



Item: AC: I-5

## AUDIT AND COMPLIANCE COMMITTEE

Tuesday, June 8, 2021

**SUBJECT: REVIEW OF THE FAU FINANCIAL AUDIT FOR FISCAL YEAR ENDED JUNE 30, 2020.**

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### PROPOSED COMMITTEE ACTION

Information Only.

### BACKGROUND INFORMATION

The audit of the financial statements of Florida Atlantic University for the fiscal year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The audit disclosed that the basic financial statements of Florida Atlantic University (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

The audit did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses.

The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, issued by the Comptroller General of the United States.

### **Financial Highlights.**

The University's assets and deferred outflows of resources totaled \$1.3 billion at June 30, 2020. This balance reflects a \$115.1 million, or 9.7 percent, increase as compared to the 2018-19 fiscal year, resulting from an increase in cash and cash equivalents, investments, net accounts receivable, net capital assets, amounts due from State, and deferred outflows of pension resources, and a decrease of net loans and notes receivable, and amounts due from component units. While assets and deferred outflows of resources grew, so did liabilities and deferred inflows of resources which increased by \$84.3 million, or 16.7 percent, totaling \$590 million at June 30, 2020, as a result of an increase in current and noncurrent liabilities, the net pension liability (NPL), the other postemployment benefit (OPEB) liability, and a decrease in deferred inflows of pension resources and deferred inflows of OPEB resources. As a result, the University's overall net position increased by \$30.8 million which resulted in a year-end balance of \$707.7 million. The University's unrestricted net position unfavorably increased by \$17.9 million from a deficit of \$29 million at June 30, 2019, to a deficit of \$46.9 million

at June 30, 2020, due to the effect of pension and OPEB expenses. The University had initially reported a deficit in the unrestricted net position at June 30, 2018, due to its initial adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions which resulted in an adjustment to beginning net position of \$129.2 million. The University's operating revenues totaled \$301.2 million for the 2019-20 fiscal year, representing a 4.3 percent increase compared to the 2018-19 fiscal year. Of the major components of operating revenues, there was an \$11.2 million increase in gross tuition and fees, a \$4.2 million increase in grants and contracts revenues, and a \$1.8 million decrease in sales and services of auxiliary enterprises. Operating expenses totaled \$640.8 million for the 2019-20 fiscal year, representing an increase of 6.1 percent as compared to the 2018-19 fiscal year.

The University's operating revenues totaled \$290.1 million for the 2017-18 fiscal year, representing a 2.7 percent increase compared to the 2016-17 fiscal year due mainly to a \$5.1 million increase in sales and services of auxiliary enterprises and a \$3.5 million increase in grants and contracts revenues. Operating expenses totaled \$594.9 million for the 2017-18 fiscal year, representing an increase of 8.1 percent as compared the 2016-17 fiscal year due mainly to a \$25.3 million increase in compensation and employee benefits from increases in OPEB, NPL, and a University merit program, a \$9.4 million increase in the services and supplies associated with the operational costs, and a \$9.7 million increase in scholarships, fellowships, and waivers.

#### IMPLEMENTATION PLAN/DATE

Not applicable.

#### FISCAL IMPLICATIONS

Not applicable.

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**Supporting Documentation:** FAU Financial Audit for the Fiscal Year Ended June 30, 2020

**Presented by:** Ms. Stacy Volnick, V.P. Administrative Affairs                      **Phone:** 561-297-1455  
Ms. Diana Garza, Audit Supervisor, Auditor General's Office

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial Audit**

**FLORIDA ATLANTIC UNIVERSITY**

For the Fiscal Year Ended  
June 30, 2020



Sherrill F. Norman, CPA  
Auditor General

## Board of Trustees and President

During the 2019-20 fiscal year, Dr. John W. Kelly served as President of Florida Atlantic University and the following individuals served as Members of the Board of Trustees:

|   |   |
|---|---|
| Abdol Moabery, Chair from 1-7-20,<br>Vice Chair through 1-6-20 <sup>a</sup> | Dr. Jeffrey P. Feingold<br>Brad M. Levine |
| Shaun M. Davis, Vice Chair from 2-11-20 <sup>a</sup>                        | Mary Beth McDonald                        |
| Anthony K. G. Barbar, Chair through 1-6-20                                  | Elycia Morris from 1-7-20                 |
| Kevin Buchanan through 5-10-20 <sup>b</sup>                                 | Celine Persaud from 5-11-20 <sup>b</sup>  |
| Brent D. Burns  | Robert S. Rubin                           |
| Dr. Michael T. B. Dennis through 5-3-20 <sup>c</sup>                        | Robert J. Stilley                         |
| Dr. Malcolm J. Dorman   | Dr. Kevin Wagner <sup>d</sup>             |

<sup>a</sup> Vice Chair position vacant from 1-7-20, through 2-10-20.

<sup>b</sup> Student Body President.

<sup>c</sup> Trustee position vacant from 5-4-20, through 6-30-20.

<sup>d</sup> Faculty Senate President.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Jenna L. Evans, CPA and the audit was supervised by Diana G. Garza, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at [jaimehoelscher@aud.state.fl.us](mailto:jaimehoelscher@aud.state.fl.us) or by telephone at (850) 412-2868.

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**FLORIDA ATLANTIC UNIVERSITY**  
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## SUMMARY

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### SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida Atlantic University (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

### SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

### AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether Florida Atlantic University and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2020. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

### AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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Tallahassee, Florida 32399-1450



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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida Atlantic University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University'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 opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and aggregate discretely presented component units. The financial statements of the Florida Atlantic University College of Medicine Self-Insurance Program, a blended component unit, represent 0.65 percent, 0.14 percent, 0.98 percent and 0.56 percent, respectively, of the assets, liabilities, net position, and operating revenues reported for Florida Atlantic University. The financial statements of the aggregate discretely presented component units represent 100 percent of the transactions and account balances of the discretely presented component units columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the blended and aggregate discretely presented component units, are based solely on the reports of the other auditors. 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 opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Atlantic University and of its aggregate discretely presented component units as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, the Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability, Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of University Contributions – Florida Retirement System Pension Plan, Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of University Contributions – Health Insurance Subsidy Pension Plan, and Notes to Required Supplementary Information**, as listed in the table of contents, 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 March 11, 2021, on our consideration of the Florida Atlantic University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **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**. 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 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 Florida Atlantic University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 11, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2020, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2020, and June 30, 2019.

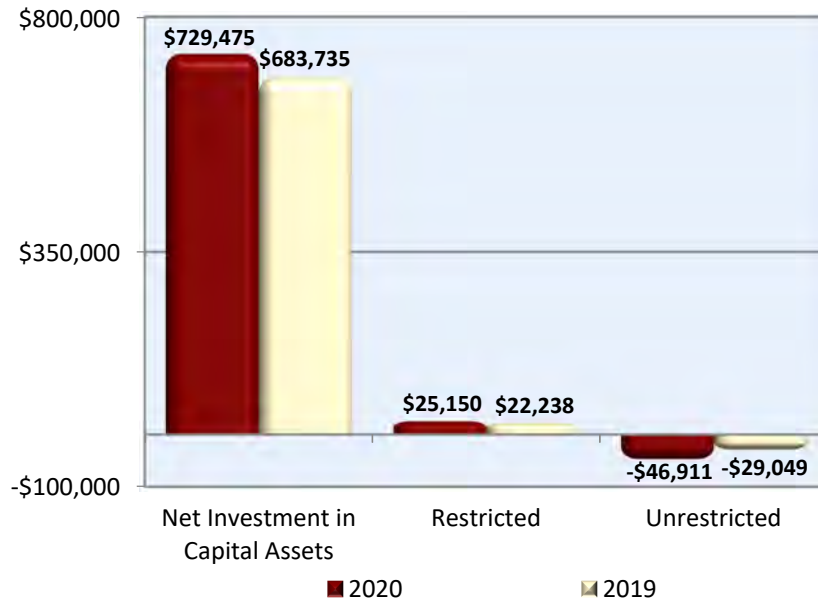
### **FINANCIAL HIGHLIGHTS**

The University's assets and deferred outflows of resources totaled \$1.3 billion at June 30, 2020. This balance reflects a \$115.1 million, or 9.7 percent, increase as compared to the 2018-19 fiscal year, resulting from an increase in cash and cash equivalents, investments, net accounts receivable, net capital assets, amounts due from State, and deferred outflows of pension resources, and a decrease of net loans and notes receivable, and amounts due from component units. While assets and deferred outflows of resources grew, so did liabilities and deferred inflows of resources which increased by \$84.3 million, or 16.7 percent, totaling \$590 million at June 30, 2020, as a result of an increase in current and noncurrent liabilities, the net pension liability (NPL), the other postemployment benefit (OPEB) liability, and a decrease in deferred inflows of pension resources and deferred inflows of OPEB resources. As a result, the University's overall net position increased by \$30.8 million which resulted in a year-end balance of \$707.7 million. The University's unrestricted net position unfavorably increased by \$17.9 million from a deficit of \$29 million at June 30, 2019, to a deficit of \$46.9 million at June 30, 2020, due to the effect of pension and OPEB expenses. The University had initially reported a deficit in the unrestricted net position at June 30, 2018, due to its initial adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which resulted in an adjustment to beginning net position of \$129.2 million.

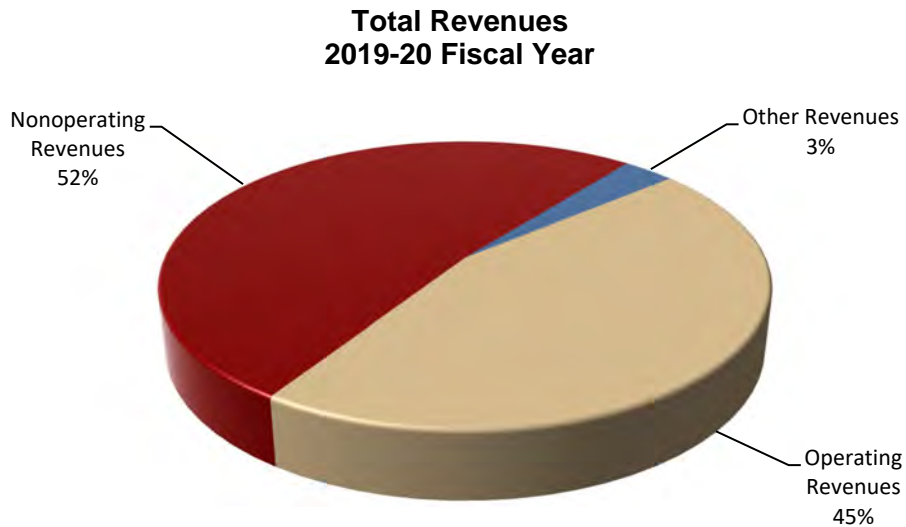
The University's operating revenues totaled \$301.2 million for the 2019-20 fiscal year, representing a 4.3 percent increase compared to the 2018-19 fiscal year. Of the major components of operating revenues, there was an \$11.2 million increase in gross tuition and fees, a \$4.2 million increase in grants and contracts revenues, and a \$1.8 million decrease in sales and services of auxiliary enterprises. Operating expenses totaled \$640.8 million for the 2019-20 fiscal year, representing an increase of 6.1 percent as compared to the 2018-19 fiscal year.

Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2020, and June 30, 2019, is shown in the following graph:

**Net Position  
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2019-20 fiscal year:



**OVERVIEW OF FINANCIAL STATEMENTS**

Pursuant to GASB Statement No. 35, the University’s financial report consists of 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. The financial statements, and notes thereto, encompass the University and its component units. These component units include:

- Blended Component Unit:

- Florida Atlantic University College of Medicine Self-Insurance Program
- Discretely Presented Component Units:
  - Florida Atlantic University Foundation, Inc.
  - Florida Atlantic University Research Corporation, Inc.
  - Harbor Branch Oceanographic Institute Foundation, Inc.
  - FAU Finance Corporation
  - FAU Clinical Practice Organization, Inc.

Information regarding these component units, including summaries of the blended and discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. MD&A information for the discretely present component units is included in their separately issued audit reports.

### **The Statement of Net Position**

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

## Condensed Statement of Net Position at June 30

(In Thousands)

|                                       | 2020                      | 2019              |
|---------------------------------------|---------------------------|-------------------|
| <b>Assets</b>                         |                           |                   |
| Current Assets                        | \$ 382,863                | \$ 335,747        |
| Capital Assets, Net                   | 790,405                   | 750,582           |
| Other Noncurrent Assets               | 17,652                    | 25,451            |
|                                       | <b>Total Assets</b>       | <b>1,190,920</b>  |
| <b>Deferred Outflows of Resources</b> | <b>106,778</b>            | <b>70,821</b>     |
| <b>Liabilities</b>                    |                           |                   |
| Current Liabilities                   | 54,045                    | 57,482            |
| Noncurrent Liabilities                | 488,677                   | 403,335           |
|                                       | <b>Total Liabilities</b>  | <b>460,817</b>    |
| <b>Deferred Inflows of Resources</b>  | <b>47,262</b>             | <b>44,860</b>     |
| <b>Net Position</b>                   |                           |                   |
| Net Investment in Capital Assets      | 729,475                   | 683,735           |
| Restricted                            | 25,150                    | 22,238            |
| Unrestricted                          | (46,911)                  | (29,049)          |
|                                       | <b>Total Net Position</b> | <b>\$ 707,714</b> |
|                                       |                           | <b>\$ 676,924</b> |

Total assets as of June 30, 2020, increased by \$79.1 million or 7.1 percent. The increase in current assets is due to more University funds being reported as cash and investments, and an increase in funds due from the State. Specifically, cash and investments increased by \$25.1 million as the University liquidated noncurrent investments to ensure the continuity of operations during the coronavirus (COVID-19) pandemic. Additionally, the University funds due from State for capital construction projects increased by \$17.7 million mainly due to the Student Union Renovation, Jupiter STEM/Life Sciences Building, and the A.D. Henderson/FAU High School Developmental Research School (DRS). Net capital assets also increased \$39.8 million due to a combination of \$86.5 million of additions, \$13.5 million of deletions, and a \$33.2 million increase in accumulated depreciation. Specifically, net capital additions increased due to construction in progress of the Schmidt Family Complex for Academic and Athletic Excellence, the Student Union Renovation, and the Energy Service Company (ESCO) projects. Other noncurrent assets decreased \$7.8 million as there were less University funds being reported as investments restricted for capital projects. Compared to the 2018-19 fiscal year, and as a result of the actuarial valuation for the period as of June 30, 2020, deferred outflows and deferred inflows of resources increased by \$36 million and \$2.4 million, respectively, related to pensions and OPEB. Overall, total liabilities as of June 30, 2020, increased by \$81.9 million due to an increase in the University's proportionate share of OPEB liabilities of \$50.1 million, an increase in the capital lease liability of \$21.4 million, an increase in the University's proportionate share of the NPL of \$16.4 million, and a decrease in Capital Improvement Debt Payable due to principal payments of \$4.8 million. The net effect of total assets and deferred outflows of resources minus liabilities and deferred inflows of resources increased the University's net position by \$30.8 million.

## **The Statement of Revenues, Expenses, and Changes in Net Position**

The statement of revenues, expenses, and changes in net position presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2019-20 and 2018-19 fiscal years:

### **Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Years**

(In Thousands)

|   | <u>2019-20</u>    | <u>2018-19</u>    |
|---|-------------------|-------------------|
| Operating Revenues                                  | \$ 301,199        | \$ 288,902        |
| Less, Operating Expenses                            | <u>640,765</u>    | <u>603,810</u>    |
| <b>Operating Loss</b>                               | (339,566)         | (314,908)         |
| Net Nonoperating Revenues                           | <u>342,801</u>    | <u>327,237</u>    |
| <b>Income Before Other Revenues and Expenses</b>    | 3,235             | 12,329            |
| Net Other Revenues                                  | <u>21,555</u>     | <u>7,877</u>      |
| <b>Net Increase In Net Position</b>                 | <u>24,790</u>     | <u>20,206</u>     |
| Net Position, Beginning of Year                     | 676,924           | 656,718           |
| Adjustments to Beginning Net Position (1)           | <u>6,000</u>      | <u>-</u>          |
| <b>Net Position, Beginning of Year, as Restated</b> | <u>682,924</u>    | <u>656,718</u>    |
| <b>Net Position, End of Year</b>                    | <u>\$ 707,714</u> | <u>\$ 676,924</u> |

(1) For the 2019-20 fiscal year, the University's beginning net position was increased due to a change in classification of a parking services lease from an operating lease to a capital lease under GASB Statement No. 62. The effects of this change in classification are discussed in Note 3.

## **Operating Revenues**

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2019-20 and 2018-19 fiscal years:

## Operating Revenues For the Fiscal Years

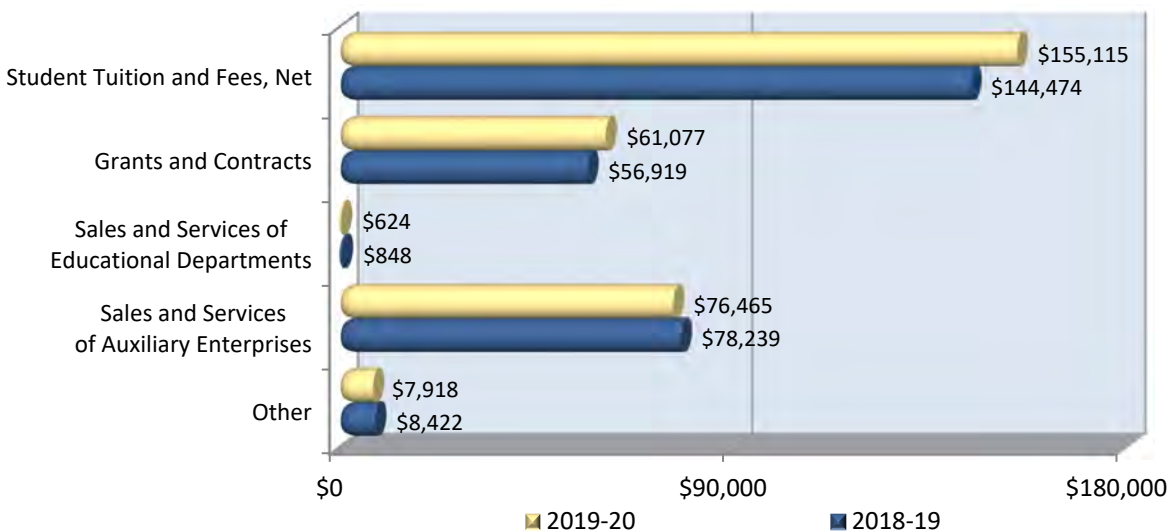
(In Thousands)

|   | 2019-20           | 2018-19           |
|---|-------------------|-------------------|
| Student Tuition and Fees, Net                 | \$ 155,115        | \$ 144,474        |
| Grants and Contracts                          | 61,077            | 56,919            |
| Sales and Services of Educational Departments | 624               | 848               |
| Sales and Services of Auxiliary Enterprises   | 76,465            | 78,239            |
| Other   | 7,918             | 8,422             |
| <b>Total Operating Revenues</b>               | <b>\$ 301,199</b> | <b>\$ 288,902</b> |

The following chart presents the University's operating revenues for the 2019-20 and 2018-19 fiscal years:

### Operating Revenues

(In Thousands)



For the fiscal year ending June 30, 2020, the University's operating revenues had an overall increase of \$12.3 million or 4.3 percent over the 2018-19 fiscal year. Due to strategic planning and implementation, gross student tuition and fees were higher than the prior year and reflect a high caliber student population enrolled in more billable credit hours and an increase in the population of out-of-state students. Additionally, grants and contract revenues, comprised of FAU Foundation revenues, Florida Education Finance Program (FEFP) funding of the A.D. Henderson/FAU High School DRS, Harbor Branch Oceanographic Institute sponsored research, and Department of Research sponsored research increased \$4.2 million as the University has laid the foundation for world-class research programs including developing centers and institutes such as the Brain Institute, the Institute for Sensing & Embedded Network Systems Engineering, Harbor Branch Oceanographic Institute, the Center for Environmental Studies, the United States Department of Transportation's Transportation Center, and the Nikon Center of Excellence. In the 2019-20 fiscal year, the University's top three new

sponsored research awards totaling \$5.3 million included grant sponsors from the Florida Department of Education, Federal Emergency Management Agency, and the National Science Foundation. However, sales and services of auxiliary enterprises decreased \$1.8 million due to the COVID-19 outbreak as the University's transition to on-line learning and a remote workforce, which resulted in decreased demand for on campus services and lower contractual commissions related to food service and the bookstore.

**Operating Expenses**

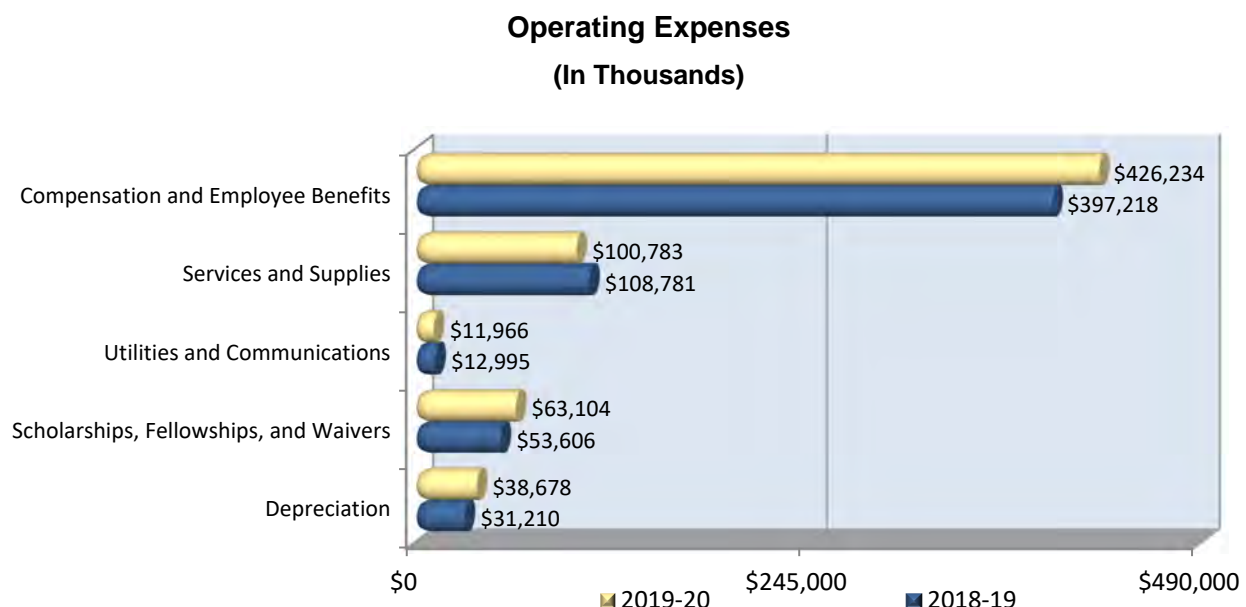
Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the 2019-20 and 2018-19 fiscal years:

**Operating Expenses  
For the Fiscal Years  
(In Thousands)**

|  | <u>2019-20</u>    | <u>2018-19</u>   |
|--|-------------------|------------------|
| Compensation and Employee Benefits     | \$ 426,234        | \$397,218        |
| Services and Supplies                  | 100,783           | 108,781          |
| Utilities and Communications           | 11,966            | 12,995           |
| Scholarships, Fellowships, and Waivers | 63,104            | 53,606           |
| Depreciation                           | 38,678            | 31,210           |
| <b>Total Operating Expenses</b>        | <b>\$ 640,765</b> | <b>\$603,810</b> |

The following chart presents the University's operating expenses for the 2019-20 and 2018-19 fiscal years:





As a whole, total operating expenses increased by \$37 million, primarily due to a \$29 million increase in compensation and employee benefits, a \$9.5 million increase in scholarships, fellowships, and waivers, and a \$7.5 million increase in depreciation, offset by an \$8 million decrease in services and supplies and a \$1 million decrease in utilities and communications expense. The increase in employee compensation and benefits expense was driven by increases in pension expense, OPEB expense, compensated absences expense, one-time annual merit payments awarded as a percentage of base salary from performance reviews for the 2019-20 fiscal year, faculty promotions and United Faculty of Florida collective bargaining unit contract increases. This increase is in alignment with the University's strategic plan to recruit and retain world class faculty with a competitive compensation package. There was an increase in tuition waivers and fee exemptions which is comprised of State mandated waivers, University waivers, and Florida prepaid program waivers. However, services and supplies expense and utilities and communication expense decreased due to the COVID-19 outbreak as the University transitioned to on-line learning and a remote workforce.

### **Nonoperating Revenues and Expenses**

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2019-20 and 2018-19 fiscal years:

#### **Nonoperating Revenues (Expenses) For the Fiscal Years (In Thousands)**

|   | <b>2019-20</b>   | <b>2018-19</b>   |
|---|------------------|------------------|
| State Noncapital Appropriations         | \$208,828        | \$198,372        |
| Federal and State Student Financial Aid | 87,900           | 79,551           |
| Investment Income                       | 10,859           | 7,082            |
| Unrealized Gain                         | 5,335            | 6,153            |
| Other Nonoperating Revenues             | 33,492           | 40,841           |
| Loss on Disposal of Capital Assets      | (592)            | (1,653)          |
| Interest on Capital Asset-Related Debt  | (2,846)          | (3,095)          |
| Other Nonoperating Expenses             | (175)            | (14)             |
| <b>Net Nonoperating Revenues</b>        | <b>\$342,801</b> | <b>\$327,237</b> |

Total net nonoperating revenues increased by \$15.6 million, or 4.8 percent, and is primarily due to an increase of \$10.5 million in State noncapital appropriations, an increase of \$8.3 million in Federal and State student financial aid, and an increase of \$3 million in investment income and unrealized gains. For the 2019-20 fiscal year, State noncapital appropriations represents the largest component of nonoperating revenues consisting of performance based funding received on the University's achievement of criteria established by the Board of Governors as well as funding from the State's newly established World Class Faculty Scholar Program, the University Professional and Graduate Degree Excellence programs, and the FAU100. Federal and State student financial aid increased as a result of not only the Florida Bright Futures Program, the Florida Student Assistance Grant Program, and the

Federal Pell Grant Program, but also due to the University's award of United States Department of Education Higher Education and Emergency Relief Funds (HEERF) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act which was signed into law on March 27, 2020. Pursuant to the CARES Act, and to mitigate the economic impact for those affected by the coronavirus, 50 percent of the HEERF allocation, or \$11.2 million, must go to support students and to cover students' expenses related to the disruption of campus operations due to the coronavirus. As of June 30, 2020, \$6.5 million HEERF were distributed to students and were reported in Federal and State student financial aid at June 30, 2020.

### **Other Revenues and Expenses**

This category is composed of State capital appropriations and capital grants, contracts, donations, fees, and special and extraordinary items. The following summarizes the University's other revenues and expenses for the 2019-20 and 2018-19 fiscal years:

| <b>Other Revenues and Expenses<br/>For the Fiscal Years</b> |                  |                 |
|---|------------------|-----------------|
| <b>(In Thousands)</b>                                       |                  |                 |
|   | <b>2019-20</b>   | <b>2018-19</b>  |
| State Capital Appropriations                                | \$ 27,511        | \$ 7,824        |
| Capital Grants, Contracts, Donations, and Fees              | 818              | 53              |
| Special and Extraordinary Items (Expenses)                  | (6,774)          | -               |
| <b>Total</b>  | <b>\$ 21,555</b> | <b>\$ 7,877</b> |

Overall, other revenues and expenses increased by \$13.7 million due to an increase in State capital appropriations which was offset by a \$6.8 million increase in special and extraordinary expense items. In the 2019-20 fiscal year, State capital appropriations mainly included funding for the renovation of the Student Union and improvements to the A.D. Henderson/FAU High School DRS. Compared to the 2018-19 fiscal year, other revenues and expenses were mainly comprised of State support for the Student Union expansion project. Special and extraordinary expense items increased by \$6.8 million and represents costs incurred by the University to refund students for housing and food services that could no longer be provided as a result of campus closures due to the coronavirus pandemic. In accordance with the CARES Act, the University is allowed to use up to 50 percent of the HEERF institutional aid award allocation, or a maximum of \$11.2 million, to cover such special and extraordinary institutional costs.

### **The Statement of Cash Flows**

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and

use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2019-20 and 2018-19 fiscal years:

**Condensed Statement of Cash Flows  
For the Fiscal Years**

(In Thousands)

|   | <b>2019-20</b>   | <b>2018-19</b>  |
|---|------------------|-----------------|
| Cash Provided (Used) by:                                    |                  |                 |
| Operating Activities  | \$ (267,665)     | \$ (267,487)    |
| Noncapital Financing Activities                             | 324,218          | 320,961         |
| Capital and Related Financing Activities                    | (54,885)         | (58,340)        |
| Investing Activities  | 12,512           | 4,438           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | 14,180           | (428)           |
| Cash and Cash Equivalents, Beginning of Year                | 6,178            | 6,606           |
| <b>Cash and Cash Equivalents, End of Year</b>               | <b>\$ 20,358</b> | <b>\$ 6,178</b> |

Major sources of funds came from State noncapital appropriations (\$208.8 million), net student tuition and fees (\$154.5 million), Federal Direct Student Loan receipts (\$114.4 million), sales and services of auxiliary enterprises (\$70 million), Federal and State student financial aid (\$87.9 million), grants and contracts (\$60.5 million), and other nonoperating receipts (\$35.1 million). Major uses of funds were for payments made to and on behalf of employees totaling \$388.2 million, disbursements to students for Federal Direct Student Loans totaling \$113.9 million, payments to suppliers totaling \$103.7 million, and payments to and on behalf of students for scholarships totaling \$63.8 million. Changes in cash and cash equivalents were the result of the following factors:

- The increase in cash used by operating activities was due primarily to an increase in payments to employees and suppliers.
- The increase in cash provided by noncapital financing activities was primarily due to the increase in State noncapital appropriations and Federal and State student financial aid.
- The decrease in cash used by capital and related financing activities was primarily due to the decrease in the purchase or construction of capital assets.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,  
AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2020, the University had \$1.3 billion in capital assets, less accumulated depreciation of \$511.5 million, for net capital assets of \$790.4 million. Depreciation charges for the current fiscal year totaled \$38.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

## Capital Assets, Net at June 30

(In Thousands)

|   | <u>2020</u>              | <u>2019</u>              |
|---|--------------------------|--------------------------|
| Land  | \$ 9,918                 | \$ 9,918                 |
| Construction in Progress                                    | 111,114                  | 61,134                   |
| Buildings   | 830,226                  | 831,447                  |
| Infrastructure and Other Improvements                       | 121,868                  | 112,010                  |
| Furniture and Equipment                                     | 109,158                  | 104,516                  |
| Library Resources   | 55,204                   | 56,821                   |
| Property Under Capital Leases and<br>Leasehold Improvements | 57,217                   | 45,817                   |
| Works of Art and Historical Treasures                       | 5,364                    | 5,364                    |
| Computer Software   | 1,871                    | 1,936                    |
| <b>Capital Assets, Gross</b>                                | <b>1,301,940</b>         | <b>1,228,963</b>         |
| Less Accumulated Depreciation                               | <u>511,535</u>           | <u>478,381</u>           |
| <b>Capital Assets, Net</b>                                  | <b><u>\$ 790,405</u></b> | <b><u>\$ 750,582</u></b> |

Additional information about the University's capital assets is presented in the notes to financial statements.

### **Capital Expenses and Commitments**

Major capital expenses through June 30, 2020, were incurred on the following projects: Schmidt Family Complex for Academic and Athletic Excellence, Student Union Renovation, Jupiter STEM/Life Sciences Building, ESCO Equipment Projects, Engineering West HVAC Renovations, and Cooling Towers Replacement. The University's major construction commitments at June 30, 2020, are as follows:

|                          | <b><u>Amount</u></b><br><b><u>(In Thousands)</u></b> |
|--------------------------|--|
| Total Committed          | \$ 187,982   |
| Completed to Date        | <u>111,114</u>                                       |
| <b>Balance Committed</b> | <b><u>\$ 76,868</u></b>                              |

Additional information about the University's construction commitments is presented in the notes to financial statements.

### **Debt Administration**

As of June 30, 2020, the University had \$81.6 million in outstanding capital improvement debt payable and capital leases payable, representing an increase of \$16.6 million, or 25.6 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

## Long-Term Debt at June 30

(In Thousands)

|                          | <u>2020</u>             | <u>2019</u>             |
|--------------------------|-------------------------|-------------------------|
| Capital Improvement Debt | \$ 53,850               | \$ 58,660               |
| Capital Leases           | 27,710                  | 6,273                   |
| <b>Total</b>             | <b><u>\$ 81,560</u></b> | <b><u>\$ 64,933</u></b> |

Additional information about the University's long-term debt is presented in the notes to financial statements.

### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The 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. We continue to evaluate and monitor the potential adverse effect that this event may have on the University'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.

Due to the current and future economic uncertainty, the Governor of the State of Florida has requested that all State agencies (including the State University System) hold back 6 percent of their appropriated budget. As the University's economic condition is closely tied to that of the State of Florida, we have adjusted our budgets accordingly and in accordance with the Governor's request. A strong emphasis has been placed on stimulating new revenue sources by maintaining current student enrollment, yielding a robust incoming student cohort for the summer and fall semesters, increasing auxiliary operations, research and grant funding and philanthropic support, and identifying alternative funding opportunities, wherever possible. All the while, exercising expenditure control strategies to preserve or increase University reserves during the 2020-21 budget year.

### REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Dorothy Russell, Interim Vice President for Financial Affairs and Chief Financial Officer, Florida Atlantic University, 777 Glades Road, Boca Raton, Florida 33431.

# BASIC FINANCIAL STATEMENTS

## FLORIDA ATLANTIC UNIVERSITY A Component Unit of the State of Florida Statement of Net Position

June 30, 2020

|   | University           | Component<br>Units |
|---|----------------------|--------------------|
| <b>ASSETS</b>                                 |                      |                    |
| Current Assets:                               |                      |                    |
| Cash and Cash Equivalents                     | \$ 20,358,178        | \$ 11,554,464      |
| Cash with Fiscal Agent                        | -                    | 33,571,639         |
| Investments                                   | 270,080,291          | 108,062,664        |
| Accounts Receivable, Net                      | 33,389,369           | 11,481,065         |
| Loans and Notes Receivable, Net               | 2,843,471            | -                  |
| Due from State                                | 51,754,051           | -                  |
| Due from Component Units/University           | 2,788,623            | 1,214,387          |
| Net Investment in Direct Financing-Type Lease | -                    | 559,000            |
| Other Current Assets                          | 1,648,630            | 646,585            |
| <b>Total Current Assets</b>                   | <b>382,862,613</b>   | <b>167,089,804</b> |
| Noncurrent Assets:                            |                      |                    |
| Restricted Cash and Cash Equivalents          | -                    | 5,304              |
| Restricted Cash with Fiscal Agent             | -                    | 61,495,633         |
| Restricted Investments                        | 17,218,484           | 224,614,949        |
| Net Investment in Direct Financing-Type Lease | -                    | 5,028,000          |
| Accounts Receivable, Net                      | -                    | 7,455,470          |
| Loans and Notes Receivable, Net               | 433,216              | -                  |
| Depreciable Capital Assets, Net               | 665,056,444          | 117,605,274        |
| Nondepreciable Capital Assets                 | 125,348,996          | 42,902,085         |
| Other Noncurrent Assets                       | -                    | 11,094,909         |
| <b>Total Noncurrent Assets</b>                | <b>808,057,140</b>   | <b>470,201,624</b> |
| <b>Total Assets</b>                           | <b>1,190,919,753</b> | <b>637,291,428</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>         |                      |                    |
| Related to Other Postemployment Benefits      | 46,169,436           | -                  |
| Related to Pensions                           | 60,608,945           | -                  |
| Related to Charge on Debt Refunding           | -                    | 6,205,419          |
| <b>Total Deferred Outflows of Resources</b>   | <b>106,778,381</b>   | <b>6,205,419</b>   |
| <b>LIABILITIES</b>                            |                      |                    |
| Current Liabilities:                          |                      |                    |
| Accounts Payable                              | 11,722,969           | 2,417,156          |
| Salary and Wages Payable                      | 12,513,099           | -                  |
| Deposits Payable                              | 3,013,258            | -                  |
| Due to Component Units/University             | 1,214,387            | 2,788,623          |
| Unearned Revenue                              | 12,178,812           | 1,975,530          |
| Other Current Liabilities                     | -                    | 5,131,191          |
| Long-Term Liabilities - Current Portion:      |                      |                    |
| Capital Improvement Debt Payable              | 5,035,000            | -                  |
| Bonds Payable                                 | -                    | 5,570,000          |
| Certificates of Participation Payable         | -                    | 559,000            |
| Capital Leases Payable                        | 1,759,500            | -                  |
| Unearned Lease Revenue                        | 273,384              | -                  |
| Compensated Absences Payable                  | 2,638,260            | -                  |
| Other Postemployment Benefits Payable         | 3,237,310            | -                  |
| Net Pension Liability                         | 459,355              | -                  |
| <b>Total Current Liabilities</b>              | <b>54,045,334</b>    | <b>18,441,500</b>  |

|  | <u>University</u>     | <u>Component<br/>Units</u> |
|--|-----------------------|----------------------------|
| <b>LIABILITIES (Continued)</b>             |                       |                            |
| Noncurrent Liabilities:                    |                       |                            |
| Capital Improvement Debt Payable (CIDP)    | 48,815,000            | -                          |
| CIDP Net Unamortized Premium and Discount  | 3,670,938             | -                          |
| Bonds Payable                              | -                     | 231,595,000                |
| Bonds Payable Unamortized Premium          | -                     | 21,456,440                 |
| Certificates of Participation Payable      | -                     | 5,028,000                  |
| Capital Leases Payable                     | 25,950,850            | -                          |
| Unearned Lease Revenue                     | 7,669,380             | -                          |
| Other Noncurrent Liabilities               | 1,255,441             | 293,245                    |
| Compensated Absences Payable               | 34,840,002            | -                          |
| Other Postemployment Benefits Payable      | 224,081,982           | -                          |
| Net Pension Liability                      | 142,393,120           | -                          |
| <b>Total Noncurrent Liabilities</b>        | <u>488,676,713</u>    | <u>258,372,685</u>         |
| <b>Total Liabilities</b>                   | <u>542,722,047</u>    | <u>276,814,185</u>         |
| <b>DEFERRED INFLOWS OF RESOURCES</b>       |                       |                            |
| Related to Other Postemployment Benefits   | 38,210,231            | -                          |
| Related to Pensions                        | 9,051,920             | -                          |
| Related to Split Interest Trust Agreements | -                     | 332,759                    |
| <b>Total Deferred Inflows of Resources</b> | <u>47,262,151</u>     | <u>332,759</u>             |
| <b>NET POSITION</b>                        |                       |                            |
| Net Investment in Capital Assets           | 729,474,932           | 195,075                    |
| Restricted for Nonexpendable:              |                       |                            |
| Endowment                                  | -                     | 240,492,052                |
| Perpetual Trusts                           | -                     | 3,152,145                  |
| Restricted for Expendable:                 |                       |                            |
| Debt Service                               | -                     | 9,932,883                  |
| Loans                                      | 4,819,313             | -                          |
| Other                                      | 20,331,008            | 108,335,806                |
| Unrestricted                               | (46,911,317)          | 4,241,942                  |
| <b>TOTAL NET POSITION</b>                  | <u>\$ 707,713,936</u> | <u>\$ 366,349,903</u>      |

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

**FLORIDA ATLANTIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2020**

|   | <b>University</b> | <b>Component<br/>Units</b> |
|---|-------------------|----------------------------|
| <b>REVENUES</b>   |                   |                            |
| Operating Revenues:   |                   |                            |
| Student Tuition and Fees, Net of Scholarship  |                   |                            |
| Allowances of \$85,605,807  | \$ 155,115,438    | \$ -                       |
| Federal Grants and Contracts  | 30,929,742        | -                          |
| State and Local Grants and Contracts  | 15,924,097        | 2,809,452                  |
| Nongovernmental Grants and Contracts  | 14,223,129        | 1,184,273                  |
| Sales and Services of Educational Departments   | 623,497           | -                          |
| Sales and Services of Auxiliary Enterprises   | 76,465,212        | -                          |
| (Pledged for Capital Improvement Debt \$7,724,949 for<br>Housing and \$6,599,678 for Parking) |                   |                            |
| Sales and Services of Component Units   | -                 | 35,551,725                 |
| Royalties and Licensing Fees  | -                 | 147,737                    |
| Gifts and Donations   | -                 | 7,771,494                  |
| Interest on Loans and Notes Receivable  | 78,570            | -                          |
| Other Operating Revenues  | 7,839,257         | 1,708,725                  |
| <b>Total Operating Revenues</b>   | 301,198,942       | 49,173,406                 |
| <b>EXPENSES</b>   |                   |                            |
| Operating Expenses:   |                   |                            |
| Compensation and Employee Benefits  | 426,233,908       | 17,346,732                 |
| Services and Supplies   | 100,782,854       | 10,329,368                 |
| Utilities and Communications  | 11,966,135        | 2,048,719                  |
| Scholarships, Fellowships, and Waivers  | 63,104,347        | 8,413,863                  |
| Depreciation  | 38,678,156        | 6,440,992                  |
| Other Operating Expenses  | -                 | 19,730,752                 |
| <b>Total Operating Expenses</b>   | 640,765,400       | 64,310,426                 |
| <b>Operating Loss</b>   | (339,566,458)     | (15,137,020)               |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                   |                            |
| State Noncapital Appropriations   | 208,828,016       | -                          |
| Federal and State Student Financial Aid   | 87,899,931        | -                          |
| Investment Income   | 10,859,353        | 8,076,178                  |
| Net Realized and Unrealized Gain on Investments   | 5,335,479         | 467,793                    |
| Other Nonoperating Revenues   | 33,492,462        | 3,701,679                  |
| Loss on Disposal of Capital Assets  | (592,532)         | -                          |
| Interest on Capital Asset-Related Debt  | (2,846,085)       | (7,312,135)                |
| Other Nonoperating Expenses   | (175,033)         | (5,770,432)                |
| <b>Net Nonoperating Revenues (Expenses)</b>   | 342,801,591       | (836,917)                  |
| <b>Income (Loss) Before Other Revenues and Expenses</b>                                       | 3,235,133         | (15,973,937)               |
| State Capital Appropriations  | 27,511,410        | -                          |
| Capital Grants, Contracts, Donations, and Fees  | 817,881           | 3,463,393                  |
| Special and Extraordinary Items - Other Expenses  | (6,774,363)       | -                          |
| <b>Increase (Decrease) in Net Position</b>  | 24,790,061        | (12,510,544)               |
| Net Position, Beginning of Year   | 676,923,875       | 378,860,447                |
| Adjustment to Beginning Net Position  | 6,000,000         | -                          |
| <b>Net Position, Beginning of Year, as Restated</b>   | 682,923,875       | 378,860,447                |
| <b>Net Position, End of Year</b>  | \$ 707,713,936    | \$ 366,349,903             |

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



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**FLORIDA ATLANTIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows**

**For the Fiscal Year Ended June 30, 2020**

|  | <b>University</b>    |
|--|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                      |
| Student Tuition and Fees, Net                                    | \$ 154,531,300       |
| Grants and Contracts   | 60,491,300           |
| Sales and Services of Educational Departments                    | 623,497              |
| Sales and Services of Auxiliary Enterprises                      | 69,960,135           |
| Interest on Loans and Notes Receivable                           | 78,570               |
| Payments to Employees  | (388,187,070)        |
| Payments to Suppliers for Goods and Services                     | (103,670,089)        |
| Payments to Students for Scholarships and Fellowships            | (63,753,493)         |
| Loans Issued to Students   | 81,127               |
| Collection on Loans to Students                                  | 316,884              |
| Other Operating Receipts   | 1,862,903            |
|  | <b>(267,664,936)</b> |
| <b>Net Cash Used by Operating Activities</b>                     |                      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>           |                      |
| State Noncapital Appropriations                                  | 208,828,016          |
| Federal and State Student Financial Aid                          | 87,899,931           |
| Federal Direct Loan Program Receipts                             | 114,415,281          |
| Federal Direct Loan Program Disbursements                        | (113,904,072)        |
| Other Nonoperating Receipts                                      | 35,142,608           |
| Other Nonoperating Expenses                                      | (8,163,656)          |
|  | <b>324,218,108</b>   |
| <b>Net Cash Provided by Noncapital Financing Activities</b>      |                      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                      |
| Proceeds from Capital Debt and Leases                            | 22,123,350           |
| State Capital Appropriations                                     | 9,615,623            |
| Capital Grants, Contracts, Donations and Fees                    | 817,881              |
| Purchase or Construction of Capital Assets                       | (79,094,241)         |
| Principal Paid on Capital Debt                                   | (4,810,000)          |
| Interest Paid on Capital Debt                                    | (2,664,125)          |
| Principal Paid on Capital Leases                                 | (685,859)            |
| Interest Paid on Capital Leases                                  | (181,959)            |
| Other Debt Related Disbursements                                 | (5,628)              |
|  | <b>(54,884,958)</b>  |
| <b>Net Cash Used by Capital and Related Financing Activities</b> |                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                      |
| Proceeds from Sales and Maturities of Investments                | 1,338,034            |
| Investment Income  | 11,174,297           |
|  | <b>12,512,331</b>    |
| <b>Net Cash Provided by Investing Activities</b>                 |                      |
| <b>Net Increase in Cash and Cash Equivalents</b>                 | <b>14,180,545</b>    |
| Cash and Cash Equivalents, Beginning of Year                     | 6,177,633            |
|  | <b>\$ 20,358,178</b> |
| <b>Cash and Cash Equivalents, End of Year</b>                    | <b>\$ 20,358,178</b> |

**FLORIDA ATLANTIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows (Continued)**  
**For the Fiscal Year Ended June 30, 2020**

|  | <u>University</u>       |
|--|-------------------------|
| <b>RECONCILIATION OF OPERATING LOSS</b>  |                         |
| <b>TO NET CASH USED BY OPERATING ACTIVITIES</b>  |                         |
| Operating Loss   | \$ (339,566,458)        |
| Adjustments to Reconcile Operating Loss<br>to Net Cash Used by Operating Activities:   |                         |
| Depreciation Expense   | 38,678,156              |
| Changes in Assets, Liabilities, Deferred Outflows of Resources,<br>and Deferred Inflows of Resources:  |                         |
| Receivables, Net   | (7,520,531)             |
| Loans and Notes Receivable   | 398,011                 |
| Other Current Assets   | 1,011,021               |
| Accounts Payable   | 8,415,975               |
| Salaries and Wages Payable   | 2,752,052               |
| Deposits Payable   | (9,273,705)             |
| Compensated Absences Payable   | 5,054,865               |
| Unearned Revenue   | (10,486)                |
| Other Liabilities  | (543,354)               |
| Other Postemployment Benefits Payable  | 50,053,292              |
| Net Pension Liability  | 16,441,771              |
| Deferred Outflows of Resources Related to Other Postemployment Benefits  | (43,496,436)            |
| Deferred Inflows of Resources Related to Other Postemployment Benefits   | 4,697,603               |
| Deferred Outflows of Resources Related to Pensions   | 7,538,932               |
| Deferred Inflows of Resources Related to Pensions  | (2,295,644)             |
|  | <u>\$ (267,664,936)</u> |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>   |                         |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND<br/>CAPITAL FINANCING ACTIVITIES</b>   |                         |
| Unrealized gains on investments were recognized on the statement of revenues,<br>expenses, and changes in net position, but are not cash transactions for the<br>statement of cash flows.            | \$ 5,335,479            |
| Losses from the disposal of capital assets were recognized on the statement of<br>revenues, expenses, and changes in net position, but are not cash transactions<br>for the statement of cash flows. | \$ (592,532)            |

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **1. Summary of Significant Accounting Policies**

**Reporting Entity.** The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

**Blended Component Unit.** Based on the application of the criteria for determining component units, the Florida Atlantic University College of Medicine Self-Insurance Program (Program), is included within the University's reporting entity as a blended component unit. The Program was created on June 23, 2011, by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes, and its sole purpose is to assist in providing comprehensive general liability (malpractice) coverage for the University and its affiliated individuals and entities, and is therefore reported as if it is part of the University. Condensed financial statements for the University's blended component unit are shown in a subsequent note. The condensed financial statements are reported net of eliminations.

**Discretely Presented Component Units.** Based on the application of the criteria for determining component units, certain affiliated organizations are included within the University's reporting entity as discretely presented component units. The University further categorizes its component units as Direct-Support Organizations and Health Science Center Affiliates. An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual reports are submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the Office of University Relations. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

**Direct-Support Organizations.** The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011 are considered component units of Florida Atlantic University and, therefore, the latest audited financial statements of these organizations are included in the University's financial statements by discrete presentation. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. The Statutes authorize these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- Florida Atlantic University Foundation, Inc. (FAU Foundation) is a separate corporation operating independently from the University and, as such, receives and administers most private support for the University. Any person or organization contributing money, stock, or any other item to be used in support of the general or specific support of the University usually does so through the offices of the FAU Foundation.
- Florida Atlantic University Research Corporation, Inc. (Research Corporation) was established by Florida Atlantic University in 1990. It has been organized to promote and encourage, and to provide assistance to, the research activities of the University's faculty, staff, and students. The Research Corporation has been granted rights and responsibilities for the development, protection, and commercial application of defined and selected intellectual property. In consideration of its efforts, the Research Corporation is entitled to a portion of the royalties, license fees, or other revenue for the benefit of the University. The Research Corporation also accepts and administers contracts and grants from private industry, foundations, and other agencies whenever it is required by the granting agency, or when it is in the best interest of the University.
- Harbor Branch Oceanographic Institute Foundation, Inc. (HBOI Foundation) is a separate corporation operating independently from the University that became a provider of funding and support for the research and education in marine science and ocean engineering to the Harbor Branch Oceanographic Institute, a research institute within the University. The HBOI Foundation receives and administers most private support to the Institute as it increases the understanding of oceans and coastal areas through exploration and scientific investigation.
- FAU Finance Corporation (Finance Corporation) is a separate corporation operating independently from the University. It has been organized and operated 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.

**Health Science Center Affiliates.** The FAU Clinical Practice Organization, Inc. (FAU CPO) is closely affiliated with the University's Charles Schmidt College of Medicine, the Christine E. Lynn College of Nursing, and other participating colleges and units within the University. The FAU CPO was incorporated on May 3, 2011, as a not-for-profit organization under Chapter 617, Florida Statutes. It was established to promote and support medical education, patient care, research, and the administration and distribution of funds exclusively for support of the mission and objectives of the University in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans, adopted by the University, pursuant to Board of Governors Regulation 9.017.

**Basis of Presentation.** The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as

prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
- Other Required Supplementary Information

**Measurement Focus and Basis of Accounting.** Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

The University's blended and discretely presented component units use the economic resources measurement focus and the accrual basis of accounting. The Research Corporation, the Finance Corporation, the FAU Foundation and the FAU CPO follow GASB standards of accounting and financial reporting. HBOI Foundation follows FASB standards of accounting and financial reporting for not-for-profit organizations.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from revenues and expenses for reporting purposes.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income. Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund

certain programs, it is the University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**Cash and Cash Equivalents.** Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

One of the University's component units, the Finance Corporation, reported cash with fiscal agent at a fair value of \$95,067,272 at June 30, 2020, invested in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury SPIA investment pool carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 0.43 years and a fair value factor of 1.0291 at June 30, 2020. The component unit relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**Capital Assets.** University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital leases and leasehold improvements, works of art and historical treasures, and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$250 for library resources and \$5,000 for tangible personal property, new buildings, and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment – 3 to 30 years

- Library Resources – 7 to 10 years
- Property Under Capital Lease – 7 to 18 years or the term of the lease, whichever is greater
- Leasehold Improvements – 36 to 50 years
- Works of Art and Historical Treasures – 15 to 50 years
- Computer Software – 3 to 15 years

**Noncurrent Liabilities.** Noncurrent liabilities include capital improvement debt payable, capital leases payable, unearned lease revenue, other noncurrent liabilities, compensated absences payable, other postemployment benefits payable, and net pension liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

**Pensions.** For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

## **2. Reporting Changes**

In 2010, the University leased land to the Finance Corporation with terms of a prepaid lease extending through July 2040. In 2019, the Finance Corporation issued new debt for a longer period extending the prepaid lease through July 2049. Accordingly, for the 2019-20 fiscal year, the University began amortizing the unearned lease revenue over the remaining lease term in conjunction with the maturity date of the new debt pursuant to GASB Statement No. 62. The effects of this change in accounting estimate are discussed in Note 11.

## **3. Adjustment to Beginning Net Position**

The beginning net position of the University was increased by \$6,000,000 due to the change in classification of a parking services lease from operating to capital under GASB Statement No. 62.

## **4. Deficit Net Position in Individual Funds**

The University reported an unrestricted net position which included a deficit in the current funds – unrestricted. This deficit can be attributed to the full recognition of the OPEB liability in the current unrestricted funds due to the implementation in the fiscal year ended June 30, 2018, of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and requires employers participating in cost-sharing multiple-employer defined postemployment benefit health plans (other than retirement) to report the employers' proportionate share of the net OPEB liabilities of the defined OPEB plans. The University participates in the State Group Health Insurance Plan administered by the Florida Department



of Management Services, Division of State Group Insurance (DSGI). The University had a deficit unrestricted net position of \$46,911,317 at June 30, 2020.

## **5. Investments**

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA) and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open end or closed end management type investment companies; and other investments approved by the Board of Trustees as authorized by law.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University 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.

All of the University's recurring fair value measurements as of June 30, 2020, are valued using quoted market prices (Level 1 inputs), with the exception of investments with the State Treasury which are valued based on the University's share of the pool (Level 3 inputs).

### **External Investment Pools.**

The University reported investments at fair value totaling \$280,770,413 at June 30, 2020, in the State Treasury SPIA investment pool, representing ownership of a share of the pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. 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 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of AA-f by Standard & Poor's, had an effective duration of 0.43 years, and fair value factor of 1.0291 at June 30, 2020. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest

rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**External Investment Pools – Component Units' Investment.**

Two of the University's component units invested in the SPIA investment pool, representing ownership of a share of the pool, not the underlying securities. The FAU Foundation and Research Corporation reported investments at fair market value of \$8,023,581 and \$481,463 at June 30, 2020, respectively, invested in the SPIA investment pool. The component units rely on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**Other Investments.**

The University's College of Medicine Self-Insurance Program (Program), a blended component unit of the University, invested in equity mutual funds and bond mutual funds. Equity mutual fund investments consist of shares in Vanguard International Stock Index Fund and Vanguard Total Stock Market Index Fund. Bond mutual fund investments consist of shares owned in Vanguard Short-Term Bond Index Fund and Vanguard Intermediate Term Bond Index Fund. The Program's investments are recorded at fair value and the program categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The Program's recurring fair value measurements at June 30, 2020, for its equity mutual funds and bond mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Program are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Program are deemed to be actively traded.

The Program's investments at June 30, 2020, are reported as follows:

| Investments by fair value level              | Self-Insurance Program Investments |             |             |                     |
|--|------------------------------------|-------------|-------------|---------------------|
|  | (Level 1)                          | (Level 2)   | (Level 3)   | Total               |
| Equity Mutual Funds:                         |                                    |             |             |                     |
| Domestic Equity Funds                        | \$ 1,956,931                       | \$ -        | \$ -        | \$ 1,956,931        |
| Global Equity Funds                          | 385,841                            | -           | -           | 385,841             |
| Total Equity Mutual Funds                    | 2,342,772                          | -           | -           | 2,342,772           |
| Bond Mutual Funds:                           |                                    |             |             |                     |
| Short-Term Bond Funds                        | 3,359,443                          | -           | -           | 3,359,443           |
| Intermediate Term Bond Funds                 | 822,747                            | -           | -           | 822,747             |
| Total Bond Mutual Funds                      | 4,182,190                          | -           | -           | 4,182,190           |
| <b>Total investments by fair value level</b> | <b>\$ 6,524,962</b>                | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 6,524,962</b> |

The following risks apply to the Program's investments:

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program's investments in bond mutual funds are subject to interest rate risk.

The effective duration of the Program's investments in bond mutual funds as of June 30, 2020, range from 2.66 years to 6.38 years.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk (by the GASB) and do not require disclosure of credit quality. At June 30, 2020, the Program held bond mutual funds which have underlying investments with quality ratings by nationally recognized rating agencies as shown below:

**Self-Insurance Program's Investments Quality Ratings**

| <u>Investment Type</u> | <u>Fair Value</u> | <u>AAA/Aaa</u> | <u>AA/Aa</u> | <u>A/Ba</u> | <u>Less Than<br/>A/Ba<br/>Or Not Rated</u> |
|------------------------|-------------------|----------------|--------------|-------------|--|
| Bond Mutual Funds      | \$ 4,182,190      | \$ -           | \$ 3,359,443 | \$ 822,747  | \$ -                                       |

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the Program and are not registered in the Program's name. The Program has not identified any investments falling into this category as of June 30, 2020.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investments in a single issuer. The Program places no limit on the amount it may invest in one issuer. Investments that consist of more than 5 percent of the Program's investments at June 30, 2020, are shown below:

**Self-Insurance Program's Concentration of Credit Risk**

| <u>Investment Type</u>                     | <u>Fair Value</u>   | <u>Percent of<br/>Program's<br/>Total<br/>Investments</u> |
|--|---------------------|---|
| Vanguard International Stock Index Fund    | \$ 385,841          | 6%  |
| Vanguard Total Stock Market Index Fund     | 1,956,931           | 30%   |
| Vanguard Short-Term Bond Index Fund        | 3,359,443           | 51%   |
| Vanguard Intermediate-Term Bond Index Fund | 822,747             | 13%   |
| <b>Total Investments</b>                   | <b>\$ 6,524,962</b> | <b>100%</b>   |

The Program's formal investment policy in place does not specifically address any of the types of risks identified above.

**Component Units' Investments – FAU Foundation.**

The FAU Foundation, a component unit of the University, invested primarily in domestic and international equity, fixed income securities, the SPIA Investment pool, and alternative investments such as hedge funds, private equity, and real asset funds. Investments at June 30, 2020, consisted of the following at their fair value:

| <u>Investment Type</u>                | <u>Amount</u>         |
|---------------------------------------|-----------------------|
| United States Equities                | \$ 62,423,281         |
| International Equities                | 60,950,142            |
| Fixed Income Securities               | 22,528,703            |
| Hedge Funds                           | 41,736,351            |
| Private Equity Funds                  | 29,399,620            |
| Real Asset Funds                      | 7,576,852             |
| SPIA                                  | 8,023,581             |
| Money Market Funds and Other Deposits | 24,319,203            |
| <b>Total Investments</b>              | <b>\$ 256,957,733</b> |

**Component Units' Investments – FAU Foundation – Funds Held in Trust by Others.**

The FAU Foundation is the sole beneficiary of certain trusts that are not in its possession or under its control, but are held and administered by outside trustees. The FAU Foundation recognizes the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or when the FAU Foundation is notified of its existence. The present value is calculated using discount rates the year in which the trust was established. Funds held in trust by others at June 30, 2020, consisted of the following at their fair value:

| <u>Investment Type</u>           | <u>Amount</u>       |
|----------------------------------|---------------------|
| United States Equities           | \$ 1,888,894        |
| International Equities           | 484,632             |
| Fixed Income Securities          | 693,674             |
| Cash and Equivalents             | 84,945              |
| <b>Total Funds Held in Trust</b> | <b>\$ 3,152,145</b> |

**Component Units' Investments – FAU Foundation – Fair Value Measurement.**

The FAU Foundation's investments and funds held in trust by others, on the statement of net position, are recorded at fair value and the FAU Foundation categorizes its fair value measurement within the fair value hierarchy established by GASB Statement No. 72. The following table presents the FAU Foundation's investments and funds held in trusts by others measured at fair value as of June 30, 2020:

**Florida Atlantic University Foundation, Inc.**

| <b>Investment Type</b>                                     | <b>Level 1</b>       | <b>Level 2</b>      | <b>Level 3</b>        | <b>Valued at NAV</b> | <b>Total</b>          |
|--|----------------------|---------------------|-----------------------|----------------------|-----------------------|
| Equities   | \$ 19,960,315        | \$ -                | \$ 103,413,108        | \$ -                 | \$ 123,373,423        |
| Other  | 4,188,862            | -                   | -                     | 74,523,961           | 78,712,823            |
| Fixed Income   | -                    | 4,388,787           | 18,139,916            | -                    | 22,528,703            |
| External Investment Pool:                                  |                      |                     |                       |                      |                       |
| SPIA   | -                    | -                   | 8,023,581             | -                    | 8,023,581             |
| Funds Held in Trust by Others                              | 3,067,200            | -                   | -                     | -                    | 3,067,200             |
| <b>Total Investments Measured at Fair Value</b>            | <b>\$ 27,216,377</b> | <b>\$ 4,388,787</b> | <b>\$ 129,576,605</b> | <b>\$ 74,523,961</b> | <b>235,705,730</b>    |
| Investments not Measured at Fair Value:                    |                      |                     |                       |                      |                       |
| Money Market Funds and Other Deposits                      |                      |                     |                       |                      | 24,404,148            |
| <b>Total Investments and Funds Held in Trust by Others</b> |                      |                     |                       |                      | <b>\$ 260,109,878</b> |

Interest and dividend income reflected in the statements of revenues, expenses, and changes in net position for the year ended June 30, 2020, is presented net of the estimated investment manager/custodian fees of approximately \$1,976,000.

The following table provides additional disclosures of alternative investments held by the FAU Foundation at June 30, 2020:

| <b>Strategy</b>    | <b>Fair Value</b>    | <b>Unfunded Commitments</b> | <b>Redemption Frequency</b>                          | <b>Redemption Notice Period</b> |
|--------------------|----------------------|-----------------------------|--|---------------------------------|
| Private Equity (a) | \$ 29,399,620        | \$ 20,968,795               | Duration of Partnership                              | N/A                             |
| Multi-Strategy (b) | 41,736,351           | -                           | Quarterly, Over One Year and Duration of Partnership | 60 to 70 Days and N/A           |
| Real Assets (c)    | 3,387,990            | -                           | Monthly and Duration of Partnership                  | 30 Days and N/A                 |
| <b>Total</b>       | <b>\$ 74,523,961</b> | <b>\$ 20,968,795</b>        |  |                                 |

- (a) Private equity: This class includes several private equity funds some of which offer investments into any of three separate strategies: venture capital, private equity (buyouts), and emerging markets. Investments are made with a limited partner agreement, which prohibits redemption of the investment. Instead, distributions are received through the liquidation of the underlying assets of the fund.
- (b) Multi-strategy: This class invests in long and short-term credit as well as distressed and special situations.
- (c) Real assets: This class includes several real estate funds that invest primarily in public Real Estate Investment Trusts, private open-end core real estate funds, and a portfolio of directly held properties. Distributions from each fund will be received as the underlying investment of the funds are liquidated.

The following risks apply to the FAU Foundation's investments:

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. FAU Foundation's investments in fixed income securities are subject to interest rate risk. The scheduled maturities (in years) of investments held by the Foundation as of June 30, 2020, are as follows:

**FAU Foundation's Interest Rate Risk**

| <u>Investment Type</u>     | <u>Fair Value</u>    | <u>Less Than 1</u>  | <u>1 to 5</u>        | <u>More than 5</u>  |
|----------------------------|----------------------|---------------------|----------------------|---------------------|
| Domestic Fixed Income      | \$ 18,139,916        | \$ -                | \$ 8,850,579         | \$ 9,289,337        |
| International Fixed Income | 4,388,787            | 1,627,966           | 2,760,821            | -                   |
| <b>Total</b>               | <b>\$ 22,528,703</b> | <b>\$ 1,627,966</b> | <b>\$ 11,611,400</b> | <b>\$ 9,289,337</b> |

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk (by the GASB) and do not require disclosure of credit quality. Credit risk exists when there is a possibility the debt issuer may be unable to fulfill its obligations. The following schedule of credit rating of FAU Foundation investments summarizes the fair value of the fixed income securities subject to credit risk. The FAU Foundation maintains policies to manage credit risk which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations such as Standards & Poor's or Moody's investor services. The FAU Foundation has certain domestic and international fixed income securities with an assigned defined rating, while the remaining have a range of ratings based on their investment composition. At June 30, 2020, the credit ratings of the FAU Foundation domestic and international fixed income securities are summarized below:

**FAU Foundation's Credit Rate Risk**

| <u>Rating</u>            | <u>Amount</u>        |
|--------------------------|----------------------|
| A                        | \$ 8,850,579         |
| AA-                      | 13,678,124           |
| <b>Total Investments</b> | <b>\$ 22,528,703</b> |

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be accessible in a timely manner. Substantially all of the FAU Foundation's investments are issued, registered, or held in the name of the FAU Foundation by custodian banks and brokers, as its agent. Further, the FAU Foundation seeks to mitigate custodial risk by investing in the Insured Cash Sweep program. This program places funds in increments of up to \$250,000 with non-redundant banks throughout the United States, thereby protecting all funds with FDIC insurance. At June 30, 2020, the Foundation had total deposits of approximately \$6,867,000 in this program, which is classified as investments. The Foundation also has protection, with limits, under the Securities Investor Protection Corporation (SIPC). As a result, the FAU Foundation management believes that custodial risk is remote.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the FAU Foundation's investments in a single issuer. Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers; thereby, exposing the Foundation to greater risks resulting from adverse conditions or developments. The FAU Foundation's investment policy requires diversification of investments to reduce the potential of a single security, or single sector of securities from having a significant impact on the portfolio. GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, requires disclosure when the

percentage is 5 percent or more of the total investments in any one issuer. Investments issued or explicitly guaranteed by the United States Government and investments in mutual funds, external investment pools, or other pooled investments are excluded from this requirement. At June 30, 2020, the FAU Foundation had various Exchange Traded Funds and index funds with one investment company. Investments with this company made up approximately 47 percent of the portfolio, invested between eight separate funds. The FAU Foundation has one other investment which makes up approximately 8 percent of the investment portfolio total deposits of approximately \$6,867,000 in this program, which is classified as investments. The Foundation also has protection, with limits, under the SIPC.

*Foreign Currency Risk:* Exposure from foreign currency risk results from investments in foreign current denominated equity, fixed income, and alternative investments in addition to some foreign current investments held within United States mutual funds. The FAU Foundation maintains significant international investments by investing in mutual funds and alternative investments that are broadly diversified over many developed markets and exposure to emerging markets. The foreign currency risk by investment type at June 30, 2020, was as follows:

| <u>Rating</u>              | <u>Amount</u>        |
|----------------------------|----------------------|
| International Equities     | \$ 60,950,142        |
| International Fixed Income | 4,388,787            |
| <b>Total Investments</b>   | <b>\$ 65,338,929</b> |

### **Component Units' Investments – HBOI Foundation.**

The HBOI Foundation, a component unit of the University, invested in various types of mutual funds and exchange traded funds, multi-strategy hedge funds, and diversified offshore funds. The fair value of investments at June 30, 2020, include the following:

| <u>Investment Type</u>                  | <u>Not Classified</u> | <u>Level 1</u>       | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>      |
|---|-----------------------|----------------------|----------------|----------------|-------------------|
| Cash Equivalents                        | \$ 502,731            | \$ -                 | \$ -           | \$ -           | \$ 502,731        |
| Land Held for Investment                | 691,553               | -                    | -              | -              | 691,553           |
| Mutual Funds and Exchange Traded Funds: |                       |                      |                |                |                   |
| Fixed Income                            | -                     | 19,611,668           | -              | -              | 19,611,668        |
| Large Cap                               | -                     | 54,432,465           | -              | -              | 54,432,465        |
| <b>Total Investments</b>                | <b>\$ 1,194,284</b>   | <b>\$ 74,044,133</b> | <b>\$ -</b>    | <b>\$ -</b>    | <b>75,238,417</b> |

*Concentration of Credit Risk:* The HBOI Foundation's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents, which include checking accounts placed with federally insured financial institutions. Such accounts may at times exceed federally insured limits, the HBOI Foundation has policies in place to move excess funds as soon as possible and has not experienced any losses on such accounts. The HBOI Foundation has significant investments in mutual funds and exchange traded funds, which are also subject to concentrations of credit risk. Investments are made by investment managers engaged by the HBOI Foundation and the investments are monitored

for the HBOI Foundation by an investment consultant with input by the HBOI Foundation's Finance Committee. Although the market value of investments is subject to fluctuations on a day-to-day basis, HBOI Foundation management believes the investment policy is prudent for the long-term welfare of the HBOI Foundation and its beneficiaries.

## 6. Receivables

**Accounts Receivable.** Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2020, the University reported the following amounts as accounts receivable:

| <u>Description</u>               | <u>Amount</u>               |
|----------------------------------|-----------------------------|
| Student Tuition and Fees         | \$ 15,650,518               |
| Contracts and Grants             | 9,410,595                   |
| Other                            | <u>8,328,256</u>            |
| <b>Total Accounts Receivable</b> | <b><u>\$ 33,389,369</u></b> |

**Loans and Notes Receivable.** Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

**Allowance for Doubtful Receivables.** Allowances for doubtful accounts and loans and notes receivable are reported based on management's best estimate as of fiscal year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans and notes receivable are reported net of allowances of \$16,176,666 and \$273,556, respectively, at June 30, 2020.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

## 7. Due From State

The amount due from State consists of \$51,754,051 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction of University facilities.

## 8. Due From and To Component Units/University

The \$2,788,623 reported as due from component units consists of amounts owed to the University by the FAU Foundation to reimburse funds expended out of departmental FAU Foundation accounts; by the Finance Corporation for the reimbursement of costs associated with student housing operations; and by the FAU CPO for the reimbursement of costs associated with the FAU CPO. The \$1,214,387 reported as due to component units consists of amounts owed by the University to the FAU Foundation pursuant to an agreement to support the FAU Foundation's operations; the Finance Corporation pursuant to a management agreement for operations; and the FAU CPO pursuant to an agreement to support the FAU CPO's operations.



## 9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2020, is shown in the following table:

| <u>Description</u>                                       | <u>Beginning Balance</u> | <u>Additions</u>      | <u>Reductions</u>   | <u>Ending Balance</u> |
|--|--------------------------|-----------------------|---------------------|-----------------------|
| Nondepreciable Capital Assets:                           |                          |                       |                     |                       |
| Land   | \$ 9,918,277             | \$ -                  | \$ -                | \$ 9,918,277          |
| Works of Art and Historical Treasures                    | 4,316,620                | -                     | -                   | 4,316,620             |
| Construction in Progress                                 | 61,134,142               | 57,299,178            | 7,319,221           | 111,114,099           |
| <b>Total Nondepreciable Capital Assets</b>               | <b>\$ 75,369,039</b>     | <b>\$ 57,299,178</b>  | <b>\$ 7,319,221</b> | <b>\$ 125,348,996</b> |
| Depreciable Capital Assets:                              |                          |                       |                     |                       |
| Buildings  | \$ 831,447,014           | \$ -                  | \$ 1,221,110        | \$ 830,225,904        |
| Infrastructure and Other Improvements                    | 112,009,978              | 9,858,291             | -                   | 121,868,269           |
| Furniture and Equipment                                  | 104,515,733              | 7,903,686             | 3,261,035           | 109,158,384           |
| Library Resources  | 56,821,110               | 32,904                | 1,650,500           | 55,203,514            |
| Property Under Capital Leases and Leasehold Improvements | 45,816,704               | 11,400,000            | -                   | 57,216,704            |
| Works of Art and Historical Treasures                    | 1,047,328                | -                     | -                   | 1,047,328             |
| Computer Software  | 1,935,741                | -                     | 64,850              | 1,870,891             |
| <b>Total Depreciable Capital Assets</b>                  | <b>1,153,593,608</b>     | <b>29,194,881</b>     | <b>6,197,495</b>    | <b>1,176,590,994</b>  |
| Less, Accumulated Depreciation:                          |                          |                       |                     |                       |
| Buildings  | 291,407,140              | 17,168,434            | 782,892             | 307,792,682           |
| Infrastructure and Other Improvements                    | 46,553,369               | 3,834,175             | -                   | 50,387,544            |
| Furniture and Equipment                                  | 69,340,253               | 8,126,925             | 3,026,117           | 74,441,061            |
| Library Resources  | 53,927,658               | 1,481,408             | 1,650,500           | 53,758,566            |
| Property Under Capital Leases and Leasehold Improvements | 15,018,004               | 8,014,950             | -                   | 23,032,954            |
| Works of Art and Historical Treasures                    | 277,026                  | 25,350                | -                   | 302,376               |
| Computer Software  | 1,857,303                | 26,914                | 64,850              | 1,819,367             |
| <b>Total Accumulated Depreciation</b>                    | <b>478,380,753</b>       | <b>38,678,156</b>     | <b>5,524,359</b>    | <b>511,534,550</b>    |
| <b>Total Depreciable Capital Assets, Net</b>             | <b>\$ 675,212,855</b>    | <b>\$ (9,483,275)</b> | <b>\$ 673,136</b>   | <b>\$ 665,056,444</b> |

## 10. Unearned Revenue

Unearned revenue at June 30, 2020, includes student tuition and fees received prior to fiscal year end related to subsequent accounting periods, grant funds, received but not yet expended as of June 30, 2020. As of June 30, 2020, the University reported the following amounts as unearned revenue:

| <u>Description</u>            | <u>Amount</u>        |
|-------------------------------|----------------------|
| Contracts and Grants          | \$ 2,094,598         |
| Student Tuition and Fees      | 10,084,214           |
| <b>Total Unearned Revenue</b> | <b>\$ 12,178,812</b> |

## 11. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2020, include capital improvement debt payable, capital leases payable, unearned lease revenue, other noncurrent liabilities, compensated absences payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2020, is shown in the following table:

| <u>Description</u>                    | <u>Beginning Balance</u> | <u>Additions</u>      | <u>Reductions</u>     | <u>Ending Balance</u> | <u>Current Portion</u> |
|---------------------------------------|--------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Capital Improvement Debt Payable (1)  | \$ 58,660,000            | \$ -                  | \$ 4,810,000          | \$ 53,850,000         | \$ 5,035,000           |
| Capital Leases Payable                | 6,272,859                | 22,123,350            | 685,859               | 27,710,350            | 1,759,500              |
| Unearned Lease Revenue                | 8,266,667                | -                     | 323,903               | 7,942,764             | 273,384                |
| Other Noncurrent Liabilities          | 1,649,202                | -                     | 393,761               | 1,255,441             | -                      |
| Compensated Absences Payable          | 32,423,397               | 7,617,083             | 2,562,218             | 37,478,262            | 2,638,260              |
| Other Postemployment Benefits Payable | 177,266,000              | 93,412,382            | 43,359,090            | 227,319,292           | 3,237,310              |
| Net Pension Liability                 | 126,410,704              | 93,143,118            | 76,701,347            | 142,852,475           | 459,355                |
| <b>Total Long-Term Liabilities</b>    | <b>\$ 410,948,829</b>    | <b>\$ 216,295,933</b> | <b>\$ 128,836,178</b> | <b>\$ 498,408,584</b> | <b>\$ 13,402,809</b>   |

(1) Capital Improvement Debt Payable does not include \$3,670,938 in net discounts and premiums outstanding for the year ended June 30, 2020.

**Capital Improvement Debt Payable.** The University had the following capital improvement debt payable outstanding at June 30, 2020:

| <u>Capital Improvement Debt Type and Series</u> | <u>Amount of Original Debt</u> | <u>Amount Outstanding (1)</u> | <u>Interest Rates (Percent)</u> | <u>Maturity Date To</u> |
|---|--------------------------------|-------------------------------|---------------------------------|-------------------------|
| Student Housing Debt:                           |                                |                               |                                 |                         |
| 2016A Student Housing                           | \$ 53,040,000                  | \$ 42,330,000                 | 4.0 - 5.0                       | 2036                    |
| Parking Garage Debt:                            |                                |                               |                                 |                         |
| 2013A Parking Facility                          | 21,490,000                     | 11,520,000                    | 2.375 - 5.0                     | 2032                    |
| <b>Total Capital Improvement Debt</b>           | <b>\$ 74,530,000</b>           | <b>\$ 53,850,000</b>          |                                 |                         |

(1) Capital Improvement Debt Payable does not include \$3,670,938 in net discounts and premiums outstanding for the fiscal year ended June 30, 2020.

The University has pledged a portion of future housing system revenues and parking system revenues to repay \$53,850,000 in capital improvement (housing, parking, etc.) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing system revenues and parking system revenues and are payable through 2036. The University has committed to appropriate each year from the housing system revenues and the parking system revenues amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt (net of discounts and premiums) is \$71,278,063 and principal and interest paid for the current year totaled \$7,474,125. During the 2019-20 fiscal year, housing system revenues and parking system revenues totaled \$7,724,949, and \$6,599,678, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2020, are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Principal (1)</u> | <u>Interest</u>      | <u>Total</u>         |
|-----------------------------------|----------------------|----------------------|----------------------|
| 2021                              | \$ 5,035,000         | \$ 2,423,625         | \$ 7,458,625         |
| 2022                              | 3,685,000            | 2,171,875            | 5,856,875            |
| 2023                              | 3,865,000            | 1,987,625            | 5,852,625            |
| 2024                              | 3,445,000            | 1,828,106            | 5,273,106            |
| 2025                              | 3,600,000            | 1,673,981            | 5,273,981            |
| 2026-2030                         | 20,610,000           | 5,732,813            | 26,342,813           |
| 2031-2035                         | 12,060,000           | 1,548,038            | 13,608,038           |
| 2036                              | 1,550,000            | 62,000               | 1,612,000            |
| <b>Total</b>                      | <b>\$ 53,850,000</b> | <b>\$ 17,428,063</b> | <b>\$ 71,278,063</b> |

(1) Capital Improvement Debt Payable does not include \$3,670,938 in net discounts and premiums outstanding for the year ended June 30, 2020.

**Bonds Payable – Component Unit.** The Finance Corporation had the following bonds payable outstanding at June 30, 2020:

| <u>Bonds Payable</u>                              | <u>Amount of Original Debt</u> | <u>Amount Outstanding (1)</u> | <u>Interest Rates (Percent)</u> | <u>Maturity Date To</u> |
|---|--------------------------------|-------------------------------|---------------------------------|-------------------------|
| Student Housing Debt:                             |                                |                               |                                 |                         |
| Series 2012A Tax-Exempt Bonds, Parliament Hall    | \$ 46,205,000                  | \$ 40,510,000                 | 3.0 - 5.0                       | 2042                    |
| Series 2012B Tax-Exempt Bonds, Innovation Village | 3,440,000                      | 1,735,000                     | 2.17 - 2.64                     | 2025                    |
| Series 2019A Tax-Exempt Bonds, Innovation Village | 90,600,000                     | 89,110,000                    | 4.0 - 5.0                       | 2040                    |
| Series 2019B Tax-Exempt Bonds, Student Housing    | 68,190,000                     | 68,190,000                    | 4.0 - 5.0                       | 2050                    |
| Football Stadium Debt:                            |                                |                               |                                 |                         |
| Series 2017 Bonds, Stadium                        | 40,035,000                     | 37,620,000                    | 2.61                            | 2040                    |
| <b>Total Bonds Payable</b>                        | <b>\$ 248,470,000</b>          | <b>\$ 237,165,000</b>         |                                 |                         |

(1) Bonds Payable does not include \$21,456,440 in unamortized bond premiums in the total principal outstanding for the year ended June 30, 2020.

The Finance Corporation issued new long-term capital improvement debt instruments as follows:

- On November 1, 2019, the Finance Corporation issued \$68,190,000 of Tax-Exempt Capital Improvement Revenue Bonds (Student Housing), Series 2019B for construction of new student housing facilities on the main Boca Raton campus and the John D. MacArthur campus in Jupiter, Florida. The Series 2019B bonds bear interest at a variable rate of 4 percent to 5 percent through maturity on July 1, 2049. Interest is paid semiannually on each January 1 and July 1. Principal on debt is paid annually commencing on July 2022 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 percent of the amount equal to the annual bond service requirement for the Series 2012A, 2012B, 2019A, and 2019B student housing bonds.

Annual requirements to amortize all bonds payable outstanding as of June 30, 2020, are as follows:

| <u>Fiscal Year<br/>Ending June 30</u> | <u>Principal</u>      | <u>Interest</u>       | <u>Total</u>          |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| 2021                                  | \$ 5,570,000          | \$ 10,153,688         | \$ 15,723,688         |
| 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            |
| 2026-2030                             | 43,340,000            | 39,588,810            | 82,928,810            |
| 2031-2035                             | 53,185,000            | 29,039,520            | 82,224,520            |
| 2036-2040                             | 62,470,000            | 16,308,915            | 78,778,915            |
| 2041-2045                             | 25,260,000            | 6,852,127             | 32,112,127            |
| 2046-2050                             | 18,855,000            | 2,449,125             | 21,304,125            |
| <b>Total</b>                          | <b>\$ 237,165,000</b> | <b>\$ 142,269,275</b> | <b>\$ 379,434,275</b> |

(1) Bonds Payable does not include \$21,456,440 in unamortized bond premiums in the total principal outstanding for the year ended June 30, 2020.

**Capital Leases Payable.** During the 2019-20 fiscal year, the University entered into two Energy Service Company (ESCO) equipment lease/purchase agreements for the purpose of replacing aging equipment, improve utility efficiency and to reduce annual maintenance costs. The University's FPL Services ESCO Project is for the amount of \$8,716,000 with the stated interest rate of 2.612 percent. The University's Siemens ESCO Project is for the amount of \$8,841,350 with the stated interest rate of 2.52 percent.

Also, during the 2019-20 fiscal year, the University began reporting a parking services lease previously reported as an operating lease as a capital lease under GASB Statement No. 62. The effects of this change in classification are discussed in Note 3.

During the 2011-12 fiscal year, the University entered into a capital lease agreement in connection with the Certificates of Participation (COP) issued by the FAU Foundation to build dormitory buildings on the Jupiter campus. The University, in exchange for use of the buildings, makes lease payments sufficient to cover all amounts due under the COP. At June 30, 2020, the amount reported by the University as capital leases payable include \$5,587,000, representing the total future payments remaining under the COP net of restricted cash on deposit with the Trustee.

Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2020, are as follows:

| <u>Fiscal Year Ending June 30</u>        | <u>Amount</u>        |
|--|----------------------|
| 2021                                     | \$ 2,308,925         |
| 2022                                     | 2,968,114            |
| 2023                                     | 3,085,250            |
| 2024                                     | 3,172,912            |
| 2025                                     | 3,287,080            |
| 2026-2030                                | 15,383,992           |
| 2031-2035                                | 1,045,415            |
| <b>Total Minimum Payments</b>            | 31,251,688           |
| Less, Amount Representing Interest       | 3,541,338            |
| <b>Present Value of Minimum Payments</b> | <u>\$ 27,710,350</u> |

**Certificates of Participation – Component Unit.** The FAU Foundation refunded its 1999 and 2000 Certificates of Participation through the issuance of Series 2012 Certificates of Participation for \$9,540,000. These funds were used to build dormitory buildings on the John D. MacArthur Campus in Jupiter, Florida. The stated interest rate on the 2012 certificates is 2.93 percent. At June 30, 2020, Certificates of Participation payable are as follows:

| <u>COP Series</u> | <u>Amount of Issues</u> | <u>Total Retired</u> | <u>Outstanding Principal</u> | <u>Outstanding Interest</u> | <u>Interest Rate</u> | <u>Maturity Date</u> |
|-------------------|-------------------------|----------------------|------------------------------|-----------------------------|----------------------|----------------------|
| 2012              | \$ 9,540,000            | \$ 3,953,000         | \$ 5,587,000                 | \$ 857,662                  | 2.93                 | 2030                 |

The FAU Foundation entered into agreements with the University, whereby the University was allowed use of the buildings in exchange for the University paying all amounts due under the Certificates.

**Unearned Lease Revenue.** The University leased land to the Finance Corporation under a noncancelable agreement dated March 4, 2010, with terms extending through July 2040. The lease was prepaid in March 2010 by the Finance Corporation to the University for the sum of \$12,000,000, and the unearned lease revenue was being amortized over the life of the agreement. In 2019, the Finance Corporation issued new debt for a longer period extending the prepaid lease term from July 2040 to July 2049. Accordingly, for the 2019-20 fiscal year, the University began amortizing the unearned lease revenue over the remaining lease term in conjunction with the maturity date of the new debt pursuant to GASB Statement No. 62. The unearned lease revenue amount held by the University totaled \$7,942,764 at June 30, 2020, of which \$273,384 was reported as current.

**Other Noncurrent Liabilities.** This represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal Government should the University cease making Federal Perkins Loans or has excess cash in the loan program.

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors' Regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded

primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2020, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$37,478,262. The current portion of the compensated absences liability, \$2,638,260, is the amount expected to be paid in the coming fiscal year and represents a 3-year historical percentage of leave disbursements applied to the 3-year average accrued leave liability.

**Other Postemployment Benefits Payable.** As a participating employer in the State Employees' Group Health Insurance Plan, the University recognizes its proportionate share of the collective other postemployment benefits liability of the multiple-employer defined benefit health plan. As of June 30, 2020, the University's proportionate share of the total OPEB liability totaled \$227,319,292. Note 12. includes a complete discussion of the OPEB plan.

**Net Pension Liability.** As a participating employer in the Florida Retirement System (FRS), the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2020, the University's proportionate share of the net pension liabilities totaled \$142,852,475. Note 13. includes a complete discussion of defined benefit pension plans.

## **12. Other Postemployment Benefits**

The University follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

### ***General Information about the OPEB Plan***

*Plan Description.* The Division of State Group Insurance's Other Postemployment Benefits Plan (OPEB Plan) is a multiple-employer defined benefit plan administered by the State of Florida. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. A retiree means any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a "retiree" if he or she meets the age and service requirements to qualify for normal retirement or has attained the age of 59.5 years and has the years of service required for vesting. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Governor's recommended budget and the General

Appropriations Act. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

*Benefits Provided.* The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

***Proportionate Share of the Total OPEB Liability***

The University's proportionate share of the total OPEB liability of \$227,319,292 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2019. At June 30, 2020, the University's proportionate share, determined by its proportion of total benefit payments made, was 1.80 percent, which was a decrease of 0.12 percent from its proportionate share measured as of June 30, 2019.

*Actuarial Assumptions and Other Inputs.* The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|  |  |
|--|--|
| Inflation                                | 2.60 percent   |
| Salary increases                         | Varies by FRS Class  |
| Discount rate                            | 2.79 percent   |
| Healthcare cost trend rates              |  |
| Preferred Provider Option Plan           | 6.7 percent for 2020, decreasing to an ultimate rate of 5.2 percent for 2072 and later years |
| Health Maintenance Organization Plan     | 5.2 percent for 2020, increasing to an ultimate rate of 5.3 percent for 2072 and later years |
| Retirees' share of benefit-related costs | 100 percent of projected health insurance premiums for retirees                              |

The discount rate was based on the S&P Municipal Bond 20-Year High Grade Rate Index.

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The demographic actuarial assumptions for retirement, disability incidence, and withdrawal used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2014, adopted by the FRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the July 1, 2019, valuation were based on a review of recent plan experience done concurrently with the July 1, 2019, valuation.

The following changes have been made since the prior valuation:

- The census data reflects changes in status for the 24-month period since July 1, 2019.
- The discount rate as of the measurement date for GASB 75 purposes is 2.79 percent. The prior GASB 75 report used 3.87 percent. The GASB 75 discount rate is based on the 20-year municipal bond rate as of June 30, 2019.
- In addition, the liability was increased by approximately 12 percent to reflect the full impact of the Excise Tax that will come into effect in 2022. There is a reasonable chance that this tax will be repealed before it actually takes effect.

- The assumed claims and premiums reflect the actual claims information as well as the premiums that are actually being charged to participants. These updates resulted in lower liabilities as of June 30, 2019.
- The medical trend assumption is updated each year based on the Getzen Model. The medical trend rates used are consistent with the August 2019 Report on the Financial Outlook of the Plan along with information from the Getzen Model and actuarial judgment. The impact of the trend rate changes is a decrease in the liability, due primarily to lower trend rates in the first several years.
- The mortality rates were updated to those required by Chapter 2015-157, Florida Statutes for pension plans. This law mandates the use of the assumption used in either of the two most recent valuations of the FRS. The rates are those outlined in Milliman’s July 1, 2018 FRS valuation report. The impact of this change was very small and does not materially impact the results.

*Sensitivity of the University’s Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate.* The following table presents the University’s proportionate share of the total OPEB liability, as well as what the University’s proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.79 percent) or 1 percentage point higher (3.79 percent) than the current rate:

|  | <u>1% Decrease<br/>(1.79%)</u> | <u>Current Discount Rate<br/>(2.79%)</u> | <u>1% Increase<br/>(3.79%)</u> |
|--|--------------------------------|--|--------------------------------|
| University’s proportionate share of the total OPEB liability | \$284,735,777                  | \$227,319,292                            | \$183,646,828                  |

*Sensitivity of the University’s Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following table presents the University’s proportionate share of the total OPEB liability, as well as what the University’s proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

|  | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rates</u> | <u>1% Increase</u> |
|--|--------------------|------------------------------------|--------------------|
| University’s proportionate share of the total OPEB liability | \$177,906,865      | \$227,319,292                      | \$296,022,748      |

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.***

For the fiscal year ended June 30, 2020, the University recognized OPEB expense of \$14,825,374. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:



| <u>Description</u>  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ -                                      | \$ 5,852,484                             |
| Change of assumptions or other inputs   | 28,501,590                                | 32,145,561                               |
| Changes in proportion and differences between University benefit payments and proportionate share of benefit payments | 14,389,777                                | 212,186                                  |
| Transactions subsequent to the measurement date   | 3,278,069                                 | -  |
| <b>Total</b>  | <b>\$ 46,169,436</b>                      | <b>\$ 38,210,231</b>                     |

Of the total amount reported as deferred outflows of resources related to OPEB, \$3,278,069 resulting from transactions (e.g. University benefit payments) subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability and included in OPEB expense in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>       |
|-----------------------------------|---------------------|
| 2021                              | \$ (655,613)        |
| 2022                              | (655,613)           |
| 2023                              | (655,613)           |
| 2024                              | (655,613)           |
| 2025                              | (655,613)           |
| Thereafter                        | 7,959,201           |
| <b>Total</b>                      | <b>\$ 4,681,136</b> |

### **13. Retirement Plans – Defined Benefit Pension Plans**

#### **General Information about the Florida Retirement System (FRS).**

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules,

Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The University's FRS and HIS pension expense totaled \$34,117,220 for the fiscal year ended June 30, 2020.

### **FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of creditable service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

The DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

*Benefits Provided.* Benefits under the Plan are computed on the basis of age, and/or years of service, average final compensation, and credit service. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the

average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

| <b><u>Class, Initial Enrollment, and Retirement Age/Years of Service</u></b> | <b><u>% Value</u></b> |
|--|-----------------------|
| <b>Regular Class members initially enrolled before July 1, 2011</b>          |                       |
| Retirement up to age 62 or up to 30 years of service                         | 1.60                  |
| Retirement at age 63 or with 31 years of service                             | 1.63                  |
| Retirement at age 64 or with 32 years of service                             | 1.65                  |
| Retirement at age 65 or with 33 or more years of service                     | 1.68                  |
| <b>Regular Class members initially enrolled on or after July 1, 2011</b>     |                       |
| Retirement up to age 65 or up to 33 years of service                         | 1.60                  |
| Retirement at age 66 or with 34 years of service                             | 1.63                  |
| Retirement at age 67 or with 35 years of service                             | 1.65                  |
| Retirement at age 68 or with 36 or more years of service                     | 1.68                  |
| <b>Senior Management Service Class</b>                                       | 2.00                  |
| <b>Special Risk Class</b>  | 3.00                  |

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

*Contributions.* The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2019-20 fiscal year were:

| <u>Class</u>   | <u>Percent of Gross Salary</u> |                     |
|--|--------------------------------|---------------------|
|  | <u>Employee</u>                | <u>Employer (1)</u> |
| FRS, Regular   | 3.00                           | 8.47                |
| FRS, Senior Management Service   | 3.00                           | 25.41               |
| FRS, Special Risk  | 3.00                           | 25.48               |
| Deferred Retirement Option Program (applicable to members from all of the above classes) | 0.00                           | 14.60               |
| FRS, Reemployed Retiree  | (2)                            | (2)                 |

(1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The University's contributions to the Plan totaled \$11,097,344 for the fiscal year ended June 30, 2020.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2020, the University reported a liability of \$115,779,279 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The University's proportionate share of the net pension liability was based on the University's 2018-19 fiscal year contributions relative to the total 2018-19 fiscal year contributions of all participating members. At June 30, 2019, the University's proportionate share was 0.336190358 percent, which was an increase of 0.001109185 from its proportionate share measured as of June 30, 2018.

For the year ended June 30, 2020, the University recognized pension expense of \$31,851,027. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u>  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 6,867,200                              | \$ 71,852                                |
| Change of assumptions   | 29,737,100                                | -  |
| Net difference between projected and actual earnings on FRS Plan investments                                    | -   | 6,405,514                                |
| Changes in proportion and differences between University contributions and proportionate share of contributions | 6,666,486                                 | 134,603                                  |
| University FRS contributions subsequent to the measurement date   | 11,097,344                                | -  |
| <b>Total</b>  | <b>\$ 54,368,130</b>                      | <b>\$ 6,611,969</b>                      |

The deferred outflows of resources totaling \$11,097,344, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>        |
|-----------------------------------|----------------------|
| 2021                              | \$ 13,212,881        |
| 2022                              | 4,746,995            |
| 2023                              | 9,313,594            |
| 2024                              | 7,072,137            |
| 2025                              | 1,914,066            |
| Thereafter                        | 399,144              |
| <b>Total</b>                      | <b>\$ 36,658,817</b> |

*Actuarial Assumptions.* The total pension liability in the July 1, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.60 percent  |
| Salary increases          | 3.25 percent, average, including inflation                                |
| Investment rate of return | 6.90 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the PUB-2010 base table, projected generationally with Scale MP-2018. This is a change from the prior year mortality assumption which was based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2013, through June 30, 2018.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>       | <u>Target Allocation (1)</u> | <u>Annual Arithmetic Return</u> | <u>Compound Annual (Geometric) Return</u> | <u>Standard Deviation</u> |
|--------------------------|------------------------------|---------------------------------|---|---------------------------|
| Cash                     | 1%                           | 3.3%                            | 3.3%                                      | 1.2%                      |
| Fixed Income             | 18%                          | 4.1%                            | 4.1%                                      | 3.5%                      |
| Global Equity            | 54%                          | 8.0%                            | 6.8%                                      | 16.5%                     |
| Real Estate (Property)   | 10%                          | 6.7%                            | 6.1%                                      | 11.7%                     |
| Private Equity           | 11%                          | 11.2%                           | 8.4%                                      | 25.8%                     |
| Strategic Investments    | 6%                           | 5.9%                            | 5.7%                                      | 6.7%                      |
| <b>Total</b>             | <b>100%</b>                  |                                 |   |                           |
| Assumed inflation - Mean |                              |                                 | 2.6%                                      | 1.7%                      |

(1) As outlined in the Plan's investment policy.

*Discount Rate.* The discount rate used to measure the total pension liability was 6.90 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments

of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2019 valuation was updated from 7.00 percent to 6.90 percent.

*Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.90 percent) or 1 percentage point higher (7.90 percent) than the current rate:

|   | <u>1%<br/>Decrease<br/>(5.90%)</u> | <u>Current<br/>Discount Rate<br/>(6.90%)</u> | <u>1%<br/>Increase<br/>(7.90%)</u> |
|---|------------------------------------|--|------------------------------------|
| University's proportionate share of the net pension liability | \$200,143,818                      | \$115,779,279                                | \$45,320,618                       |

*Pension Plan Fiduciary Net Position.* Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

*Payables to the Pension Plan.* At June 30, 2020, the University reported a payable of \$1,031,737 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2020.

### **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2020, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2020, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$1,365,831 for the fiscal year ended June 30, 2020.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2020, the University reported a liability of \$27,073,196 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within 1 year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018, and update procedures were used to determine liabilities as of June 30, 2019. The University's proportionate share of the net pension liability was based on the University's 2018-19 fiscal year contributions relative to the total 2018-19 fiscal year contributions of all participating members. At June 30, 2019, the University's proportionate share was 0.241962620 percent, which was an increase of 0.000907622 from its proportionate share measured as of June 30, 2018.

For the fiscal year ended June 30, 2020, the University recognized pension expense of \$2,266,193. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u>  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 328,834                                | \$ 33,150                                |
| Change of assumptions   | 3,134,817                                 | 2,212,742                                |
| Net difference between projected and actual earnings on HIS Plan investments  | 17,470                                    | -  |
| Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions | 1,393,863                                 | 194,059                                  |
| University HIS contributions subsequent to the measurement date   | 1,365,831                                 | -  |
| <b>Total</b>  | <u>\$ 6,240,815</u>                       | <u>\$ 2,439,951</u>                      |

The deferred outflows of resources totaling \$1,365,831, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>       |
|-----------------------------------|---------------------|
| 2021                              | \$ 716,173          |
| 2022                              | 678,976             |
| 2023                              | 483,632             |
| 2024                              | 103,187             |
| 2025                              | 213,970             |
| Thereafter                        | 239,095             |
| <b>Total</b>                      | <u>\$ 2,435,033</u> |

*Actuarial Assumptions.* The total pension liability at July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                     |  |
|---------------------|--|
| Inflation           | 2.60 percent                               |
| Salary increases    | 3.25 percent, average, including inflation |
| Municipal bond rate | 3.50 percent                               |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

*Discount Rate.* The discount rate used to measure the total pension liability was 3.50 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used in the 2019 valuation was updated from 3.87 percent to 3.50 percent.

*Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 3.50 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50 percent) or 1 percentage point higher (4.50 percent) than the current rate:

|   | <u>1%<br/>Decrease<br/>(2.50%)</u> | <u>Current<br/>Discount Rate<br/>(3.50%)</u> | <u>1%<br/>Increase<br/>(4.50%)</u> |
|---|------------------------------------|--|------------------------------------|
| University's proportionate share of the net pension liability | \$30,905,441                       | \$27,073,196                                 | \$23,881,370                       |

*Pension Plan Fiduciary Net Position.* Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Comprehensive Annual Financial Report.

*Payables to the Pension Plan.* At June 30, 2020, the University reported a payable of \$1,031,737 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2020.

#### **14. Retirement Plans – Defined Contribution Pension Plans**

**FRS Investment Plan.** The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State's Comprehensive Annual Financial Report.



As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2019-20 fiscal year were as follows:

| <u>Class</u>                   | <u>Percent of<br/>Gross<br/>Compensation</u> |
|--------------------------------|--|
| FRS, Regular                   | 6.30   |
| FRS, Senior Management Service | 7.67   |
| FRS, Special Risk Regular      | 14.00  |

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2020, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may roll over vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled \$1,960,564, for the fiscal year ended June 30, 2020.

**State University System Optional Retirement Program.** Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 3.56 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, for a total of 8.71 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$13,517,139, and employee contributions totaled \$8,267,905 for the 2019-20 fiscal year.

## 15. Construction Commitments

The University's construction commitments at June 30, 2020, were as follows:

| <u>Project Description</u>                                     | <u>Total<br/>Commitment</u> | <u>Completed<br/>to Date</u> | <u>Balance<br/>Committed</u> |
|--|-----------------------------|------------------------------|------------------------------|
| Schmidt Family Complex for Academic<br>and Athletic Excellence | \$ 71,840,987               | \$ 66,747,834                | \$ 5,093,153                 |
| Student Union Renovation                                       | 27,180,136                  | 8,659,497                    | 18,520,639                   |
| Jupiter STEM/Life Sciences Building                            | 23,881,247                  | 723,573                      | 23,157,674                   |
| ESCO Projects  | 17,549,265                  | 14,290,305                   | 3,258,960                    |
| A.D. Henderson / FAU High DRS                                  | 11,500,000                  | -                            | 11,500,000                   |
| Engineering West HVAC Renovations                              | 3,674,400                   | 3,633,216                    | 41,184                       |
| Cooling Towers Replacement                                     | 3,500,000                   | 2,998,281                    | 501,719                      |
| <b>Subtotal</b>  | <b>159,126,035</b>          | <b>97,052,706</b>            | <b>62,073,329</b>            |
| Total Other Commitments (1)                                    | 28,856,493                  | 14,061,393                   | 14,795,100                   |
| <b>Total</b>   | <b>\$ 187,982,528</b>       | <b>\$ 111,114,099</b>        | <b>\$ 76,868,429</b>         |

(1) Total other commitments include a multitude of minor projects. Such minor projects represent any individual capital project under \$3 million in aggregate representing a renovation, remodel, or substantial capital improvement. These projects are mainly funded by general appropriations and auxiliary sources.

## 16. Operating Lease Commitments

The University leased various vehicles and equipment under operating leases, which expire in various intervals through the 2022-23 fiscal year. In addition, the University leased building space under operating leases, which expire in various intervals through the 2028-29 fiscal year. The University also leased land on which a University building is located, and the lease will expire in the 2085-86 fiscal year.

These leased assets and the related commitments are not reported on the University's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

| <u>Fiscal Year Ending June 30</u>      | <u>Amount</u>       |
|--|---------------------|
| 2021                                   | \$ 556,627          |
| 2022                                   | 554,208             |
| 2023                                   | 542,525             |
| 2024                                   | 321,410             |
| 2025                                   | 73,856              |
| 2026-2030                              | 212,287             |
| 2031-2035                              | 212,287             |
| 2036-2040                              | 212,287             |
| 2041-2045                              | 212,287             |
| 2046-2050                              | 212,287             |
| 2051-2055                              | 212,287             |
| 2056-2060                              | 212,287             |
| 2061-2065                              | 212,287             |
| 2066-2070                              | 212,287             |
| 2071-2075                              | 212,287             |
| 2076-2080                              | 212,287             |
| 2081-2085                              | 212,287             |
| 2086                                   | 42,457              |
| <b>Total Minimum Payments Required</b> | <b>\$ 4,638,527</b> |

## 17. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2019-20 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$68.5 million for named windstorm and flood through February 14, 2020, and decreased to \$62.75 million starting February 15, 2020. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$225 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

**University Self-Insured Program.**

The Florida Atlantic University College of Medicine Self-Insurance Program (Program) was established pursuant to Section 1004.24, Florida Statutes, on June 23, 2011. The Program provides professional and general liability protection for the Florida Atlantic University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff and resident physicians. Liability protection is afforded to the students at the colleges. The Program provides legislative claims bill protection. The Program is distinct from and entirely independent of the self-insurance programs administered by the State.

The Program provides the Board of Trustees with protection of \$200,000 per claim and \$300,000 for all claims arising from a single occurrence; \$100,000 per claim and \$200,000 for all claims arising for the acts and omissions of students of the colleges protected by the Program engaged in assigned activities at affiliated hospitals or other healthcare affiliates, and student coverage of \$1 million limit per occurrence; \$250,000 per occurrence in the event that the personal immunity to tort claims as described in Section 768.28(9), Florida Statutes, is inapplicable as to an employee or agent of the Board of Trustees which such employee or agent functions within the course and scope of his or her employment or agency; and \$250,000 for employees who act as a Good Samaritan or are engaged in approved Community Service. Under this claims-incurred policy written directly with the Program participants, protection is provided against claims that arise from incidents occurring during the term of the policies irrespective of the time the claim is asserted.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported. The following schedule represents the changes in claims liability for the past 2 fiscal years for the University's self-insured program:

| <u>Fiscal Year</u> | <u>Claims Liability Beginning of Year</u> | <u>Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Claims Liability End of Year</u> |
|--------------------|---|--|-----------------------|-------------------------------------|
| 2018-19            | \$ 579,897                                | \$ 165,001                             | \$ (110,796)          | \$ 634,102                          |
| 2019-20            | 634,102                                   | 263,616                                | (143,039)             | 754,679                             |

## 18. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

| <u>Functional Classification</u>       | <u>Amount</u>                       |
|--|-------------------------------------|
| Instruction                            | \$ 196,921,907                      |
| Research                               | 66,881,682                          |
| Public Services                        | 1,524,336                           |
| Academic Support                       | 61,883,508                          |
| Student Services                       | 25,569,768                          |
| Institutional Support                  | 108,326,801                         |
| Operation and Maintenance of Plant     | 28,254,567                          |
| Scholarships, Fellowships, and Waivers | 63,104,347                          |
| Depreciation                           | 38,678,156                          |
| Auxiliary Enterprises                  | 49,620,328                          |
| <b>Total Operating Expenses</b>        | <b><u><u>\$ 640,765,400</u></u></b> |

## 19. Segment Information

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are required to be accounted for separately. The following financial information for the University's Housing and Parking Services represents identifiable activities for which one or more bonds are outstanding:

### Condensed Statement of Net Position

|                                  | Housing<br>Facility  | Parking<br>Facility  |
|----------------------------------|----------------------|----------------------|
| <b>Assets</b>                    |                      |                      |
| Current Assets                   | \$ 8,438,466         | \$ 18,432,815        |
| Capital Assets, Net              | 67,493,021           | 32,870,270           |
| <b>Total Assets</b>              | <b>75,931,487</b>    | <b>51,303,085</b>    |
| <b>Liabilities</b>               |                      |                      |
| Current Liabilities              | 4,127,877            | 971,994              |
| Noncurrent Liabilities           | 50,041,895           | 16,707,042           |
| <b>Total Liabilities</b>         | <b>54,169,772</b>    | <b>17,679,036</b>    |
| <b>Net Position</b>              |                      |                      |
| Net Investment in Capital Assets | 17,451,126           | 16,163,228           |
| Unrestricted                     | 4,310,589            | 17,460,821           |
| <b>Total Net Position</b>        | <b>\$ 21,761,715</b> | <b>\$ 33,624,049</b> |

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

|   | Housing<br>Facility  | Parking<br>Facility  |
|---|----------------------|----------------------|
| Operating Revenues                                  | \$ 7,724,949         | \$ 6,599,678         |
| Depreciation Expense                                | (2,708,597)          | (7,745,028)          |
| Other Operating Expenses                            | (1,439,098)          | (2,147,464)          |
| <b>Operating Income (Loss)</b>                      | <b>3,577,254</b>     | <b>(3,292,814)</b>   |
| Nonoperating Revenues (Expenses):                   |                      |                      |
| Nonoperating Revenue                                | 15,101               | 816,738              |
| Interest Expense                                    | (2,187,436)          | (400,803)            |
| Other Nonoperating Expense                          | (1,474,375)          | (192,353)            |
| <b>Net Nonoperating Revenues (Expenses)</b>         | <b>(3,646,710)</b>   | <b>223,582</b>       |
| <b>Decrease in Net Position</b>                     | <b>(69,456)</b>      | <b>(3,069,232)</b>   |
| Net Position, Beginning of Year                     | 21,831,171           | 30,693,281           |
| Adjustment to Beginning Net Position (1)            | -                    | 6,000,000            |
| <b>Net Position, Beginning of Year, as Restated</b> | <b>21,831,171</b>    | <b>36,693,281</b>    |
| <b>Net Position, End of Year</b>                    | <b>\$ 21,761,715</b> | <b>\$ 33,624,049</b> |

- (1) Adjustment to beginning net position due to a change in classification of a parking services lease from an operating lease to a capital lease under GASB Statement No. 62. The effects of this change in classification are discussed in Note 3.

## Condensed Statement of Cash Flows

|  | <b>Housing<br/>Facility</b> | <b>Parking<br/>Facility</b> |
|--|-----------------------------|-----------------------------|
| Net Cash Provided (Used) by:                         |                             |                             |
| Operating Activities                                 | \$ 5,753,428                | \$ 4,006,401                |
| Noncapital Financing Activities                      | (1,036,157)                 | (2,299,741)                 |
| Capital and Related Financing Activities             | (6,133,867)                 | (192,353)                   |
| Investing Activities                                 | 520,510                     | (1,514,957)                 |
| <b>Net Decrease in Cash and<br/>Cash Equivalents</b> | (896,086)                   | (650)                       |
| Cash and Cash Equivalents, Beginning of Year         | 4,357,963                   | 650                         |
| <b>Cash and Cash Equivalents, End of Year</b>        | <b>\$ 3,461,877</b>         | <b>\$ -</b>                 |

## 20. Blended Component Unit

The University has one blended component unit as discussed in Note 1. The following financial information is presented for the University's blended component unit:

### Condensed Statement of Net Position

|                                       | <b>Blended Component Unit</b>   |                       |   |
|---------------------------------------|---|-----------------------|---|
|                                       | <b>Florida Atlantic University<br/>College of Medicine<br/>Self-Insurance Program</b> | <b>University</b>     | <b>Total<br/>Primary<br/>Government</b> |
| <b>Assets:</b>                        |   |                       |   |
| Current Assets                        | \$ 7,691,515  | \$ 375,171,098        | \$ 382,862,613                          |
| Capital Assets, Net                   | -   | 790,405,440           | 790,405,440                             |
| Other Noncurrent Assets               | -   | 17,651,700            | 17,651,700                              |
| <b>Total Assets</b>                   | 7,691,515   | 1,183,228,238         | 1,190,919,753                           |
| <b>Deferred Outflows of Resources</b> | -   | 106,778,381           | 106,778,381                             |
| <b>Liabilities:</b>                   |   |                       |   |
| Other Current Liabilities             | 776,020   | 53,269,314            | 54,045,334                              |
| Noncurrent Liabilities                | -   | 488,676,713           | 488,676,713                             |
| <b>Total Liabilities</b>              | 776,020   | 541,946,027           | 542,722,047                             |
| <b>Deferred Inflows of Resources</b>  | -   | 47,262,151            | 47,262,151                              |
| <b>Net Position:</b>                  |   |                       |   |
| Net Investment in Capital Assets      | -   | 729,474,932           | 729,474,932                             |
| Restricted - Expendable               | -   | 25,150,321            | 25,150,321                              |
| Unrestricted                          | 6,915,495   | (53,826,812)          | (46,911,317)                            |
| <b>Total Net Position</b>             | <b>\$ 6,915,495</b>   | <b>\$ 700,798,441</b> | <b>\$ 707,713,936</b>                   |

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

|   | <u>Blended Component Unit</u>   |                       | <b>Total<br/>Primary<br/>Government</b> |
|---|---|-----------------------|---|
|   | <u>Florida Atlantic University<br/>College of Medicine<br/>Self-Insurance Program</u> | <u>University</u>     |   |
| Operating Revenues                                  | \$ 1,690,912  | \$ 299,508,030        | \$ 301,198,942                          |
| Depreciation Expense                                | -   | (38,678,156)          | (38,678,156)                            |
| Other Operating Expenses                            | (623,266)   | (601,463,978)         | (602,087,244)                           |
| <b>Operating Income (Loss)</b>                      | <b>1,067,646</b>  | <b>(340,634,104)</b>  | <b>(339,566,458)</b>                    |
| Nonoperating Revenues (Expenses):                   |   |                       |   |
| Nonoperating Revenue                                | -   | 341,079,762           | 341,079,762                             |
| Interest Expense                                    | -   | (2,846,085)           | (2,846,085)                             |
| Other Nonoperating Revenue                          | -   | 4,567,914             | 4,567,914                               |
| <b>Net Nonoperating Revenues</b>                    | <b>-</b>  | <b>342,801,591</b>    | <b>342,801,591</b>                      |
| Other Revenues                                      | -   | 21,554,928            | 21,554,928                              |
| <b>Increase in Net Position</b>                     | <b>1,067,646</b>  | <b>23,722,415</b>     | <b>24,790,061</b>                       |
| Net Position, Beginning of Year                     | 5,847,849   | 671,076,026           | 676,923,875                             |
| Adjustment to Beginning New Position (1)            | -   | 6,000,000             | 6,000,000                               |
| <b>Net Position, Beginning of Year, as Restated</b> | <b>5,847,849</b>  | <b>677,076,026</b>    | <b>682,923,875</b>                      |
| <b>Net Position, End of Year</b>                    | <b>\$ 6,915,495</b>   | <b>\$ 700,798,441</b> | <b>\$ 707,713,936</b>                   |

(1) Adjustment to Beginning Net Position due to a change in classification of a parking services lease from an operating lease to a capital lease under GASB Statement No. 62. The effects of this change in classification are discussed in Note 3.

## Condensed Statement of Cash Flows

|   | <u>Blended Component Unit</u>   |                      | <b>Total<br/>Primary<br/>Government</b> |
|---|---|----------------------|---|
|   | <u>Florida Atlantic University<br/>College of Medicine<br/>Self-Insurance Program</u> | <u>University</u>    |   |
| Net Cash Provided (Used) by:                                    |   |                      |   |
| Operating Activities  | \$ 864,868  | \$ (268,529,804)     | \$ (267,664,936)                        |
| Noncapital Financing Activities                                 | -   | 324,218,108          | 324,218,108                             |
| Capital and Related Financing Activities                        | -   | (54,884,958)         | (54,884,958)                            |
| Investing Activities  | (1,350,591)   | 13,862,922           | 12,512,331                              |
| <b>Net Increase (Decrease) in Cash<br/>and Cash Equivalents</b> | <b>(485,723)</b>  | <b>14,666,268</b>    | <b>14,180,545</b>                       |
| Cash and Cash Equivalents, Beginning of Year                    | 1,652,276   | 4,525,357            | 6,177,633                               |
| <b>Cash and Cash Equivalents, End of Year</b>                   | <b>\$ 1,166,553</b>   | <b>\$ 19,191,625</b> | <b>\$ 20,358,178</b>                    |

## 21. Discretely Presented Component Units

The University has five discretely presented component units as discussed in Note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:



## Condensed Statement of Net Position

|                                       | Direct-Support Organizations                 |  |  |                         | Health Science Center Affiliates         |                       |
|---------------------------------------|--|--|--|-------------------------|--|-----------------------|
|                                       | Florida Atlantic University Foundation, Inc. | Florida Atlantic University Research Corporation, Inc. | Harbor Branch Oceanographic Institute Foundation, Inc. | FAU Finance Corporation | FAU Clinical Practice Organization, Inc. | Total                 |
| <b>Assets:</b>                        |  |  |  |                         |  |                       |
| Current Assets                        | \$ 43,654,197                                | \$ 546,009   | \$ 81,555,833  | \$ 40,406,161           | \$ 927,604                               | \$ 167,089,804        |
| Capital Assets, Net                   | 22,022,348                                   | -  | 86,696   | 138,398,315             | -  | 160,507,359           |
| Other Noncurrent Assets               | 240,255,868                                  | -  | -  | 69,438,397              | -  | 309,694,265           |
| <b>Total Assets</b>                   | <b>305,932,413</b>                           | <b>546,009</b>   | <b>81,642,529</b>                                      | <b>248,242,873</b>      | <b>927,604</b>                           | <b>637,291,428</b>    |
| <b>Deferred Outflows of Resources</b> | <b>-</b>                                     | <b>-</b>   | <b>-</b>   | <b>6,205,419</b>        | <b>-</b>                                 | <b>6,205,419</b>      |
| <b>Liabilities:</b>                   |  |  |  |                         |  |                       |
| Current Liabilities                   | 3,965,071                                    | -  | 1,386,994  | 12,354,522              | 734,913                                  | 18,441,500            |
| Noncurrent Liabilities                | 5,321,245                                    | -  | -  | 253,051,440             | -  | 258,372,685           |
| <b>Total Liabilities</b>              | <b>9,286,316</b>                             | <b>-</b>   | <b>1,386,994</b>                                       | <b>265,405,962</b>      | <b>734,913</b>                           | <b>276,814,185</b>    |
| <b>Deferred Inflows of Resources</b>  | <b>332,759</b>                               | <b>-</b>   | <b>-</b>   | <b>-</b>                | <b>-</b>                                 | <b>332,759</b>        |
| <b>Net Position:</b>                  |  |  |  |                         |  |                       |
| Net Investment in Capital Assets      | 22,022,348                                   | -  | -  | (21,827,273)            | -  | 195,075               |
| Restricted Nonexpendable              | 173,881,398                                  | -  | 69,762,799   | -                       | -  | 243,644,197           |
| Restricted Expendable                 | 90,779,175                                   | -  | 10,443,908   | 17,045,606              | -  | 118,268,689           |
| Unrestricted                          | 9,630,417                                    | 546,009  | 48,828   | (6,176,003)             | 192,691                                  | 4,241,942             |
| <b>Total Net Position</b>             | <b>\$ 296,313,338</b>                        | <b>\$ 546,009</b>                                      | <b>\$ 80,255,535</b>                                   | <b>\$ (10,957,670)</b>  | <b>\$ 192,691</b>                        | <b>\$ 366,349,903</b> |

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

|   | Direct-Support Organizations                 |  |  |                         | Health Science Center Affiliates         |                       |
|---|--|--|--|-------------------------|--|-----------------------|
|   | Florida Atlantic University Foundation, Inc. | Florida Atlantic University Research Corporation, Inc. | Harbor Branch Oceanographic Institute Foundation, Inc. | FAU Finance Corporation | FAU Clinical Practice Organization, Inc. | Total                 |
| Operating Revenues                                  | \$ 11,436,052                                | \$ 302,833   | \$ 3,042,223   | \$ 29,903,811           | \$ 4,488,487                             | \$ 49,173,406         |
| Depreciation Expense                                | (756)  | -  | (8,568)  | (6,431,668)             | -  | (6,440,992)           |
| Operating Expenses                                  | (31,337,769)                                 | (358,058)  | (5,312,914)  | (16,159,120)            | (4,701,573)                              | (57,869,434)          |
| <b>Operating Income (Loss)</b>                      | <b>(19,902,473)</b>                          | <b>(55,225)</b>  | <b>(2,279,259)</b>                                     | <b>7,313,023</b>        | <b>(213,086)</b>                         | <b>(15,137,020)</b>   |
| <b>Net Nonoperating Revenues (Expenses)</b>         | <b>1,908,050</b>                             | <b>24,585</b>  | <b>1,973,916</b>                                       | <b>(4,790,465)</b>      | <b>46,997</b>                            | <b>(836,917)</b>      |
| Other Revenues, Expenses, Gains, and Losses         | 3,463,393                                    | -  | -  | -                       | -  | 3,463,393             |
| <b>Increase (Decrease) in Net Position</b>          | <b>(14,531,030)</b>                          | <b>(30,640)</b>  | <b>(305,343)</b>                                       | <b>2,522,558</b>        | <b>(166,089)</b>                         | <b>(12,510,544)</b>   |
| Net Position, Beginning of Year                     | 310,844,368                                  | 576,649  | 80,560,878   | (13,480,228)            | 358,780                                  | 378,860,447           |
| <b>Net Position, Beginning of Year, as Restated</b> | <b>310,844,368</b>                           | <b>576,649</b>   | <b>80,560,878</b>                                      | <b>(13,480,228)</b>     | <b>358,780</b>                           | <b>378,860,447</b>    |
| <b>Net Position, End of Year</b>                    | <b>\$ 296,313,338</b>                        | <b>\$ 546,009</b>                                      | <b>\$ 80,255,535</b>                                   | <b>\$ (10,957,670)</b>  | <b>\$ 192,691</b>                        | <b>\$ 366,349,903</b> |

## **OTHER REQUIRED SUPPLEMENTARY INFORMATION**

### **Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability**

|   | <b>2019 (1)</b> | <b>2018 (1)</b> | <b>2017 (1)</b> | <b>2016 (1)</b> |
|---|-----------------|-----------------|-----------------|-----------------|
| University's proportion of the total other<br>postemployment benefits liability   | 1.80%           | 1.68%           | 1.68%           | 1.65%           |
| University's proportionate share of the total other<br>postemployment benefits liability  | \$ 227,319,292  | \$ 177,266,000  | \$ 181,529,000  | \$ 195,051,000  |
| University's covered-employee payroll   | \$ 236,092,648  | \$ 223,425,863  | \$ 205,900,798  | \$ 182,835,559  |
| University's proportionate share of the total other<br>postemployment benefits liability as a<br>percentage of its covered-employee payroll | 96.28%          | 79.34%          | 88.16%          | 106.68%         |

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**Schedule of the University's Proportionate Share of the Net Pension Liability –  
Florida Retirement System Pension Plan**

|  | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> | <u>2016 (1)</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| University's proportion of the FRS net pension liability   | 0.336190358%    | 0.335081173%    | 0.305479393%    | 0.284295076%    |
| University's proportionate share of the FRS net pension liability  | \$ 115,779,279  | \$ 100,897,172  | \$ 90,358,755   | \$ 71,784,730   |
| University's covered payroll (2)   | \$ 236,092,648  | \$ 223,425,863  | \$ 205,900,798  | \$ 182,835,559  |
| University's proportionate share of the FRS net pension liability as a percentage of its covered payroll | 49.04%          | 45.16%          | 43.88%          | 39.26%          |
| FRS Plan fiduciary net position as a percentage of the FRS total pension liability                       | 82.61%          | 84.26%          | 83.89%          | 84.88%          |

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of University Contributions – Florida Retirement System Pension Plan**

|  | <u>2020 (1)</u>     | <u>2019 (1)</u>     | <u>2018 (1)</u>    | <u>2017 (1)</u>    |
|--|---------------------|---------------------|--------------------|--------------------|
| Contractually required FRS contribution                                  | \$ 11,097,344       | \$ 10,424,327       | \$ 9,549,544       | \$ 7,952,381       |
| FRS contributions in relation to the contractually required contribution | <u>(11,097,344)</u> | <u>(10,424,327)</u> | <u>(9,549,544)</u> | <u>(7,952,381)</u> |
| FRS contribution deficiency (excess)                                     | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ -</u>        |
| University's covered payroll (2)   | \$ 240,279,680      | \$ 236,092,648      | \$ 223,425,863     | \$ 205,900,798     |
| FRS contributions as a percentage of covered payroll                     | 4.62%               | 4.42%               | 4.27%              | 3.86%              |

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

| <u>2015 (1)</u> | <u>2014 (1)</u> | <u>2013 (1)</u> |
|-----------------|-----------------|-----------------|
| 0.286843379%    | 0.268741487%    | 0.205028713%    |
| \$ 37,049,671   | \$ 16,397,183   | \$ 35,294,567   |
| \$ 172,516,889  | \$ 171,154,757  | \$ 161,228,170  |
| 21.48%          | 9.58%           | 21.89%          |
| 92.00%          | 96.09%          | 88.54%          |

| <u>2016 (1)</u>    | <u>2015 (1)</u>    | <u>2014 (1)</u>    |
|--------------------|--------------------|--------------------|
| \$ 6,932,989       | \$ 6,993,485       | \$ 5,886,579       |
| <u>(6,932,989)</u> | <u>(6,993,485)</u> | <u>(5,886,579)</u> |
| \$ -               | \$ -               | \$ -               |
| \$ 182,835,559     | \$ 172,516,889     | \$ 171,154,757     |
| 3.79%              | 4.05%              | 3.44%              |

**Schedule of the University's Proportionate Share of the Net Pension Liability –  
Health Insurance Subsidy Pension Plan**

|  | <u>2019 (1)</u> | <u>2018 (1)</u> | <u>2017 (1)</u> | <u>2016 (1)</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| University's proportion of the HIS net pension liability   | 0.241962620%    | 0.241054998%    | 0.230589109%    | 0.222100831%    |
| University's proportionate share of the HIS net pension liability  | \$ 27,073,196   | \$ 25,513,532   | \$ 24,655,651   | \$ 25,884,932   |
| University's covered payroll (2)   | \$ 80,279,611   | \$ 77,121,704   | \$ 72,121,462   | \$ 60,852,426   |
| University's proportionate share of the HIS net pension liability as a percentage of its covered payroll | 33.72%          | 33.08%          | 34.19%          | 42.54%          |
| HIS Plan fiduciary net position as a percentage of the HIS total pension liability                       | 2.63%           | 2.15%           | 1.64%           | 0.97%           |

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of University Contributions – Health Insurance Subsidy Pension Plan**

|  | <u>2020 (1)</u>    | <u>2019 (1)</u>    | <u>2018 (1)</u>    | <u>2017 (1)</u>    |
|--|--------------------|--------------------|--------------------|--------------------|
| Contractually required HIS contribution                                      | \$ 1,365,831       | \$ 1,343,595       | \$ 1,307,247       | \$ 1,220,334       |
| HIS contributions in relation to the contractually required HIS contribution | <u>(1,365,831)</u> | <u>(1,343,595)</u> | <u>(1,307,247)</u> | <u>(1,220,334)</u> |
| HIS contribution deficiency (excess)   | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| University's covered payroll (2)   | \$ 81,336,240      | \$ 80,279,611      | \$ 77,121,704      | \$ 72,121,462      |
| HIS contributions as a percentage of covered payroll                         | 1.68%              | 1.67%              | 1.70%              | 1.69%              |

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

| <u>2015 (1)</u> | <u>2014 (1)</u> | <u>2013 (1)</u> |
|-----------------|-----------------|-----------------|
| 0.224309818%    | 0.222149140%    | 0.229169248%    |
| \$ 22,876,073   | \$ 20,771,487   | \$ 19,952,196   |
| \$ 67,036,627   | \$ 65,674,496   | \$ 66,275,325   |
| 34.12%          | 31.63%          | 30.11%          |
| 0.50%           | 0.99%           | 1.78%           |

| <u>2016 (1)</u>    | <u>2015 (1)</u>  | <u>2014 (1)</u>  |
|--------------------|------------------|------------------|
| \$ 1,138,408       | \$ 857,452       | \$ 761,008       |
| <u>(1,138,408)</u> | <u>(857,452)</u> | <u>(761,008)</u> |
| \$ -               | \$ -             | \$ -             |
| \$ 60,852,426      | \$ 67,036,627    | \$ 65,674,496    |
| 1.87%              | 1.28%            | 1.16%            |

**1. Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability**

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

*Changes of Assumptions.* In 2020, amounts reported as changes of assumptions resulted from changes to the census data, a change to the discount rate, the excise tax that will come into effect in 2022, the use of actual claims information, an update in the trend rate, and an update to the mortality rate. Refer to Note 12. to the financial statements for further detail.

**2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan**

*Changes of Assumptions.* The long-term expected rate of return was decreased from 7.00 percent to 6.90 percent, and the active member mortality assumption was updated.

**3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan**

*Changes of Assumptions.* The municipal rate used to determine total pension liability decreased from 3.87 percent to 3.50 percent.





Sherrill F. Norman, CPA  
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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## **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**

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 the Florida Atlantic University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 11, 2021, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 11, 2021