the related accumulated depreciation and amortization at June 30, 2018 and 2017, are summarized as follows:

	<b>2018</b>	<b>2017</b>
Equipment	\$ 121,547	\$ 121,547
Leasehold improvements	50,977	50,977
Total	172,524	172,524
Accumulated depreciation and amortization	(172,524)	(172,045)
Total property and equipment, net	\$ -	\$ 479

(6) **Deferred Compensation Agreement:**

UFICO maintains a deferred compensation bonus plan covering certain employees. Under this plan, certain employees are eligible for an annual bonus. For the 2018 fiscal year, 75% of the calculated bonus is payable as soon as reasonably possible after the bonus is determined. The remaining 25%, plus investment earnings, is payable to the employee three years after it is earned, provided the employee has continued employment with UFICO. For the 2017 fiscal year, 50% was payable after the bonus is determined and 50% is deferred for three years. As of June 30, 2018 and 2017, \$1,275,332 and \$882,911 in bonuses and related fringe benefits, respectively, have been accrued under this plan.

(7) **Retirement Plan:**

UFICO has an Internal Revenue Code Section 403(b) retirement savings plan (the Plan) covering substantially all of its employees. Participants are eligible to receive nonelective contributions from UFICO after six months of service and become immediately vested in UFICO's nonelective contribution account. For the years ended June 30, 2018 and 2017, UFICO contributed \$195,833 and \$178,375, respectively, to the Plan.

(8) **Investments and Fair Value Measurements:**

The fair value measurement accounting literature provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that UFICO has the ability to access.

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**(8) Investments and Fair Value Measurements:** (Continued)

Level 2 – Inputs to the valuation methodology include: (1) quoted market prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in inactive markets, (3) inputs other than quoted prices that are observable for the asset or liability, and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s and liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes to the methodologies used at June 30, 2018 and 2017.

*Deferred compensation – 457(b) plan investment* – Valued at quoted market prices of shares held by UFICO at year end.

*Deferred compensation – 457(b) plan liability* – Valued at the corresponding balance in the investment account at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although UFICO believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The deferred compensation plan investment and liability amounts of \$167,270 and \$124,215 as of June 30, 2018 and 2017, respectively, are recorded in UFICO's financial statements at fair value. Plan assets are invested in a short-term bond fund and a large value stock fund, both of which are traded on an active market. As such, the investment and liability amounts are categorized as Level 1 in the fair value hierarchy.

**(9) Operating Lease:**

UFICO currently has a five year lease for office space effective October 1, 2009. This lease has been extended through December 31, 2018. Additionally, UFICO has a ten year lease for office space effective September 2017. Payments on this lease will begin in fiscal year 2019 once building improvements have been completed. Rent expense for the years ended June 30, 2018 and 2017, was \$112,833 and \$112,833, respectively. Future payments required under these operating leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 126,860
2020	192,258
2021	202,613
2022	212,424
2023	220,410
Thereafter	1,331,088
	<u>\$ 2,285,653</u>

**UNIVERSITY OF FLORIDA INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

(10) **Recent Accounting Pronouncements:**

GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB No. 84 seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2018. Management is still evaluating the impact of this pronouncement on UFICO's financial statements.

GASB issued Statement No. 87, *Leases*, in June 2017. GASB No. 87 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 established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in GASB No. 87 are effective for periods beginning after December 15, 2019. Management is still evaluating the impact of this pronouncement on UFICO's financial statements.



**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**

The Board of Directors,  
University of Florida Investment 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 the business-type activity of the University of Florida Investment Corporation (UFICO), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise UFICO's basic financial statements, and have issued our report thereon dated August 13, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered UFICO's internal control over financial reporting (internal control) to determine 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 UFICO's internal control. Accordingly, we do not express an opinion on the effectiveness of UFICO'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.

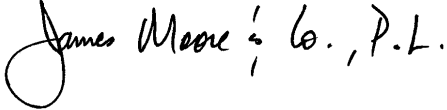
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during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

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether UFICO'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 determination of financial statement amounts. 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.

James Moore & Co., P.L.

Gainesville, Florida  
August 13, 2018