

FAU Finance Corporation (A Component Unit of Florida Atlantic University)

Financial Report
For the Year Ended June 30, 2021



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
FAU Finance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of FAU Finance Corporation (the "Corporation"), a direct support organization and component unit of Florida Atlantic University (the "University"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 Corporation, as of June 30, 2021, and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Corporation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements, in our report dated October 20, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 1, 2021, on our consideration of the 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 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 Corporation'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 the Corporation's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
November 1, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the FAU Finance Corporation (the "Corporation"), a direct support organization and component unit of Florida Atlantic University (the "University") for the fiscal years ended June 30, 2021 and 2020, 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*, and as subsequently amended. The MD&A, and financial statements and notes thereto, are the responsibility of the Corporation's management. Pursuant to GASB Statement No. 35, the Corporation's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

FINANCIAL HIGHLIGHTS

The Corporation was incorporated on August 12, 2009 as a not-for-profit organization. It was established to assist the activities and educational purposes of the University by providing finance and investment - related assistance in connection with the acquisition or construction of capital or other University projects.

In August 2017, the Corporation issued \$ 40,035,000 of Tax-Exempt Capital Improvement Refunding Revenue Bonds (Football Stadium) Series 2017, which refunded the Series 2010 – Taxable Capital Improvement Revenue Bonds, to finance the construction of a 30,000 seat stadium. This Bond bears an interest rate of 2.61% (subject to adjustment) through maturity on July 2040. In July 2012, the Corporation issued Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project) Series 2012A totaling \$ 46,205,000 which mature beginning in July 2014 through July 2042. The Bond has interest rates ranging from 3% to 5% with semiannual interest payments due on the first of July and January beginning in January 2014. In addition, the Corporation issued Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project) Series 2012B, which refunded the Series 2010B - Taxable Bonds in November 2012. The Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project) Series 2012B totaling \$ 3,440,000 mature beginning in July 2013 through July 2025, with an interest rate ranging from 2.17% to 2.64%. Additionally, the Corporation issued \$ 120,900,000 of Taxable Capital Improvement Revenue Bonds (Student Housing Project) Series 2010. The Series 2010 was subsequently refinanced in January 2019, totaling \$ 90,600,000. The Tax-Exempt Capital Improvement Refunding Revenue Bonds (Innovation Village) Series 2019A has interest rates ranging from 4% to 5% through maturity on July 2039. In November 2019, the Corporation issued \$ 68,190,000 of Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project) Series 2019B, to finance the construction of new student housing on both the Boca Raton and Jupiter campuses. This Bond has interest rates ranging from 4% to 5% through maturity on July 2049.

The Corporation's assets and deferred outflows totaled approximately \$ 250.9 million and \$ 254.4 million at June 30, 2021 and 2020, respectively. These balances reflect approximately \$ 48.0 million and \$ 95.1 million of deposits with a fiscal agent held in connection with the sale of bonds at June 30, 2021 and 2020, respectively. The Corporation's net revenues totaled approximately \$ 23.9 million and \$ 38.0 million representing earnings/losses on funds held with fiscal agent, housing revenues, and athletic fees, for the years ended June 30, 2021 and 2020, respectively. Majority of all funds held with fiscal agent are invested in the State of Florida Special Purpose Investment Account (SPIA). Expenses totaled approximately \$ 25.6 million and \$ 35.5 million, for the years ended June 30, 2021 and 2020, respectively.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements and notes thereto, and other required supplemental information or requests for additional financial information should be addressed to the Vice President for Financial Affairs, FAU Finance Corporation, 777 Glades Road, Boca Raton, Florida 33431.

FINANCIAL STATEMENTS



FAU Finance Corporation
Statement of Net Position
June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets:		
Current Assets:		
Cash in bank	\$ 6,995,057	\$ 3,294,513
Cash with fiscal agent - restricted	29,303,718	33,571,639
Accounts receivable	1,125	58,816
Due from University - cash collected	878,520	454,121
Due from University - housing receivable	-	2,998,020
Due from Foundation	31,213	29,052
Total current assets	<u>37,209,633</u>	<u>40,406,161</u>
Noncurrent Assets:		
Cash with fiscal agent - restricted	18,660,159	61,495,633
Prepaid land lease and other	7,677,685	7,942,764
Capital assets, on leased land (net of depreciation)	181,484,516	138,398,315
Total noncurrent assets	<u>207,822,360</u>	<u>207,836,712</u>
Total assets	<u>\$ 245,031,993</u>	<u>\$ 248,242,873</u>
Deferred Outflow of Resources:		
Deferred charge on refunding	<u>\$ 5,869,991</u>	<u>\$ 6,205,419</u>
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 4,404,020	\$ 536,372
Interest payable	5,014,611	5,131,191
Due to University	719,841	697,891
Due to University - housing collection	754,968	-
Unearned revenue	559,399	419,068
Bonds payable - due within one year	5,795,000	5,570,000
Total current liabilities	<u>17,247,839</u>	<u>12,354,522</u>
Long-term liabilities:		
Bonds payable - due in more than one year	225,800,000	231,595,000
Unamortized premiums, net	20,502,135	21,456,440
Total long-term liabilities	<u>246,302,135</u>	<u>253,051,440</u>
Total liabilities	<u>\$ 263,549,974</u>	<u>\$ 265,405,962</u>
Net Position (Deficit):		
Net investment in capital assets	(16,354,979)	(21,827,273)
Restricted for debt service and reserve	9,267,581	9,932,883
Restricted for repair and replacement of capital assets	5,078,769	7,641,854
Unrestricted (deficit)	(10,639,361)	(6,705,134)
Total net position (deficit)	<u>\$ (12,647,990)</u>	<u>\$ (10,957,670)</u>

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

FAU Finance Corporation
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Operating Revenues (Expenses):		
Housing revenue	\$ 24,237,858	\$ 29,903,811
Operating expenses	(11,867,031)	(16,159,120)
Depreciation expense	(6,448,084)	(6,431,668)
Total operating income	<u>5,922,743</u>	<u>7,313,023</u>
Nonoperating Revenues (Expenses):		
Athletic revenues	1,962,534	3,654,683
Interest income	1,196,540	2,081,474
Unrealized gains (losses)	(3,467,728)	2,378,947
Contributions to the University, net	(50,000)	(1,227,951)
Other non-operating expenses	(350,000)	(4,542,482)
Interest expense	(6,904,409)	(7,135,136)
Nonoperating expenses, net	<u>(7,613,063)</u>	<u>(4,790,465)</u>
Changes in net position	(1,690,320)	2,522,558
Net Position (Deficit):		
Beginning of year	(10,957,670)	(13,480,228)
End of year	<u>\$ (12,647,990)</u>	<u>\$ (10,957,670)</u>

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

FAU Finance Corporation
Statement of Cash Flows
For the Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flow From Operating Activities		
Cash paid to suppliers	\$ (10,867,351)	\$ (16,627,542)
Housing contracts – dormitory fees	26,804,388	30,074,171
Net cash provided by operating activities	<u>15,937,037</u>	<u>13,446,629</u>
Cash Flow From Capital and Related Financing Activities		
Payment of interest	(7,607,235)	(4,528,895)
Acquisition of capital assets	(44,000,282)	(22,307,501)
Proceeds from bond	-	68,190,000
Payment of principal	(4,210,000)	(2,805,000)
Unamortized premiums	(954,305)	9,467,482
Deferred charge on refunding	335,428	335,429
Net cash provided by (used in) capital and related financing activities	<u>(56,436,394)</u>	<u>48,351,515</u>
Cash Flow From Non-Capital and Related Financing Activities		
Contributions to the University, net	(50,000)	(1,227,951)
Payment of interest	(980,104)	(1,012,972)
Payment of principal	(1,360,000)	(1,330,000)
Athletic fees	2,107,798	4,066,004
Other non-operating expenses	(350,000)	(4,542,482)
Net cash used in non-capital and related financing activities	<u>(632,306)</u>	<u>(4,047,401)</u>
Cash Flow From Investing Activities		
Interest received	1,196,540	2,081,474
Net cash provided by investing activities	<u>1,196,540</u>	<u>2,081,474</u>
Non-Cash Investing Activities		
Unrealized gain (loss) on cash held in SPIA	(3,467,728)	2,378,947
Net non-cash provided by (used in) investing activities	<u>(3,467,728)</u>	<u>2,378,947</u>
Net increase (decrease) in cash	(43,402,851)	62,211,164
Cash:		
Beginning of year	98,361,785	36,150,621
End of year	<u>\$ 54,958,934</u>	<u>\$ 98,361,785</u>
Classified as:		
Cash with fiscal agent – restricted (Note 2)	\$ 47,963,877	\$ 95,067,272
Cash in bank	6,995,057	3,294,513
	<u>\$ 54,958,934</u>	<u>\$ 98,361,785</u>

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

FAU Finance Corporation
Statement of Cash Flows
For the Year Ended June 30, 2021
(continued)
(with comparative totals for 2020)

Reconciliation of Net Operating Income to Net Cash

Provided by Operating Activities:

Net operating income	\$ 5,922,743	\$ 7,313,023
Depreciation expense	6,448,084	6,431,668
Loss on disposal of capital assets	-	198,059
(Increase) decrease in accounts receivable	57,691	(58,816)
(Increase) decrease in due from University, net	2,566,527	170,360
(Increase) decrease in prepaid land lease and other	265,079	323,903
Increase (decrease) in accounts payable	74,112	213,783
Increase (decrease) in due to University, net	602,801	(1,145,351)
Net cash provided by operating activities	<u>\$ 15,937,037</u>	<u>\$ 13,446,629</u>

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

FAU Finance Corporation
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 1. Description and Nature of Organization and Significant Accounting Policies

On August 12, 2009, the FAU Finance Corporation (the "Corporation") was incorporated as a not-for-profit organization under the laws of the State of Florida. The Corporation is a direct support organization of the Florida Atlantic University (the "University"), a part of the State university system of public universities. The Corporation has been organized to assist the activities and educational purposes of the University by providing finance and investment-related assistance in connection with the acquisition or construction of capital or other University projects, including but not limited to the structuring of debt relating thereto. The governing body of the Corporation is its Board of Directors (the "Board"). The Board is responsible for managing, supervising and controlling the business, property, affairs and funds of the Corporation. The Directors of the Corporation are appointed in the following manner – (a) one appointed Director shall be the President of the University or the President's designee; (b) one appointed Director shall be appointed by the chair of the University Board of Trustees; and (c) a minimum of three (3) additional Directors shall be appointed by the President of the University and must be approved by the University's Board of Trustees. Each Director must have demonstrated outstanding qualities of leadership or managerial ability. The University's Board of Trustees can unilaterally allow for a decertification of the Corporation and cause for dissolution of the Corporation, resulting in all assets reverting to the University. Consequently, the Corporation meets the criteria for inclusion in the University's reporting entity as a component unit.

A summary of the Corporation's significant accounting policies follows:

Basis of presentation: The Corporation is engaged in a single business-type activity whose operations are primarily supported by user fees and charges. The statements were prepared in accordance with the Government Accounting Standards Board ("GASB") codification section 2100, which establishes standards for defining and reporting of the financial reporting entity. The Corporation maintains a proprietary fund which reports transactions related to activities similar to those found in the private sector. As such, the Corporation presents only the statements required of enterprise funds, which include the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

The Corporation previously adopted GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 requires that the statement of net position report assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and the difference between them as net position/deficit. Net position represents the residual interest in the Corporation's assets and consists of three sections: net invested in capital assets, restricted net position and unrestricted net position/deficit. The net position component, net invested in capital assets, consists of all capital assets, net of accumulated depreciation, less the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvements of those assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 1. Description and Nature of Organization and Significant Accounting Policies
(continued)

The accounting and financial reporting treatments applied to a fund are determined by its measurement focus. The Corporation's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Corporation's revenues are generated primarily from operations of the dormitory and stadium facilities. The Corporation's policy is to use restricted resources first, then unrestricted resources when both are available for use to fund activity.

Accounting 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, deferred inflows/outflows, 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. Actual results could differ from those estimates.

Income taxes: The Corporation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Date of management review: The Corporation's management has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 1, 2021, the date the financial statements were available to be issued.

Restricted assets: Assets required to be segregated by contractual obligations are identified as restricted assets. Restricted assets at June 30, 2021, represent funding required to be segregated by the Series 2012B – Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project), Series 2012A – Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project), Series 2017 – Tax-Exempt Capital Improvement Refunding Revenue Bonds (Football Stadium Project), Series 2019A – Tax-Exempt Capital Improvement Refunding Revenue Bonds (Student Housing Project), and Series 2019B – Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project) contractual obligations.

Cash: For purposes of the statement of cash flows, cash and cash equivalents include the State of Florida Special Purpose Investments ("SPIA") accounts, money market funds, and cash on hand at the statement date. The fair value of the Corporation's position in the SPIA is the same as the value of the pooled shares. SPIA funds are combined with State funds and invested as part of the Treasury Investment Pool in various short-term liquid investments and fixed income securities. The funds can be withdrawn at any time and are reported at fair value. The Corporation considers all highly liquid investments with a maturity of 3 months or less when purchased, to be cash equivalents.

Note 1. Description and Nature of Organization and Significant Accounting Policies (continued)

Prepaid land lease and other: In 2010, the Corporation prepaid to the University the sum of \$ 12,000,000 which represents the total sum for the ground rent of a facility site located on the Boca Raton Campus of the University on which student housing facilities and related surface parking was constructed. The lease also provided the Corporation with a leasehold interest in certain existing student dormitory housing facilities on the Boca Raton Campus of the University. The original term of the land lease balance was amortized on a straight-line basis over 30 years. In 2019, the Corporation issued new underlying debt for a longer period modifying the term of the lease. The prepaid lease balance was amortized on a straight-line basis over the remaining 30 years in conjunction with the new debt. The unamortized prepaid lease balance at June 30, 2021 and 2020 was \$ 7,677,685 and \$ 7,942,764, respectively.

In 2019, the Corporation entered into an agreement with the University for the ground lease of a facility site located on Jupiter Campus of the University on which student housing facilities are constructed. There is no financial obligation due to the University for the lease agreement. The lease expires May 2105.

Capital assets, on leased land: Capital assets, which include property, plant, and equipment assets, are reported in the statement of net position. The Corporation capitalizes all capital assets with a cost in excess of a \$ 5,000 threshold and an estimated life greater than one year. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available.

Depreciation on buildings and improvements, furniture, fixtures, and equipment are computed on the straight-line basis over the lesser of the useful life of the asset or the land lease term. Depreciation of buildings and improvements, furniture, fixtures and equipment are being computed over terms ranging from 7 to 30 years.

Construction in progress: Construction in progress is stated at cost and included costs related to construction and capital projects on the University dormitories. At June 30, 2021, construction in progress included capitalized interest of approximately \$ 5,070,000.

Deferred outflows/inflows of resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation has one item that qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 1. Description and Nature of Organization and Significant Accounting Policies (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Corporation does not have any items that qualify for reporting in this category.

Unearned revenue: Cash collected in advance for services that have not yet been provided. Stadium ticket revenues and athletic fees collected in advance are deferred until the relevant activity has commenced in which period the revenue is then recognized.

Bond premium: Bond premiums are amortized using the effective interest method over the life of the related bond.

Expenses: Operating expenses are those costs incurred for the day to day operation of the Corporation. All other expenses, including contributions made to the University, are reported as non-operating expenses.

Operating expenses as reported on the statement of revenues, expenses and changes in net position are comprised of the following categories of expenses:

Category	2021	2020
Salaries and benefits	\$ 6,376,277	\$ 6,693,193
Utilities	1,862,278	1,984,808
Repairs and maintenance	733,205	1,499,099
Communications	672,576	388,386
Supplies	374,271	414,256
Other operating costs	1,848,424	5,179,378
	\$ 11,867,031	\$ 16,159,120

Revenues: Operating Revenues – Housing contract dormitory revenues are recognized in the period in which housing is provided to students.

Nonoperating revenues – In general, athletic fees are recognized in the period in which goods/services are provided and when seating is made accessible for stadium facility events. Contributions from University, including capital contributions, are recognized as revenues when eligibility requirements are met. Interest income and related gains (losses) are recognized in the period earned.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 2. Cash

Investments: The Corporation is authorized to invest in State of Florida Special Purpose Investment Accounts (SPIA), U.S. Treasury Bills, Notes, Bonds and Strips and other obligations whose principal interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities, Government Sponsored Enterprises, Asset-Backed Securities rated “AAA” by either S&P or Moody’s, Money Market Instruments rated “A1/P”, Corporate Notes rated single A or higher, Money Market Funds registered with the Securities and Exchange Commission (SEC) or other investments authorized by the Corporation’s Board of Directors.

SPIA pooled investments with the State Treasury are not registered with the SEC. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Council per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. SPIA pooled investments are recorded at fair value based on net asset value of the pool, which is consistent with the treatment of “2a-7 like” pool.

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

A significant portion of all the Corporation’s recurring fair value measurements as of June 30, 2021 and 2020, are valued based on the Corporation’s share of the pool (Level 3 inputs). The remaining amounts are money market funds for the year ended June 30, 2021 and 2020, which are measured at amortized cost.

Cash and investments with fiscal agent are amounts restricted by debt agreements and are held in the following accounts at June 30, 2021 and 2020:

Account	Noncurrent	Current	2021	2020
			Total	Total
Construction Fund	\$ 13,527,649	\$ 3,265,960	\$ 16,793,609	\$ 62,489,513
Revenue Fund	-	124,511	124,511	154,980
Debt Service Fund	-	9,149,682	9,149,682	9,498,874
Reserve Fund	5,132,510	-	5,132,510	5,565,200
Repair and Replacement Fund	-	4,181,242	4,181,242	7,112,723
Surplus Fund*	-	12,336,385	12,336,385	10,245,982
Athletic Fee	-	245,938	245,938	-
Total	\$ 18,660,159	\$ 29,303,718	\$ 47,963,877	\$ 95,067,272

* The Corporation segregates funds from the Surplus Fund for housing repair purposes in addition to debt agreement restrictions on repair and replacement funds. The balance internally restricted for Housing Repair purposes was \$897,527 and \$529,131 for fiscal years 2021 and 2020, respectively.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 2. Cash (continued)

Interest rate risk: Interest rate risk is the risk that changes in the market interest rate will adversely affect the fair value of an investment. The Corporation's investment policy does not have a provision which limits investment maturity as a mean of managing exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair value of the Corporation's investments and market interest rate fluctuations is provided by the following table that shows the distribution of the Corporation's investments by effective duration at June 30, 2021 and 2020:

Investment Type	2021 Fair Value	2021 Effective (In Years)	2020 Fair Value	2020 Effective (In Years)
State of Florida Special Purpose Account (SPIA)	\$ 45,872,206	2.60	\$ 83,669,125	0.43
Total investments measured at fair value:	\$ 45,872,206		\$ 83,669,125	
Money market funds	\$ 2,091,671	N/A	\$ 11,398,147	N/A
Total investments measured at amortized cost:	\$ 2,091,671		\$ 11,398,147	
Total investments	\$ 47,963,877		\$ 95,067,272	

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Corporation's investment policy limits credit risk by requiring all fixed-income securities to be rated as single A or better. As a SPIA participant, the Corporation invests in the Florida Treasury Investment Pool. The Florida Treasury Pool is rated AA-f as of June 30, 2021 and 2020.

Foreign currency risk: State law and investment policy do not authorize the Treasury Investment Pool to purchase investments in foreign currencies; therefore, the Treasury Investment Pool is not exposed to foreign currency risk.

Custodial credit risk: Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. It is the Corporation's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. Under Florida statutes, Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. Eligible collateral is dependent upon the depository institution's financial history and its compliance with Florida Statutes, Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 2. Cash (continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, a broker-dealer) to a transaction, an entity will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Consistent with the Corporation's investment policy, the investments are held by the Corporation's custodial institution and registered in the Corporation's name. Investments in the State of Florida Special Purpose Investment funds are not subject to custodial credit risk.

Note 3. Capital Assets, on Leased Land

The following is a summary of changes in capital asset balances for the year ended June 30, 2021:

Asset	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Construction in progress	\$ 20,869,622	\$ 49,305,798	\$ (38,554)	\$ 70,136,866
Buildings and improvements	161,332,430	228,487	38,554	161,599,471
Furniture, fixtures and equipment	1,798,095	-	(47,188)	1,750,907
Property and equipment, gross	184,000,147	49,534,285	(47,188)	233,487,244
Less accumulated depreciation	(45,601,832)	(6,448,084)	47,188	(52,002,728)
Property and equipment, net	\$ 138,398,315	\$ 43,086,201	\$ -	\$ 181,484,516

In August 2021, construction of two new housing facilities at the Boca and Jupiter campuses were completed, in which the assets were put into service.

Note 4. Bonds Payable

Series 2012A – Tax-Exempt Capital Improvement Revenue Bonds (Parliament Hall)

The Series 2012A – Capital Improvement Revenue Bonds in the amount of \$ 46,205,000 were issued in July 2012 for construction of Student Housing Project – Parliament Hall dormitories. The bonds mature beginning in July 2014 through 2042, with interest rates ranging from 3% to 5%.

Interest is paid semiannually on each January 1 and July 1. Debt service is paid semiannually commencing January 2014 through July 2042.

Series 2012B – Tax-Exempt Capital Improvement Revenue Bonds (Innovation Village)

The Series 2012B – Capital Improvement Revenue Bonds in the amount of \$ 3,440,000 were issued in November 2012. The bonds mature beginning in July 2013 through 2025, with an interest rate ranging from 2.17% to 2.64%.

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Note 4. Bonds Payable (continued)

Interest is paid semiannually on each January 1 and July 1. Debt service is paid semiannually commencing January 2013 through July 2025.

Series 2017 – Tax-Exempt Capital Improvement Refunding Revenue Bonds (Football Stadium)

Previously, the Corporation issued \$ 44,500,000 of Taxable Capital Improvement Revenue Bonds (BAB Bonds), Series 2010, maturing in 2040, with an interest rate of 5.78%. The Bonds were issued in connection with construction of a 30,000 seat stadium facility, parking improvements, and other associated athletic and onsite and offsite infrastructure improvements and projects. On August 30, 2017, the Corporation issued Tax-Exempt Capital Improvement Refunding Revenue Bonds (Football Stadium Project), Series 2017, amounting to \$ 40,035,000, to refund the then outstanding Series 2010 Bonds. At August 30, 2017, the Series 2010 Bonds were considered retired/fully defeased. The Series 2017 Bonds bear interest at a 10-year fixed rate of 2.61%, subject to adjustment through maturity.

Interest is paid semiannually on each January 1 and July 1. Debt service is paid semiannually commencing July 2018 through July 2040.

The Corporation is required to adopt an operating budget for each fiscal year covering all operations and operating expenses of the project which shall assure that pledged revenues will exceed all contemplated expenses by at least 25%. In addition, the Corporation is required to certify on a bi-annual basis that the operating and nonoperating revenues from the previous twelve month period are sufficient to cover at least 125% of an amount equal to the annual bond service requirements.

Series 2019A – Tax-Exempt Capital Improvement Refunding Revenue Bonds (Innovation Village)

Previously, the Corporation issued \$ 112,455,000 of Taxable Capital Improvement Revenue Bonds, Series 2010A maturing in 2040, with interest rates ranging from 5.48% to 7.64%. The bonds were issued in connection with the construction of the Innovation Village Dormitory facility. On January 19, 2019, the Corporation issued Tax-Exempt Capital Improvement Refunding Revenue Bonds (Innovation Village), Series 2019A for \$ 90,600,000, to advance refund the then outstanding 2010A Series Bonds. At January 19, 2019, the Series 2010A Bonds were considered retired/legally defeased in substance. The defeased bonds at June 30, 2020 had an outstanding balance of \$101,030,000. This amount was fully retired by July 2020. The bonds mature beginning July 2019 through 2039 with interest rates ranging from 4% to 5%.

Interest is paid semiannual on each January 1 and July 1. Debt service is paid semiannually commencing on July 2019 through July 2039.

FAU Finance Corporation
Notes to Financial Statements
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(with comparative totals for 2020)

Note 4. Bonds Payable (continued)

Series 2019B – Tax-Exempt Capital Improvement Revenue Bonds (Student Housing)

The Series 2019B – Capital Improvement Revenue Bonds in the amount of \$68,190,000 were issued in November 2019 for construction of Student Housing Project. The bonds mature beginning in July 2022 through 2049, with interest rates ranging from 4% to 5%.

Interest is paid semiannually on each January 1 and July 1. Debt service is paid semiannually commencing January 2020 through July 2049.

The Corporation is required to establish and collect fees, rentals and other charges from students, faculty members and others, in order for the net revenues available for debt service to be sufficient to cover at least 125% of the amount equal to the annual bond service requirement for the Series 2012A, 2012B, 2019A, and 2019B student housing bonds.

The following is a summary of changes in long-term obligations for the year ended June 30, 2021:

Debt	Beginning Balance	Additions	Repayments	Ending Balance	Due Within One Year
Bonds, Series 2012A Parliament Hall	\$ 40,510,000	\$ -	\$ 1,090,000	\$ 39,420,000	\$ 1,135,000
Bonds, Series 2012B Innovation Village	1,735,000	-	275,000	1,460,000	280,000
Bonds, Series 2017 Stadium	37,620,000	-	1,360,000	36,260,000	1,400,000
Bonds, Series 2019A Innovation Village	89,110,000	-	2,845,000	86,265,000	2,980,000
Bonds, Series 2019B Student Housing	68,190,000	-	-	68,190,000	-
	<u>\$ 237,165,000</u>	<u>\$ -</u>	<u>\$ 5,570,000</u>	<u>\$ 231,595,000</u>	<u>\$ 5,795,000</u>

The Corporation's expected debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 5,795,000	\$ 9,918,097	\$ 15,713,097
2023	7,250,000	9,644,705	16,894,705
2024	7,560,000	9,322,533	16,882,533
2025	7,880,000	8,991,755	16,871,755
2026	8,215,000	8,651,129	16,866,129
2027-2031	44,875,000	37,666,530	82,541,530
2032-2036	55,515,000	26,633,800	82,148,800
2037-2041	57,965,000	13,807,887	71,772,887
2042-2046	21,095,000	5,887,526	26,982,526
2047-2050	15,445,000	1,591,625	17,036,625
Total	<u>\$ 231,595,000</u>	<u>\$ 132,115,587</u>	<u>\$ 363,710,587</u>

FAU Finance Corporation
Notes to Financial Statements
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Note 4. Bonds Payable (continued)

The previous table does not include the \$ 20,502,135 and \$ 21,456,440 in unamortized bond premiums in the total principal outstanding for the years ended June 30, 2021 and 2020, respectively.

Pledged Revenue

The Corporation has pledged revenues to repay bonds outstanding as of June 30, 2021. The following table reports the revenues pledged for each debt issue, the amounts of such revenue received in the current year (net of operating expenses), the principal and interest recorded on the debt, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenue for each debt, which is the amount of the remaining principal and interest on the bonds at June 30, 2021:

<u>Debt Issue</u>	<u>Pledged Revenue</u>	<u>Net Available* Revenue</u>	<u>Principal and Interest Recorded</u>	<u>Outstanding** Principal and Interest</u>	<u>Pledged Through</u>
Bonds, Series 2012A & 2012B Parliament Hall & Innovation Village	Housing Revenues	\$ 5,879,654	\$ 3,110,080	\$ 62,536,055	2025 - 2042
Bonds, Series 2017 Stadium	Athletic Revenues	\$ 1,962,534	\$ 2,359,530	\$ 46,687,182	2040
Bonds, Series 2019A Innovation Village	Housing Revenues	\$ 9,731,870	\$ 7,229,800	\$ 130,975,950	2039
Bonds, Series 2019B Student Housing	Housing Revenues	\$ -	\$ 3,132,700	\$ 123,511,400	2049

*Net available revenues are defined as recognized revenue less applicable operating expenses. In addition, the amount includes reserve fund interest and repair and replacement expense per bond trust indenture.

**Represents principal and interest payments outstanding from 7/1/2021 and beyond.

The Corporation's bonds are collateralized by pledged revenues which is defined as cash collected from usual operating activities less cash paid for operating expenses. Issuance of the bond does not directly obligate the University. However, in the event of default, the trust indenture requires liquidation of net assets equivalent to the current year's debt service.

Debt arrangements include other financial provisions for events of default such as debt service payment defaults and violation of covenants, agreements, or other conditions. Events of default may increase the current interest rates, accelerate maturity, or initiate other remedies available to the bondholders, as described in each debt indenture.

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Note 5. Commitments

Operating lease: The Corporation leases land and leasehold interests under a non-cancelable operating lease agreement dated March 4, 2010 with Florida Atlantic University with terms extending through July 2049. The lease was prepaid in March 2010 by the Corporation to Florida Atlantic University for the sum of \$ 12,000,000 which represents the total sum for the ground rent of the facility site located on the Boca Raton Campus of the University upon which the Corporation constructed student housing facilities and related surface parking. The lease is being amortized to rent expense over the life of the lease. The total rental expense for the years ended June 30, 2021 and 2020 was \$ 265,079 and \$ 323,903, respectively.

Construction: As of June 30, 2020, the Corporation began construction of two new student housing facilities at the Boca Raton and Jupiter campuses. As of June 30, 2021, the Corporation had incurred approximately \$ 68,900,000 in construction costs to date. At June 30, 2021, the remaining obligation under these contracts was approximately \$ 7,800,000.

During fiscal year 2021, the Corporation approved projects for Indian River Tower Roof and Elevator replacement for \$ 2,000,000, Glades Park Tower Flooring for \$ 400,000 and other improvements for \$ 835,000.

Note 6. Stadium Operating Agreement

Previously, the University and the Corporation entered into an operating agreement whereby the Corporation issued Series 2010 – Taxable Capital Improvement Revenue Bonds to finance the acquisition, installation and construction of a 30,000 seat stadium facility (parking improvements, and other associated athletic and onsite and offsite infrastructure improvements and projects) (the “facility”) and the University agreed to operate and manage the facility for use as an athletic stadium to generate revenue to service the related debt. The Series 2010 Bonds were subsequently refinanced by the Series 2017 Tax-Exempt Capital Improvement Refunding Revenue Bonds, in August 2017. The University and the Corporation entered into a new operating agreement in August 2017, whereby, the University continues to operate and manage the facility for use as an athletic stadium to generate revenue to service the related debt. Under the terms of the operating agreement, the University will collect and deposit all pledged revenues from operations of the facility in specified accounts as defined in the bond trust indenture agreement. The operating agreement will terminate on the date all obligations of the Corporation and University under the bond trust indenture agreement have been fulfilled which is expected to be July 2040 (maturity date of the bonds).

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Note 7. Related Party Transactions

Due to University

Certain construction and related costs are paid for by the University and then reimbursed by the Corporation. The balance due to the University related to these costs and other items at June 30, 2021 and 2020, amounted to \$ 1,474,809 and \$ 697,891, respectively. The University provides personnel and administrative support to the Corporation to aid in its operation. The costs of these services are not material to the Corporation, and therefore are not recognized in these financial statements.

Due from University

At June 30, 2021 and 2020, the University owed the Corporation \$ 878,520 and \$ 3,452,141, respectively, for amounts collected and to be collected on behalf of the Corporation.

Due from Foundation

At June 30, 2021 and 2020, the FAU Foundation owed the Corporation \$ 31,213 and \$ 29,052, respectively, for amounts collected on behalf of the Corporation for premium seating contributions and capital gifts.

Note 8. Uncertainties

The coronavirus (COVID-19) outbreak has caused disruption in international and U.S. economies and markets. The coronavirus and fear of further spread has caused quarantines, cancellation of events and overall reduction in business and economic activity. On March 11, 2020, the *World Health Organization* designated the coronavirus outbreak a pandemic. Management and the Board of Directors continue to evaluate and monitor the potential adverse effect that this event may have on the Corporation's financial position, operations and cash flows. The full impact of COVID-19 is unknown at this time and cannot be reasonably estimated as these events are still developing.

Note 9. Subsequent Event

On June 23, 2021, the Corporation executed the forward delivery of the Capital Improvement Refunding Revenue Bonds (Student Housing Project) Series 2022A, which is to refinance the Series 2012A Tax-Exempt Capital Improvement Revenue Bonds (Parliament Hall) bond. A delayed delivery pre-closing, initial closing date, of the Series 2022A bond was held on July 7, 2021. Upon satisfaction of the conditions required on the initial closing date and subject to compliance with the forward delivery closing conditions, the Series 2022A bonds are expected to be delivered on April 5, 2022 or at such other time or on such date which is mutually agreed upon by the issuer and underwriter.

OTHER REPORTS FROM INDEPENDENT AUDITORS



INDEPENDENT AUDITOR'S 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
FAU Finance 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 FAU Finance Corporation (the "Corporation"), a direct support organization and component unit of Florida Atlantic University (the "University"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 1, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for determining 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 may exist that have not been identified.

CPA's + Trusted Advisors

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
November 1, 2021