



Item: AF: I-1e

AUDIT AND FINANCE COMMITTEE

Tuesday, March 15, 2016

SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: FAU FINANCE CORPORATION FOR THE PERIOD ENDED JUNE 30, 2015.

PROPOSED COMMITTEE ACTION

Information only.

BACKGROUND INFORMATION

The audited financial statements of the FAU Finance Corporation (FAUFC) are presented to keep the Board of Trustees informed about the financial status of the Corporation. The audited financial statements are for the period ended June 30, 2015 and were presented to the FAUFC Board of Directors on October 1, 2015.

IMPLEMENTATION PLAN/DATE

Not applicable.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: FAUFC Financial Statements for the Period Ended June 30, 2015.

Presented by:

Ms. Dorothy Russell, V.P. for Financial Affairs and CFO

Phone: 561-297-3267

FAU Finance Corporation
(A component unit of Florida
Atlantic University)

Financial Report
For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
FAU Finance Corporation
Boca Raton, Florida

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, as of and for the year ended June 30, 2015, 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 respective financial position of the Corporation, as of June 30, 2015, and the respective changes in financial position and its cash flows thereof for the year 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 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 September 24, 2015, 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 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 Corporation's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
September 24, 2015

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, a component unit of Florida Atlantic University (thereafter "University") for the fiscal year ended June 30, 2015, 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 Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the FAU Finance Corporation's management. Pursuant to GASB Statement No. 35, the FAU Finance 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 FAU Finance 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 November 2010, the FAU Finance Corporation issued \$44.5 million of Capital Improvement Revenue Bonds to finance the construction of a 30,000 seat stadium. In July 2012, the FAU Finance Corporation issued Capital Improvement Revenue Bonds (Student Housing Project) Series 2012A totaling \$46,205,000 which mature beginning in July 2014 through 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 2013. In addition, the FAU Finance Corporation issued Capital Improvement Revenue Bond (Student Housing Project) Series 2012B, which refunded the Series 2010B – Taxable Bonds in November 2012. The Capital Improvement Revenue Bond (Student Housing Project) Series 2012B totals \$3,440,000 and matures beginning in July 2013 through 2025, with an interest rate of 2.17%. Additionally, the FAU Finance Corporation issued \$120.9 million of Capital Improvement Revenue Bonds (Student Housing Project) Series 2010 which mature beginning in July 2013 through 2040 with interest rates ranging from 4% to 7.64%.

The FAU Finance Corporation's assets totaled approximately \$193 million at June 30, 2015. This balance reflects \$44.4 million of deposits with a fiscal agent held in connection with the sale of bonds. The FAU Finance Corporation's revenues totaled approximately \$30.9 million for the 2014-15 fiscal year, representing earnings on funds held with fiscal agent, IRS interest credits, housing revenues, athletic fees, and contributions from the University. All funds held with fiscal agent are invested in the State of Florida Special Purpose Investment Account (SPIA). Expenses totaled approximately \$31.1 million for the 2014-15 fiscal year, inclusive of interest paid from the capitalized interest funds held with fiscal agent.

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.

FAU Finance Corporation
Statement of Net Position
June 30, 2015

Assets

Current Assets:

Cash in bank	\$ 4,543,445
Cash with fiscal agent – restricted	25,485,696
Due from University	<u>2,552,620</u>
Total current assets	<u><u>32,581,761</u></u>

Noncurrent Assets:

Cash with fiscal agent – restricted	18,957,280
Prepaid land lease and other	9,866,667
Capital assets, on leased land (net of depreciation)	<u>131,549,978</u>
Total noncurrent assets	<u>160,373,925</u>
Total assets	<u><u>\$ 192,955,686</u></u>

Liabilities

Current Liabilities:

Accounts payable	\$ 1,143,017
Interest payable	6,454,513
Due to University	480,221
Unearned revenue	2,958,236
Bonds payable – due within one year	<u>4,530,000</u>
Total current liabilities	<u>15,565,987</u>

Long-term liabilities:

Bonds payable – due in more than one year	203,895,000
Unamortized premiums, net	<u>1,234,894</u>
Total long-term liabilities	<u>205,129,894</u>
Total liabilities	<u><u>220,695,881</u></u>

Net Position (Deficit):

Net investment in capital assets	(13,176,916)
Restricted for debt service and reserve	19,452,960
Restricted for repair and replacement of capital assets	2,532,930
Unrestricted (deficit)	<u>(36,549,169)</u>
Total net position (deficit)	<u><u>\$ (27,740,195)</u></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, 2015

Operating Revenues (Expenses):	
Housing revenue	\$ 24,909,837
Operating expenses	(12,841,462)
Depreciation expense	<u>(5,325,686)</u>
Total operating income	<u>6,742,689</u>
Nonoperating Revenues (Expenses):	
Athletic revenues pledged for debt service	1,694,505
IRS interest credit	3,476,812
Interest income	620,802
Unrealized losses	(15,390)
Capital contributions	232,839
Interest expense	<u>(12,929,553)</u>
Nonoperating expenses, net	<u>(6,919,985)</u>
Changes in net position	(177,296)
Net position (deficit):	
Beginning of year	<u>(27,562,899)</u>
End of year	<u>\$ (27,740,195)</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, 2015

Cash Flow From Operating Activities	
Cash paid to suppliers	\$ (12,150,829)
Athletic fees collected on behalf of the University	2,147,088
Housing contracts – dormitory fees	<u>24,005,146</u>
Net cash provided by operating activities	<u>14,001,405</u>
Cash Flow From Capital and Related Financing Activities	
Receipt of IRS interest credit	2,666,544
Payment of interest	(10,472,752)
Acquisition of capital assets	(2,397,522)
Payment of principal	<u>(3,045,000)</u>
Net cash used in capital and related financing activities	<u>(13,248,730)</u>
Cash Flow From Non-capital and Related Financing Activities	
Contributions to the University	(1,362,059)
Contributions from the University	232,839
Receipt of IRS interest credit	810,268
Payment of interest	(2,553,154)
Payment of principal	(960,000)
Athletic fees	<u>1,694,505</u>
Net cash used in non-capital and related financing activities	<u>(2,137,601)</u>
Cash Flow From Investing Activities	
Interest received	<u>620,802</u>
Net cash provided by investing activities	<u>620,802</u>
Net decrease in cash	(764,124)
Cash:	
Beginning of year	49,750,545
End of year	<u>\$ 48,986,421</u>
Classified as:	
Cash with fiscal agent – restricted (Note 2)	\$ 44,442,976
Cash in bank	<u>4,543,445</u>
	<u>\$ 48,986,421</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Net operating income	\$ 6,742,689
Depreciation expense	5,325,686
Increase in due from University	(904,691)
Decrease in prepaid land lease and other	400,000
Increase in accounts payable	338,542
Increase in due to University	1,015,780
Increase in unearned revenues	<u>1,083,399</u>
Net cash provided by operating activities	<u>\$ 14,001,405</u>

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

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 comprised of a maximum of five (5) directors who are 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 – (1) one appointed Director shall be the President of the University or the president's designee; (2) one appointed Director shall be the University Chief Financial Officer or his or her designee; and (3) a minimum of one and maximum of five elected Directors shall be elected by majority vote of the Board of Directors from the nominations of the Corporation's Nominations Committee or from nominations made from the floor. 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.

**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 September 24, 2015, 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, 2015, represent funding required to be segregated by the Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, Series 2012B – Capital Improvement Revenue Bonds (Student Housing Project), Series 2012A – Tax-Exempt Capital Improvement Revenue Bonds (Student Housing Project), and the Series 2010 – Taxable Capital Improvement Revenue Bonds (Football Stadium Project) contractual obligations.

Cash: For purposes of the statement of cash flows, cash and cash equivalents includes the State of Florida Special Purpose Investments ("SPIA") accounts 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 in six fixed income components. These components include a Certificates of Deposit and Securities Lending program as well as short-term liquidity, cash enhanced, conservative core and core strategies. The funds can be withdrawn at any time and are reported at fair value, which seeks to maintain a \$1.00 per share value. The Corporation considers all highly liquid investments with a maturity of 3 months or less when purchased, to be cash equivalents.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2015

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 prepaid land lease balance is being amortized on a straight-line basis over the original lease term of 30 years. The unamortized prepaid lease balance at June 30, 2015 was \$9,866,667.

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 useful lives 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.

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 by the Corporation for the day to day operation of the dormitory facilities. 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 is comprised of the following categories of expenses:

Category	Amount
Salaries and Benefits	\$ 4,259,213
Utilities	2,003,302
Repairs and maintenance	1,722,750
Communications	753,379
Supplies	303,585
Other operating costs	3,799,233
	\$ 12,841,462

Revenues:

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

FAU Finance Corporation
Notes to Financial Statements
June 30, 2015

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

Nonoperating revenues – Athletic fees are recognized in the period in which goods/services are provided and when seating is made accessible for stadium facility events. IRS interest credit revenue is recognized in the period in which related interest expense is incurred and reported in the financial statements. 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.

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 Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.575, 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.

Cash and investments with fiscal agent are amounts restricted by debt agreements and are held in the following accounts:

Account	Noncurrent	Current	Total
Construction Fund	\$ 2,288,784	\$ -	\$ 2,288,784
Revenue Fund	-	16,316	16,316
Debt Service Fund	-	15,060,177	15,060,177
Reserve Fund	16,668,496	-	16,668,496
Repair and Replacement Fund	-	2,532,930	2,532,930
Surplus Fund	-	7,876,273	7,876,273
Total	\$ 18,957,280	\$ 25,485,696	\$ 44,442,976

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 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 weighted-average maturity at June 30, 2015:

FAU Finance Corporation
Notes to Financial Statements
June 30, 2015

Note 2. Cash (Continued)

Investment Type	Fair Value	Investment (In Years) Less Than 1 Year
State of Florida Special Purpose Investment Account (SPIA)	\$ 44,442,976	\$ 44,442,976

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 by Moody's as AAA or better. As a SPIA participant, the Corporation invests in the Florida Treasury Investment Pool. The Florida Treasury Pool is rated A+f as of June 30, 2015.

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 to equal between 50% and 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, corporate bonds) to public deposits 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. 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.

FAU Finance Corporation
Notes to Financial Statements
June 30, 2015

Note 3. Capital Assets, on Leased Land

The following is a summary of changes in capital asset balances for the year ended June 30, 2015:

Asset	Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Ending Balance
Construction in progress	\$ 864,918	\$ -	\$ (864,918)	\$ -
Buildings and improvements	143,690,593	3,254,240	-	\$ 146,944,833
Furniture, fixtures and equipment	1,310,217	8,200	(6,250)	\$ 1,312,167
Property and equipment, gross	145,865,728	3,262,440	(871,168)	\$ 148,257,000
Less accumulated depreciation	(11,387,586)	(5,325,686)	6,250	\$ (16,707,022)
Property and equipment, net	\$ 134,478,142	\$ (2,063,246)	\$ (864,918)	\$ 131,549,978

Note 4. Bonds Payable

Pursuant to the Balanced Budget and Emergency Deficit Control Act enacted, on March 1, 2013, the President of the United States issued a sequestration order which required automatic spending cuts (“sequestration”) as the result of the United States Congress’ failure to enact legislation to reduce the federal budget deficit. Among the federal expenditures affected by these cuts are the subsidies due to state and local governments which issued bonds pursuant to several bond programs authorized by the United States Congress during the depths of the economic downturn. As a result of the sequestration, federal subsidy payments for the Corporation’s Build America Bonds (“BAB”) were reduced. The most recent bill passed extends the sequester through fiscal 2024. The subsidy payments for direct-pay bonds were cut by 7.3% in fiscal 2015.

Series 2010—A&B Bonds (Innovation Village)

Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, and Series 2010B Taxable Bonds were issued in March 2010 for construction of the Innovation Village Dormitory facility. The Issuance of the bonds provided the Corporation with a federal subsidy through a refundable tax credit paid to the Corporation each fiscal year by the Internal Revenue Service (“IRS”), in an amount equal to 35% of the total coupon interest payable to investors on these taxable bonds, which was subsequently reduced by 7.3% as a result of the sequestration.

The Series 2010A – Tax-Exempt Bonds total \$8,475,000 and mature beginning in July 2013 through 2016, with interest rates ranging from 4% to 5%. The Series 2010A – Taxable BAB Bonds total \$112,455,000 and mature beginning in July 2017 through 2040, with interest rates ranging from 5.48% to 7.64%. The Series 2010B –Taxable Bonds totaling \$3,365,000 were refunded in November 2012 with the issuance of the Series 2012B – Capital Improvement Revenue Bond in the amount of \$3,440,000. The refunding resulted in an economic gain of \$2.1 million to the Corporation.

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

The Series 2012B – Capital Improvement Revenue Bonds (Student Housing Project) 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 of 2.17%.

Note 4. Bonds Payable (Continued)

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%.

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 2010A and 2012A&B student housing bonds, net of direct pay subsidies expected to be received on each respective interest payment date.

Series 2010 – Taxable Capital Improvement Revenue Bonds (Football Stadium)

Series 2010 – Taxable Capital Improvement Revenue Bonds (BAB Bonds) were issued in November 2010 in the amount of \$44,500,000 and financed the construction of a 30,000 seat stadium facility, parking improvements, and other associated athletic and onsite and offsite infrastructure improvements and projects. The Bonds bear interest at an annual rate of 5.78% and mature in 2040. Issuance of the bonds provided the Corporation with a federal subsidy through a refundable tax credit paid to Corporation each fiscal year by the IRS, in an amount equal to 35% of the total coupon interest payable to investors in these taxable bonds, which was subsequently reduced by 7.3% as a result of sequestration.

Bondholders have the option to require that the Corporation purchase the bonds on the Initial Purchase Date of October 1, 2017 or agree to an Extended Purchase Date which cannot exceed three years from the Initial Purchase Date or each Extended Purchase Date, as applicable. The interest rate on the Bonds is subject to adjustment on each Extended Purchase Date and will be determined by taking the 3-year LIBOR swap rate, as of the applicable Extended Purchase Date, and adding 336 basis points. The Extended Purchase Date interest shall be calculated on the basis of actual number of days elapsed in a 360 day year. 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 quarterly 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, net of direct pay subsidies expected to be received on each respective interest payment date.

In accordance with trust indenture agreements for each bond series discussed previously, the Corporation established and maintains a Debt Service fund (includes a capitalized interest account), a Cost of Issuance fund, a Construction fund, a Reserve fund, a Subordinate Debt Service fund and a Repair and Replacement Fund (see Note 2).

FAU Finance Corporation
Notes to Financial Statements
June 30, 2015

Note 4. Bonds Payable (Continued)

The following is a summary of changes in long-term obligations for the year ended June 30, 2015:

Debt	Beginning Balance	Additions	Repayments	Ending Balance	Due Within One Year
Bonds, Series 2010A Innovation Village	\$ 119,375,000	\$ -	\$ 1,950,000	\$ 117,425,000	\$ 2,395,000
Bonds, Series 2010 Stadium	43,575,000	-	960,000	42,615,000	995,000
Bonds, Series 2012A Parliament Hall	46,205,000	-	855,000	45,350,000	890,000
Bonds, Series 2012B Innovation Village	3,275,000	-	240,000	3,035,000	250,000
	<u>\$ 212,430,000</u>	<u>\$ -</u>	<u>\$ 4,005,000</u>	<u>\$ 208,425,000</u>	<u>\$ 4,530,000</u>

The Corporation's expected debt service requirements to maturity are as follows, assuming the bondholders agree to an extended put date under the Series 2010 – Taxable Capital Improvement Revenue Bonds (Football Stadium), extending maturity through fiscal year 2041:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 4,530,000	\$ 12,819,771	\$ 17,349,771
2017	4,795,000	12,596,182	17,391,182
2018	5,000,000	12,346,110	17,346,110
2019	5,180,000	12,085,352	17,265,352
2020	5,375,000	11,801,721	17,176,721
2021-2025	30,245,000	54,079,855	84,324,855
2026-2030	35,870,000	44,007,982	79,877,982
2031-2035	44,215,000	31,222,513	75,437,513
2036-2040	55,275,000	14,942,817	70,217,817
2041-2043	17,940,000	907,311	18,847,311
Total	<u>\$ 208,425,000</u>	<u>\$ 206,809,614</u>	<u>\$ 415,234,614</u>

The Series 2010 – Taxable Capital Improvement Revenue Bonds provide bondholders with the option to require that the Corporation purchase the bonds on the initial put date of October 1, 2017 in the amount of \$39,515,000 or agree to an extended put date which cannot exceed three years from the initial put date or each extended put date, as applicable. The previous table does not reflect any accelerated amortizations that may result under the put options as previously discussed and does not include the \$ 1,234,894 in unamortized bond premiums in the total principal outstanding.

Pledged Revenue

The Corporation has pledged revenues to repay bonds outstanding as of June 30, 2015. 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 current year principal and interest paid 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, 2015:

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Note 4. Bonds Payable (Continued)

Debt Issue*	Pledged Revenue	Net Available** Revenue	Principal and *** Interest Paid	Outstanding**** Principal and Interest	Pledged Through
Bonds, Series 2010A & 2012B Innovation Village	Housing Revenues	\$ 7,947,673	\$ 10,723,021	\$ 257,408,092	2040
Bonds, Series 2012A Parliament Hall	Housing Revenues	\$ 4,120,702	\$ 2,754,175	\$ 77,625,988	2042
Bonds, Series 2010 Stadium	Athletic Revenues	\$ 1,694,505	\$ 3,457,357	\$ 80,200,534	2040

*This table should not be used for computing the Debt Service Coverage Ratio as discussed previously in Note 4.

**Net available revenues are defined as system revenues less applicable operating expenses.

***Federal subsidies are not netted in this calculation.

****The outstanding principal and interest balance for the Series 2010 – Taxable Capital Improvement Revenue Bonds (Stadium) does not reflect any accelerated maturities that may result under the put options as previously discussed.

Note 5. Operating Lease Commitments

The Corporation leases land under a non-cancelable operating lease agreement dated March 4, 2010 with Florida Atlantic University with terms extending through July 2040. 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 year ended June 30, 2015 was \$400,000.

Note 6. Stadium Operating Agreement

In November 2010 the University and the Corporation entered into an operating agreement whereby the Corporation issued Series 2010 – Taxable Capital Improvement Revenue Bonds in the amount of \$44,500,000 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) (thereafter “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. 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 is effective as of November 2010 and 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). Under the terms of the operating agreement, on an annual basis, the University is required to deposit pledged revenues with the Corporation that are adequate to make annual debt service payments due on the Series 2010 – Taxable Capital Improvement Revenue Bonds.

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 at June 30, 2015 amounted to \$480,221. 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, 2015, the University owed the Corporation \$2,552,620 for amounts collected on behalf of the Corporation.