



Item: AC: I-4a

**AUDIT AND COMPLIANCE COMMITTEE**

**Tuesday, November 13, 2018**

**SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS FOR FAU DIRECT SUPPORT ORGANIZATIONS: FAU FOUNDATION, INC. YEAR ENDED JUNE 30, 2018 AND 2017.**

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**PROPOSED COMMITTEE ACTION**

Information only.

**BACKGROUND INFORMATION**

The audited financial statements of the Florida Atlantic University Foundation, Inc. are presented to keep the Board of Trustees informed about the financial status of the Foundation. The audited financial statements for the period ending June 30, 2018 were presented to the Foundation Board of Directors on November 10, 2018.

**IMPLEMENTATION PLAN/DATE**

Not applicable.

**FISCAL IMPLICATIONS**

Not applicable.

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**Supporting Documentation:** FAU Foundation Inc. Financial Statements and Additional Information, June 30, 2018 and 2017.

**Presented by:** Mr. Jeff Atwater, VP for Financial Affairs and CFO

**Phone:** 561-297-3267

Florida Atlantic University  
Foundation, Inc.

Financial Statements  
and Additional Information  
For the Years Ended June 30, 2018 and 2017

# Florida Atlantic University Foundation, Inc.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Florida Atlantic University Foundation, Inc.  
Boca Raton, Florida

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

We have audited the accompanying financial statements of Florida Atlantic University Foundation, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

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

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance, as required by Section 215.97, Florida Statutes and Chapter 10.650, Rules of the Auditor General, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Further, the schedule of Board of Directors and Executive Committee Members is presented for informational purposes only and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
November 1, 2018

# FINANCIAL STATEMENTS

**Florida Atlantic University Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 26,094,340	\$ 27,191,825
Pledges receivable, net of unamortized discount and allowance for uncollectibles of \$ 1,505,583 and \$ 2,409,844 in 2018 and 2017, respectively	25,959,129	32,731,578
Investments	242,201,153	231,773,143
Funds held in trust by others	3,330,620	3,197,548
Restricted cash and cash equivalents	18,186	32,496
Net investment in direct financing - type lease	6,668,000	7,185,000
Real property and improvements, net	4,459,241	4,553,117
Art, library and other collections	12,410,374	4,835,110
Other assets	<u>7,693,694</u>	<u>801,077</u>
Total assets	<u>\$ 328,834,737</u>	<u>\$ 312,300,894</u>
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 4,617,469	\$ 1,774,293
Liability to resource providers	25,947	26,256
Deferred revenues	1,962,683	1,885,857
Certificates of participation	<u>6,668,000</u>	<u>7,185,000</u>
Total liabilities	<u>13,274,099</u>	<u>10,871,406</u>
<b>Net Assets:</b>		
Unrestricted	9,515,904	12,333,398
Temporarily restricted	135,858,225	122,956,674
Permanently restricted	<u>170,186,509</u>	<u>166,139,416</u>
Total net assets	<u>315,560,638</u>	<u>301,429,488</u>
Total liabilities and net assets	<u>\$ 328,834,737</u>	<u>\$ 312,300,894</u>

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

Florida Atlantic University Foundation, Inc.  
 Statements of Activities  
 For the Years Ended June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains, and Other Support:</b>				
Contributions	\$ 5,326,345	\$ 26,220,750	\$ 4,047,093	\$ 35,594,188
Interest and dividends, net of fees	781,419	3,932,004	-	4,713,423
Rental income	-	1,155,522	-	1,155,522
Other income	16,642	1,518,755	-	1,535,397
Net realized and unrealized gains (losses) on investments	<u>1,511,727</u>	<u>12,130,153</u>	<u>-</u>	<u>13,641,880</u>
Total revenues, gains and other support	<u>7,636,133</u>	<u>44,957,184</u>	<u>4,047,093</u>	<u>56,640,410</u>
Net assets released from restrictions	<u>32,055,633</u>	<u>(32,055,633)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, other support and net assets released from restrictions	<u>39,691,766</u>	<u>12,901,551</u>	<u>4,047,093</u>	<u>56,640,410</u>
<b>Expenses:</b>				
Provision for uncollectible pledges receivable, net	4,745,166	-	-	4,745,166
Program services	24,346,400	-	-	24,346,400
Supporting services:				
Fundraising	4,754,323	-	-	4,754,323
Management and general	2,649,175	-	-	2,649,175
Funding of University's infrastructure	<u>6,014,196</u>	<u>-</u>	<u>-</u>	<u>6,014,196</u>
Total expenses	<u>42,509,260</u>	<u>-</u>	<u>-</u>	<u>42,509,260</u>
Change in net assets	(2,817,494)	12,901,551	4,047,093	14,131,150
<b>Net Assets, beginning of year</b>	<u>12,333,398</u>	<u>122,956,674</u>	<u>166,139,416</u>	<u>301,429,488</u>
<b>Net Assets, end of year</b>	<u>\$ 9,515,904</u>	<u>\$ 135,858,225</u>	<u>\$ 170,186,509</u>	<u>\$ 315,560,638</u>



**2017**

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 4,574,758	\$ 14,376,351	\$ 17,743,072	\$ 36,694,181
593,324	3,377,035	-	3,970,359
-	1,159,028	-	1,159,028
600	2,160,722	-	2,161,322
<u>2,222,007</u>	<u>18,960,902</u>	<u>-</u>	<u>21,182,909</u>
<u>7,390,689</u>	<u>40,034,038</u>	<u>17,743,072</u>	<u>65,167,799</u>
<u>23,075,842</u>	<u>(22,602,385)</u>	<u>(473,457)</u>	<u>-</u>
<u>30,466,531</u>	<u>17,431,653</u>	<u>17,269,615</u>	<u>65,167,799</u>
168,112	-	-	168,112
19,610,179	-	-	19,610,179
3,883,569	-	-	3,883,569
2,752,518	-	-	2,752,518
<u>1,590,501</u>	<u>-</u>	<u>-</u>	<u>1,590,501</u>
<u>28,004,879</u>	<u>-</u>	<u>-</u>	<u>28,004,879</u>
2,461,652	17,431,653	17,269,615	37,162,920
<u>9,871,746</u>	<u>105,525,021</u>	<u>148,869,801</u>	<u>264,266,568</u>
<u>\$ 12,333,398</u>	<u>\$ 122,956,674</u>	<u>\$ 166,139,416</u>	<u>\$ 301,429,488</u>

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

**Florida Atlantic University Foundation, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 14,131,150	\$ 37,162,920
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses on investments	(13,641,880)	(21,182,909)
Change in value of split-interest agreements	13,688	38,162
Provision for uncollectible pledges receivable, net	4,745,166	168,112
Contributions restricted for investment in permanent endowment	(7,827,231)	(6,686,363)
Contributed investments	(365,451)	(101,013)
Donations received of art, library and other collections, net	(7,575,264)	(206,724)
Provision for depreciation	4,816	4,816
Transfer of construction projects to the University	5,593,624	624,136
(Increase) decrease in assets:		
Pledges receivable, net	2,027,283	(7,633,195)
Restricted cash and cash equivalents	14,310	111,346
Other assets	(6,892,617)	55,349
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	2,829,488	(329,355)
Liability to resource providers	(309)	(10,321)
Deferred revenues	76,826	4,449
Net cash provided by (used in) operating activities	<u>(6,866,401)</u>	<u>2,019,410</u>
<b>Cash Flows From Investing Activities:</b>		
Sales and maturities of investments	52,832,608	14,916,667
Purchases of investments	(49,386,359)	(21,398,630)
Purchases of property and equipment	-	(15,060)
Payments made for construction projects (University)	(5,504,564)	(624,136)
Collections of principal on direct financing-type lease	517,000	507,000
Transfer of debt service reserve funds, net of expenses, related to direct financing-type lease	-	(38,910)
Net cash provided by (used in) investing activities	<u>(1,541,315)</u>	<u>(6,653,069)</u>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions restricted for investment in permanent endowment	7,827,231	6,686,363
Principal payments on certificates of participation	(517,000)	(507,000)
Net cash provided by (used in) financing activities	<u>7,310,231</u>	<u>6,179,363</u>
Net increase (decrease) in cash and cash equivalents	(1,097,485)	1,545,704
<b>Cash and Cash Equivalents, beginning of year</b>	<u>27,191,825</u>	<u>25,646,121</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 26,094,340</u>	<u>\$ 27,191,825</u>

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

**Note 1 - Reporting Entity and Significant Accounting Policies**

(a) Reporting entity:

Florida Atlantic University Foundation, Inc. (the "Foundation") is organized under Florida Law as a direct support organization to the Florida Atlantic University (the "University" or "FAU"). The Foundation's mission is to receive, hold, invest and administer private gifts on behalf of the University. The Foundation operates independently from the University, and has qualified under Internal Revenue Code Section 501 (c)(3), and Florida Statutes Chapter 1004.28. Any person or organization contributing money, stock or any other property in support of the University does so through the Foundation.

(b) Basis of accounting:

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

(c) Basis of presentation:

The Foundation follows the recommendation of the Financial Accounting Standards Board's (FASB) standards of accounting and financial reporting for not-for-profit organizations. Under the Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities; Presentation of Financial Statements*, net assets and revenues, expenses, gains, and losses are classified depending on the existence and/or nature of any donor-imposed restrictions. Accordingly, the Foundation reports information regarding its financial position and activities based on three classes of net assets as follows:

Unrestricted net assets: Net assets without donor-imposed stipulations that are available for use by the Foundation.

Temporarily restricted net assets: Net assets whose use by the Foundation are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation according to those stipulations or by the passage of time.

Permanently restricted net assets: Net assets subject to donor restrictions requiring that the assets be maintained by the Foundation in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the investment earnings for general or specific purposes.

(d) Restricted and unrestricted revenue and support:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Note 1 - Reporting Entity and Significant Accounting Policies (continued)**

(e) Cash and cash equivalents:

Cash equivalents consist of all highly liquid investments with a maturity of three months or less. The Foundation routinely maintains deposits with financial institutions in excess of federally insured amounts (FDIC). As of June 30, 2018, cash equivalents include short-term investments in money market mutual funds and money market deposit accounts through the Insured Cash Sweep program of approximately \$ 5,245,000 and \$ 6,715,000, respectively. As of June 30, 2017, cash equivalents include short-term investments in money market mutual funds and money market deposit accounts through the Insured Cash Sweep program of approximately \$ 1,142,000 and \$ 10,133,000, respectively.

Additionally, the Foundation's cash and cash equivalents include the State of Florida Special Purpose Investments ("SPIA") accounts. SPIA funds are combined with State funds and are invested as part of the Treasury Investment Pool. The Treasury Investment Pool invests in a combination of short-term liquid instruments and intermediate term fixed income securities. SPIA funds are not considered to be a deposit within a financial institution and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Cash equivalents included SPIA of approximately \$ 12,257,000 and \$ 10,497,000, as of June 30, 2018 and 2017, respectively.

(f) Pledges:

Unconditional promises to give are recorded as revenue in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises that are expected to be collected in future years are recorded at net present value using the Federal Reserve discount rate. The Foundation estimates an allowance for uncollectible, to absorb the uncollectible portion of the pledges. Conditional pledges are promises contingent on the occurrence of some other event. Conditional pledges are not recorded in the financial statements until the condition has been met.

(g) Donated goods and property:

The value of donated goods is recorded in the financial statements as revenue and is either capitalized or expensed to the University. Donated goods, other than in-kind resources contributed by the University, including art, library and other collections, were approximately \$ 7,682,000 and \$ 464,000 and were recorded at their estimated fair value for the years ended June 30, 2018 and 2017, respectively.

Donated property and equipment is reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Foundation reports expirations of donor restrictions when the donated assets are placed in service, reclassifying temporarily restricted net assets to unrestricted net assets at that time. The title of the donated property and equipment is generally transferred to the recipient college or school. Examples of gifts-in-kind that the Foundation may retain as property are real estate, certain art, library and sports memorabilia collections, and property that are held for future sale.

**Note 1 - Reporting Entity and Significant Accounting Policies (continued)**

(h) Investments:

The Foundation's investment policy provides for the investment portfolio to be managed by professional money managers and to be invested primarily in domestic and international equity, fixed income securities, and alternative investments such as hedge funds, private equity and real asset funds, according to specified allocations, except where donor restrictions may apply. These investments are recorded at their fair value based on publicly available trading values, where applicable (Note 3). All investment securities are held in the Foundation's name or in the name of its bank custodian "for the benefit of the Foundation."

In accordance with this policy, net unrealized appreciation or depreciation for the year is reflected in the accompanying statements of activities. Investment income and losses are allocated to each fund on a monthly basis, based on the average daily balance for each fund. Investment income (including realized and unrealized gains and losses) is reflected in the statements of activities.

(i) Contributed services:

The value of certain support services provided to the Foundation by its volunteer Board Members has not been reflected in the accompanying financial statements.

(j) Real property and improvements:

Real property and improvements are carried at cost if purchased, or if donated, at their estimated fair value at the date of the donation, less accumulated depreciation. The Foundation depreciates real property and improvements using the straight-line method over the estimated life of the asset. Useful lives range from 45 to 50 years for buildings and improvements.

Additions and major renewals to real property and equipment are capitalized if greater than \$ 1,000. Maintenance and repairs are charged to expense when incurred. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the change in net assets.

(k) Art, library and other collections:

Donated art, library and other collections are capitalized at their estimated fair value on the acquisition date. Subsequently, if an asset becomes impaired because the carrying amount is not recoverable and exceeds its estimated fair value, the Foundation records an impairment loss in the accompanying statements of activities. Because of the particular purpose of the donation, some collections are transferred immediately to the University.

**Note 1 - Reporting Entity and Significant Accounting Policies (continued)**

(l) Split interest agreements:

The Foundation accepts gifts subject to split interest agreements. A split interest agreement is created when a donor contributes assets to the Foundation or places them in a trust for the benefit of the Foundation, but the Foundation is not the sole beneficiary of the assets economic value. These gifts are in the form of Charitable Gift Annuities or Charitable Remainder Annuities which provide that the Foundation, as trustee, make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. At the time of agreement, gifts are recorded at the estimated fair market value of the asset received net of any applicable liability. Liabilities include the present value of projected future distributions to the annuity or trust beneficiaries and are determined using the Internal Revenue Service rate for computing charitable deductions for such gifts in effect at the time of the gift. The present value of the estimated future payments is approximately \$ 368,000 and \$ 271,000 at June 30, 2018 and 2017, respectively, using discount rates ranging from 2.6% to 11.4% and applicable mortality tables. On an annual basis, the Foundation reevaluates the amount of estimated future payments. For the years ended June 30, 2018 and 2017, the Foundation reported an increase in the estimated obligation for split-interest agreements of approximately \$ 14,000 and \$ 38,000, respectively. Split interest agreements are recorded as temporarily restricted or permanently restricted depending on donor-imposed stipulations. The Foundation holds qualifying assets in excess of the minimum gift annuity reserves required by Florida law. The reserve amount is calculated following assumptions set forth by Florida Statute in Section 627.481(2)(a)1.b. The Foundation currently makes annuity payments of approximately \$ 49,000 annually.

(m) Restricted cash and cash equivalents:

Restricted cash and cash equivalents represent claims to amounts that are restricted as to withdrawal or use for other than current operations. Restricted cash and cash equivalents as of June 30, 2018 and 2017, consisted of funds restricted by donor request, pledged towards University debt and a deposit "project" account with a trustee to be used for future construction projects. As of June 30, 2018 and 2017, these amounts totaled approximately \$ 18,000 and \$ 32,000, respectively.

(n) Deferred revenues:

Any cash collected on conditional pledges is recorded as a refundable advance until such time as the condition has been met. Deferred revenues represent resources received by the Foundation before it has earned the revenues, including grants and other agreements. Deferred revenues as of June 30, 2018 and 2017 were approximately \$ 1,963,000 and \$ 1,886,000, respectively.

(o) Income taxes:

The Foundation qualifies as a nonprofit corporation exempt from federal income taxes under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3), with the exception of any unrelated business income. Management has evaluated the unrelated business income tax implications and believes that the effects, if any, are immaterial to the Foundation's financial statements. Accordingly, no provision for income taxes has been made to these financial statements.

**Note 1 - Reporting Entity and Significant Accounting Policies (continued)**

(p) Joint costs of fundraising appeals:

The Foundation conducts activities that include not only requests for contributions, but programmatic and administrative components as well. Those activities included direct mailings, special events and award ceremonies.

(q) Advertising costs:

The total costs of advertising in 2018 and 2017 were approximately \$ 96,000 and \$ 95,000 respectively. These costs include advertising for special events, vacant positions, and requests for proposals. The Foundation invests in direct response solicitations through the annual fund program. The Foundation expects to solicit an immediate response from its constituents. Therefore, all advertising and solicitation costs are expensed immediately and are not capitalized. Solicitation costs are normally included in printing and postage, which totaled approximately \$ 291,000 in 2018 and \$ 273,000 in 2017.

(r) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Reclassification:

Certain reclassifications have been made to the financial statements for presentation purposes. Total net assets and change in net assets are unchanged due to these reclassifications.

(t) Date of management review:

Management has evaluated subsequent events through November 1, 2018, which is the date the financial statements were available for issuance.

**Note 2 - Pledges Receivable**

Pledges receivable are summarized as of June 30, 2018 and 2017 as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>
In one year or less	\$ 8,111,791	\$ 1,978,067	\$ 10,089,858
Between two to five years	10,091,204	5,263,000	15,354,204
Greater than five years	<u>2,020,650</u>	<u>-</u>	<u>2,020,650</u>
Total unconditional pledges at face value	20,223,645	7,241,067	27,464,712
Less: unamortized discount	(723,373)	(316,786)	(1,040,159)
Less: allowance for uncollectible pledges	<u>(343,557)</u>	<u>(121,867)</u>	<u>(465,424)</u>
Net unconditional pledges	<u>\$ 19,156,715</u>	<u>\$ 6,802,414</u>	<u>\$ 25,959,129</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
In one year or less	\$ 11,443,452	\$ 5,087,102	\$ 16,530,554
Between two to five years	9,241,368	5,789,500	15,030,868
Greater than five years	<u>2,780,000</u>	<u>800,000</u>	<u>3,580,000</u>
Total unconditional pledges at face value	23,464,820	11,676,602	35,141,422
Less: unamortized discount	(616,648)	(464,859)	(1,081,507)
Less: allowance for uncollectible pledges	<u>(896,542)</u>	<u>(431,795)</u>	<u>(1,328,337)</u>
Net unconditional pledges	<u>\$ 21,951,630</u>	<u>\$ 10,779,948</u>	<u>\$ 32,731,578</u>

Management periodically reviews the pledges balances and estimates allowances for accounts and pledges which may be uncollectible. Outstanding pledges from the annual phone-a-thon program are written off at the beginning of the following fiscal year. All other pledges are generally provided for if they are (a) delinquent for one year and (b) the remaining pledge balance is determined uncollectible. The Foundation reported a provision for uncollectible pledges of approximately \$ 4,745,000 and \$ 168,000 in 2018 and 2017, respectively. Management estimated that 1.6% and 2.3% of all current and future pledges would be established as the 2018 and 2017 allowances, respectively. Additionally, pledges are recorded at their present value. The Federal Reserve discount rate of 2.50% was applied to future cash flows for pledges made in 2018, 1.75% was applied to future cash flows for pledges made in 2017, as well as discount rates ranging from 0.75% to 1.00% for all pledges made in 2016 and earlier.



**Note 2 - Pledges Receivable (continued)**

The Foundation is the beneficiary of numerous conditional promises to give. A conditional promise is one that requires an event in the future to take place before the promise becomes binding to the donor. At June 30, 2011, the Foundation had pledges conditional upon legislative appropriation from the Florida Department of Education's Major Gifts Program, of approximately \$ 9,273,000. Some of the outstanding matching gifts have been on the priority list since the 2006-2007 fiscal year. The Florida Legislature did not appropriate funding for the fiscal years 2011 through 2018. Accordingly, these pledges have not been recorded as receivables. Effective July 1, 2011, the state matching gift program was temporarily suspended until the backlog of eligible matches are paid by the State of Florida.

No receivable was recorded for bequests and conditional pledges, nor was the future support recognized. As of June 30, 2018, the Foundation was made aware of approximately \$ 43 million in potential bequests and other conditional pledges.

**Note 3 - Investments and Investments Return**

The Foundation invests primarily in domestic and international equity, fixed income securities, and alternative investments such as hedge funds, private equity and real asset funds, according to specified allocations, except where donor restrictions may apply.

Investments at June 30, 2018 and 2017 consisted of the following at their fair value:

Type	2018	2017
United States large cap stocks	\$ 36,486,241	\$ 32,105,542
United States SMID cap stocks	<u>19,097,972</u>	<u>16,583,459</u>
Total United States Stocks	<u>55,584,213</u>	<u>48,689,001</u>
International large and mid cap stocks	43,921,371	45,897,783
International emerging markets	<u>21,724,806</u>	<u>20,753,587</u>
Total International Stocks	<u>65,646,177</u>	<u>66,651,370</u>
Total Equities	<u>121,230,390</u>	<u>115,340,371</u>
United States fixed income	22,512,936	32,884,900
International fixed income	<u>4,343,757</u>	<u>2,381,699</u>
Total Fixed Income	<u>26,856,693</u>	<u>35,266,599</u>
Hedge funds	50,798,137	44,407,801
Real asset funds	25,186,870	24,510,925
Private equity funds	<u>18,129,063</u>	<u>12,247,447</u>
Total Other	<u>94,114,070</u>	<u>81,166,173</u>
Total Investments	<u>\$ 242,201,153</u>	<u>\$ 231,773,143</u>

Interest and dividend income reflected in the statements of activities for the years ended June 30, 2018 and 2017 is presented net of the estimated investment manager/custodian fees of approximately \$ 1,942,000 and \$ 1,717,000, respectively.

**Note 3 - Investments and Investments Return (continued)**

Investments in common stocks (equities) and exchange-traded funds are carried at market value, as quoted on major stock exchanges. Investments in equity funds, fixed income funds, commodities and real estate investment trusts are carried at market value, as reported by the issuers. Alternative investments consist of hedge funds, private equity and real asset funds. Alternative investments (nontraditional, not readily-marketable assets), some of which are structured such that the Foundation holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may in turn include investments in both nonmarketable and market-traded securities. Valuation of these investments and, therefore Foundation holdings, are determined by the investment manager or general partner. Values may be based on historical costs, appraisals, or other estimates that require varying degrees of judgment. While these financial instruments may contain varying degrees of risk, the Foundation's risk with respect to such transactions is limited to its capital balance, and any remaining commitments, in each investment. The financial statements of the investees are audited annually by certified public accounting firms.

The Foundation believes the methods for providing estimated fair values on these financial instruments are reasonable. Alternative investments often do not have readily determinable market values and their estimated value is subject to uncertainty. Therefore, there may be a significant difference between their estimated value and the value that would have been used had a readily determinable fair market value for such investments existed.

Investments in equities and domestic fixed income securities are highly liquid. The investments in international fixed income are restricted by the donors to remain in these investments. If liquidation were allowed, the sale would likely be discounted on a secondary market. Certain hedge fund instruments may require an initial lock-up period from one to three years. The Foundation typically selects the shortest lock-up period available when initiating a purchase. Certain private equity and real asset fund investments may require a lock-up period of up to ten years or for the duration of the partnership, although distributions of capital are periodically made by the managing partners when a project completes.

The Foundation invests in hedging activities in order to mitigate the risk inherent with market fluctuations and its hedge fund managers may invest in derivative instruments. At June 30, 2018, the Foundation invested approximately 21% of the managed portfolio with hedge fund managers. For additional information on hedge funds and other alternative investment strategies and unfulfilled commitments as of the year-end, reference should be made to Note 5.

**Note 4 - Funds Held in Trust by Others**

The 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. These funds held in trust by others are considered part of the Foundation's endowments and are included in Notes 5 and 6. The 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 Foundation is notified of its existence. The present value is calculated using discount rates the year in which the trust was established.

**Note 4 - Funds Held in Trust by Others (continued)**

Funds held in trust by others at June 30, 2018 and 2017 consisted of the following at their fair value:

	<u>2018</u>	<u>2017</u>
United States large cap stocks	\$ 920,467	\$ 819,547
United States small cap stocks	429,728	430,684
United States mid cap stocks	<u>314,369</u>	<u>338,106</u>
Total United States Stocks	<u>1,664,564</u>	<u>1,588,337</u>
International large and mid cap stocks	514,448	486,112
International emerging markets	<u>191,871</u>	<u>223,056</u>
Total International Stocks	<u>706,319</u>	<u>709,168</u>
Total Equities	<u>2,370,883</u>	<u>2,297,505</u>
United States fixed income	404,563	407,053
International fixed income	<u>27,101</u>	<u>121,696</u>
Total Fixed Income	<u>431,664</u>	<u>528,749</u>
Hedge funds	340,370	252,514
Commodities	129,630	20,548
Cash and equivalents	<u>58,073</u>	<u>98,232</u>
Total Other	<u>528,073</u>	<u>371,294</u>
Total Funds Held in Trust	<u>\$ 3,330,620</u>	<u>\$ 3,197,548</u>

**Note 5 - Fair Value Measurement**

In accordance with the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, the Foundation provides certain disclosures based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. An investment's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**Note 5 - Fair Value Measurement (continued)**

The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs that are observable and reflect quoted market prices (unadjusted) in active markets for identical investments that the Foundation can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the investments, either directly or indirectly (e.g. quoted prices in active markets for similar securities, securities valuations based on commonly quoted benchmarks, interest rates and yield curves, and/or securities indices).
- Level 3 - inputs that are unobservable for the investments (e.g. information about assumptions, including risk, market participants would use in pricing a security).

The following tables present the Foundation's investments measured at fair value as of June 30, 2018 and 2017, which include investments and funds held in trust by others, on the statements of financial position. The assets are classified in accordance with the ASC No. 820 fair value hierarchy as follows:

Investments in:	Level 1	Level 2	Level 3	Investments Valued at NAV	2018 Total
Equities	\$ 123,601,273	\$ -	\$ -	\$ -	\$ 123,601,273
Other	16,113,575	58,073	-	78,470,495	94,642,143
Fixed income	22,944,600	4,343,757	-	-	27,288,357
Total investments	\$ 162,659,448	\$ 4,401,830	\$ -	\$ 78,470,495	\$ 245,531,773
				Investments Valued at NAV	2017 Total
Investments in:	Level 1	Level 2	Level 3	Investments Valued at NAV	2017 Total
Equities	\$ 117,637,876	\$ -	\$ -	\$ -	\$ 117,637,876
Other	15,510,384	98,232	-	65,928,851	81,537,467
Fixed income	33,413,649	2,381,699	-	-	35,795,348
Total investments	\$ 166,561,909	\$ 2,479,931	\$ -	\$ 65,928,851	\$ 234,970,691

For the years ended June 30, 2018 and 2017, there were no transfers between Levels. The Foundation's policy is to recognize transfers in and out as of the actual date of the event or change in circumstances that caused the transfer.

**Note 5 - Fair Value Measurement (continued)**

The following tables provide additional disclosures of alternative investments held by the Foundation.

As of June 30, 2018:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Long-short strategy (a)	\$ 22,009,875	\$ -	Quarterly and Semi-Annually	60 to 180 days
Private equity (b)	18,129,063	17,006,271	Duration of Partnership	N/A
Multi - strategy (c)	12,352,791	-	Quarterly, Over One Year and Duration of Partnership	60 to 70 days and N/A
Real assets (d)	9,543,296	1,200,274	Monthly and Duration of Partnership	30 days and N/A
Distressed strategy (e)	5,336,226	-	Quarterly and Duration of Partnership	75 days and N/A
Relative value credit strategy (f)	4,820,343	-	Quarterly	45 days
Small/Micro cap healthcare strategy (g)	3,358,517	-	Semi-Annually	30 days
Global macro strategy (h)	2,920,384	-	Monthly	60 days
Total	\$ 78,470,495	\$ 18,206,545		

As of June 30, 2017:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Long-short strategy	\$ 20,328,326	\$ -	Quarterly and Semi-Annually	60 to 180 days
Private equity	12,247,447	11,211,247	Duration of Partnership	N/A
Multi - strategy	11,653,756	-	Quarterly, Over One Year and Duration of Partnership	60 to 70 days and N/A
Real assets	9,273,603	4,267,638	Monthly and Duration of Partnership	30 days and N/A
Global macro strategy	4,955,361	-	Monthly	60 days
Relative value credit strategy	4,660,351	-	Quarterly	45 days
Small/Micro cap healthcare strategy	2,525,480	-	Semi-Annually	30 days
Distressed strategy	284,527	-	Duration of Partnership	N/A
Total	\$ 65,928,851	\$ 15,478,885		

**Note 5 - Fair Value Measurement (continued)**

- (a) Long-short strategy: This class includes investments in hedge funds that invest in both long and short-term equity securities. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.
- (b) 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.
- (c) Multi strategy: This class invests in long and short-term credit as well as distressed and special situations.
- (d) Real assets: This class includes several real estate funds that invest primarily in public REITS, private open-end core real estate funds and a portfolio of directly held properties. Distributions from each fund will be received as the underlying investments of the funds are liquidated.
- (e) Distressed strategy: This class invests in long and short-term credit as well as directional strategies that take advantage of the distressed markets.
- (f) Relative value credit strategy: This class invests in both long and short-term vehicles, primarily in the credit space.
- (g) Small/Micro cap healthcare strategy: This class invests primarily in a long-only strategy, which invests in small and micro capitalization healthcare companies which are publicly listed.
- (h) Global macro strategy: This class includes investments in hedge funds strategies, which utilizes top-down fundamental approach to identify and exploit economic and financial imbalances in asset markets. The funds will invest in global interest rates, fixed-income instruments, credit instruments, currencies, commodities, equities, and their associate derivatives.

**Note 6 - Endowments**

The Foundation has over 470 fully endowed funds established for the support of the students, programs and faculty of the various colleges at Florida Atlantic University. Endowments include both donor restricted endowment funds and funds designated by the Foundation or college to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

**Note 6 – Endowments (continued)**

**Interpretation of Relevant Law:** The Foundation interprets the State of Florida’s Uniform Prudent Management of Institutional Funds Act (FUPMIFA), as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment, management, and expenditures of endowment funds. The spending policy is set with the goal of the preservation of the long term purchasing power of the endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation and its Board classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by FUPMIFA. The Foundation allocated approximately \$ 12 million in spending and fees for the endowment funds in fiscal year 2018 and approximately \$ 8.3 million in fiscal year 2017.

In accordance with FUPMIFA, the Board considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The purposes of the Foundation and the donor-restricted endowment fund.
2. The duration and preservation of the fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Foundation.
7. The investment and spending policies of the Foundation.

The following tables present the Foundation’s endowments composition, changes, and net asset classifications for the indicated years.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2018 and 2017:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>
Donor-restricted endowment funds	\$ -	\$ 60,737,092	\$ 163,111,573	\$ 223,848,665
Board-designated endowment funds	<u>4,313,340</u>	-	-	<u>4,313,340</u>
Total endowment funds	<u>\$ 4,313,340</u>	<u>\$ 60,737,092</u>	<u>\$ 163,111,573</u>	<u>\$ 228,162,005</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
Donor-restricted endowment funds	\$ -	\$ 54,287,981	\$ 155,229,578	\$ 209,517,559
Board-designated endowment funds	<u>6,436,717</u>	-	-	<u>6,436,717</u>
Total endowment funds	<u>\$ 6,436,717</u>	<u>\$ 54,287,981</u>	<u>\$ 155,229,578</u>	<u>\$ 215,954,276</u>

**Florida Atlantic University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 6 – Endowments (continued)**

Changes in Endowment Net Assets for the years ended June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>
Endowment net assets, July 1, 2017	\$ 6,436,717	\$ 54,287,981	\$ 155,229,578	\$ 215,954,276
Investment return:				
Interest and dividend income, net of fees	114,815	3,735,607	-	3,850,422
Net appreciation (depreciation), realized and unrealized	<u>374,277</u>	<u>12,099,508</u>	<u>-</u>	<u>12,473,785</u>
Total investment return	489,092	15,835,115	-	16,324,207
Contributions	-	-	7,827,231	7,827,231
Expenditures	(2,612,469)	(9,439,972)	-	(12,052,441)
Other transfers	<u>-</u>	<u>53,968</u>	<u>54,764</u>	<u>108,732</u>
Total change in endowment funds	<u>(2,123,377)</u>	<u>6,449,111</u>	<u>7,881,995</u>	<u>12,207,729</u>
Endowment net assets, June 30, 2018	<u>\$ 4,313,340</u>	<u>\$ 60,737,092</u>	<u>\$ 163,111,573</u>	<u>\$ 228,162,005</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
Endowment net assets, July 1, 2016	\$ 5,850,965	\$ 40,368,617	\$ 148,535,715	\$ 194,755,297
Investment return:				
Interest and dividend income, net of fees	98,468	3,189,545	-	3,288,013
Net appreciation (depreciation), realized and unrealized	<u>586,474</u>	<u>18,919,539</u>	<u>-</u>	<u>19,506,013</u>
Total investment return	684,942	22,109,084	-	22,794,026
Contributions	-	-	6,686,363	6,686,363
Expenditures	(101,104)	(8,182,411)	-	(8,283,515)
Other transfers	<u>1,914</u>	<u>(7,309)</u>	<u>7,500</u>	<u>2,105</u>
Total change in endowment funds	<u>585,752</u>	<u>13,919,364</u>	<u>6,693,863</u>	<u>21,198,979</u>
Endowment net assets, June 30, 2017	<u>\$ 6,436,717</u>	<u>\$ 54,287,981</u>	<u>\$ 155,229,578</u>	<u>\$ 215,954,276</u>



**Note 6 - Endowments (continued)**

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only) at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Permanently restricted net assets required to be retained permanently	\$ <u>163,111,573</u>	\$ <u>155,229,578</u>
Temporarily restricted net assets		
The portion of perpetual endowment funds subject to a time/purpose restriction under FUPMIFA:		
With purpose restrictions	\$ <u>60,737,092</u>	\$ <u>54,287,981</u>

**Funds with Deficiencies:** From time to time, the fair value of certain endowments may fall under historical cost values (original gift/book value), and therefore, are considered to be underwater. There were no underwater endowments at June 30, 2018 and 2017. Deficiencies, if any, are recorded as reductions in unrestricted net assets in accordance with accounting principles generally accepted in the United States of America. Future gains are used to restore these deficiencies in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

**Return Objectives and Risk Parameters:** The goal of the investment program for the endowment assets is to provide a total return equivalent to or greater than the endowment’s financial requirements over the “Time Horizon.” The endowment’s financial requirements are the sum of the spending rate, the long-term inflation rate, the aggregate costs of portfolio management, and any growth factor, which the Foundation’s Investment Committee may, from time to time, determine appropriate. The Board of Directors, in consultation with its investment advisors, monitors the Foundation’s target goal of 7.6% compared to the expected long-term return, which is periodically reevaluated.

**Strategies Employed for Achieving Objectives:** To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Because the endowment funds of the Foundation are expected to endure into perpetuity, and because inflation is a key component in the performance objective, the long-term risk of not investing in securities offering real growth potential outweighs the short-term volatility risk. The Foundation targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve the long-term return objective within prudent risk constraints. Fixed income securities are used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Alternative assets are used to mitigate the risk of traditional asset classes. Other asset classes are included to provide diversification and incremental return.

**Spending Policy and How Investment Objectives Relate to Spending Policy:** The Foundation has implemented a spending policy focused on protecting the corpus; the policy is a three pronged approach to determining an endowment’s spending distribution.

1. Hibernation - The endowment must generate earnings for one year before spending is distributed.
2. Cash balance carry-forward limitations - A limited or restricted spending distribution is implemented if the fund has an adequate cash balance to accommodate operations.

**Note 6 - Endowments (continued)**

3. Prohibition - The fund receives no spending distribution and the Foundation assesses no administration fees on endowments with a total balance less than the original gift's fair market value.

The Foundation has a policy to distribute typically 3.9% (spending rate) of the average fair value of the prior 20 quarters of an endowment that has satisfied the three criteria for corpus protection. The Foundation calculates spending at the end of the third quarter prior to the new fiscal year. Administrative and investment fees are assessed on a quarterly basis on funds that are not deficient. In 2018 and 2017, fees were set at 1.7% and amounted to approximately \$ 3,332,000 and \$ 2,995,000, respectively.

**Note 7 - Concentration of Risk**

**Custodial Credit Risk** - Custodial credit risk is the risk that the Foundation will not be able to recover its cash and equivalents from financial institutions in the event of the financial institutions' failure. The Foundation had deposits in excess of FDIC insurance of approximately \$ 1,986,000 and \$ 5,392,000 for the years ended June 30, 2018 and 2017, respectively. This amount is maintained with what management believes to be quality financial institutions. The Foundation also has protection, with limits, under the Securities Investor Protection Corporation (SIPC).

The Foundation seeks to mitigate custodial risk by investing in the Insured Cash Sweep "ICS" 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, 2018 and 2017, the Foundation had total deposits of approximately \$ 6,715,000 and \$ 10,133,000, respectively, in this program.

Additionally, in order to mitigate risk, the Foundation began investing in the Florida Treasury Investment Pool (SPIA). Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.575, Florida Statutes. SPIA pooled investments are recorded at fair value based on net asset value of the pool, which is consistent with the treatment of "2a-7 like" pool. At June 30, 2018 and 2017, the Foundation had SPIA pooled investments of approximately \$ 12,257,000 and \$ 10,497,000, respectively.

**Interest Rate Risk** - Interest rate risk is the risk that an increase in interest rates will adversely affect the fair value of a debt-type investment. The Foundation's investment policy limits investment maturities as a means of managing exposure to fair value losses arising from increased interest rates. Additionally, the Foundation invests in the Florida Treasury Investment Pool, as a SPIA participant. As of June 30, 2018, the effective duration of the Florida Treasury Investment Pool is 3.00 years.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The 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. At June 30, 2018, the Foundation had various ETF's and index funds with one investment company. Investments with this company made up approximately 28% of the portfolio. The Foundation has one other investment which makes up approximately 9% of the investment portfolio.

**Credit Risk** - Credit risk is the risk that an issuer of debt will not fulfill its obligations. As a SPIA participant, the Foundation invests in the Florida Treasury Investment Pool. The Florida Treasury Investment Pool is rated A+f by Standard and Poor's as of June 30, 2018. The schedules in Notes 3, 4 and 5 provide further details on the fixed income instruments held by the Foundation.

**Note 8 - Real Property and Improvements**

Real property and improvements and the related accumulated depreciation consist of the following at June 30, 2018 and June 30, 2017:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 237,000	\$ 237,000
Less: accumulated depreciation	<u>217,398</u>	<u>212,582</u>
Buildings and improvements, net	19,602	24,418
Land	4,439,639	4,439,639
Construction in progress	<u>-</u>	<u>89,060</u>
Real property and improvements, net	\$ <u><u>4,459,241</u></u>	\$ <u><u>4,553,117</u></u>

**Land Preserves:** Approximately 25 percent of the 150 acres known as Pine Jog (included in land) have reversion clauses where the ownership of the land reverts to the donor or the county if the land does not remain in its natural state. Other parcels of the land have deed restrictions with the same intent to preserve this land as a nature area.

**Note 9 - Sub-Leasing Arrangement**

The Foundation previously entered into a sub-leasing agreement with the Florida Board of Education (the Board). Upon entering into this agreement, two master leases between the Board and the Board of Trustees of the Internal Improvement Trust Fund were assumed by the Foundation. The subleasing agreement provides for the sublease of a certain parcel of real property located on Glades Road in Boca Raton, Florida, at no charge to the Foundation through January, 2073.

The Foundation then entered into a ground lease agreement with a developer whereby the developer agreed to construct a retail complex on the site and lease the space to various entities. Pursuant to the ground lease agreement, the developer is to provide the Foundation with a monthly base rent from the commencement date through its expiration in January, 2073. The base rent increases by 6% every ten years. The lease also provides for an additional \$ 5 per square foot in excess of 152,000 square feet of consumer services area during years 1 through 10, and shall be adjusted upward by 6% every ten years. The current excess square footage provision in the contract increases the base rental income by approximately \$ 99,000 annually. The lease provided rental income of approximately \$ 1,053,000 in 2018 and in 2017 relating to this agreement.

**Note 9 - Sub-Leasing Arrangement (continued)**

Future minimum rentals to be received under this sub-leasing arrangement are estimated to be approximately as follows:

Year Ending June 30,	Estimated Future Minimum Rentals
2019	\$ 1,053,000
2020	1,053,000
2021	1,068,000
2022	1,113,000
2023	1,113,000
2024 - 2033	11,271,000
2034 - 2043	12,794,000
2044 - 2053	14,796,000
2054 - 2063	15,519,000
2064 - 2073	15,657,000
	<u>\$ 75,437,000</u>

**Note 10 - Direct Financing-Type Lease and Certificates of Participation**

Effective November 30, 2012, the Foundation issued the 2012 Certificates of Participation ("Certificates") to refund the then existing 1999 and 2000 Certificates. In support of the University's needs, the funds provided by the original issuances were used to finance the cost to construct an honors college dormitory facility on the John D. MacArthur Campus located in Jupiter, Florida. The 2012 Certificates are payable in annual principal installments ranging from \$ 391,000 to \$ 661,000 with semi-annual interest payments at a 2.93% fixed rate through maturity, May 2030.

The Foundation previously entered into master lease agreements with the Florida Board of Education (the Board), whereby the Foundation is obligated to pay the Board \$ 1 per year for each dormitory until the later of May 2029 or the date that the certificates are paid in full. The Foundation further entered into agreements to lease the buildings to the University, in exchange for the University's paying all amounts due under the Certificates.

The Foundation guarantees the Certificates unconditionally and shall maintain minimum unrestricted expendable net assets of \$ 1,300,000; provided; it shall not constitute an event of default if the amount of such net assets fall below the minimum threshold due to the application of certain current accounting standards. In the event that the Foundation is unable to maintain the required minimum net assets and cure such deficiency as set forth in the agreement, the Foundation may alternatively defray an event of default by depositing with the trustee (debt service reserve fund account) an amount equal to the maximum annual debt service of the 2012 Certificates. Further, the University has agreed to timely fund such reserve account, if required, to avoid an event of default by the Foundation under its guarantee.

**Note 10 - Direct Financing-Type Lease and Certificates of Participation (continued)**

At June 30, 2018, the minimum lease payments to be received from the University and the payments due on the 2012 Certificates for each of the five succeeding fiscal years and thereafter are estimated to be approximately as follows:

<u>Year Ending June 30,</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 534,000	\$ 193,000	\$ 727,000
2020	547,000	177,000	724,000
2021	559,000	161,000	720,000
2022	574,000	144,000	718,000
2023	588,000	128,000	716,000
Thereafter	<u>3,866,000</u>	<u>397,000</u>	<u>4,263,000</u>
Total	<u>\$ 6,668,000</u>	<u>\$ 1,200,000</u>	<u>\$ 7,868,000</u>

**Note 11 - Supplemental Cash Flow Information**

**Cash Inflow:** For the fiscal year 2018, the Foundation received cash of \$ 4,650,667 derived from interest and dividend income as well as received cash of \$ 185,568 from interest income derived from the direct finance type lease (Note 10). Total supplemental cash flows received for fiscal year 2018 were \$ 4,836,235.

For the fiscal year 2017, the Foundation received cash of \$ 3,882,278 derived from interest and dividend income as well as received cash of \$ 184,601 from interest income derived from the direct finance type lease (Note 10). Total supplemental cash flows received for fiscal year 2017 were \$ 4,066,879.

**Cash Outflow:** For the fiscal year 2018, the Foundation made interest payments of \$ 185,568 resulting from the certificates of participation (Note 10).

For the fiscal year 2017, the Foundation made interest payments of \$ 184,601 resulting from the certificates of participation (Note 10).

**Note 12 - Restricted Net Assets**

At June 30, 2018, temporarily restricted net assets consisted of cash, cash equivalents, pledges, receivables from unrestricted funds (see below), investments, funds held in trust by others, real property and improvements, collections, and other assets of \$ 146,020,419 less annuities payable and other liabilities and debt of \$ 10,162,194. Permanently restricted net assets consisted of pledges and investments of \$ 170,186,509.

**Note 12 - Restricted Net Assets (continued)**

At June 30, 2017, temporarily restricted net assets consisted of cash, cash equivalents, pledges, receivables from unrestricted funds (see below), investments, funds held in trust by others, real property and improvements, collections, and other assets of \$ 133,039,537 less annuities payable and other liabilities and debt of \$ 10,082,863. Permanently restricted net assets consisted of pledges and investment of \$ 166,139,466 less other payables of \$ 50.

These assets are restricted by donors for the following purposes for years ended 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Student financial support	\$ 28,684,841	\$ 25,681,451
Academic divisions	28,312,508	26,028,767
Faculty and staff support	22,960,338	20,875,994
Athletics	22,500,092	28,195,950
Plant, equipment and maintenance	19,521,681	9,957,009
Other	6,502,545	5,738,786
Research	4,176,374	3,450,257
Library resources	<u>3,199,846</u>	<u>3,028,460</u>
 Total temporarily restricted net assets	 \$ <u><u>135,858,225</u></u>	 \$ <u><u>122,956,674</u></u>
	<u>2018</u>	<u>2017</u>
Academic divisions	\$ 65,169,118	\$ 64,454,587
Student financial support	62,388,581	59,435,226
Faculty and staff support	36,226,014	36,174,864
Library resources	2,261,798	2,261,298
Research	1,785,356	1,752,966
Other	1,782,625	1,512,459
Plant, equipment and maintenance	<u>573,017</u>	<u>548,016</u>
 Total permanently restricted net assets	 \$ <u><u>170,186,509</u></u>	 \$ <u><u>166,139,416</u></u>

Amounts due to the Temporarily Restricted fund from the Unrestricted fund totaled \$ 420,500 at June 30, 2018 and \$ 560,667 at June 30, 2017. This is a return of fees, which began in fiscal year 2012, and is being paid to the endowed funds over the course of ten years at \$ 140,167 per year.

**Note 13 - In-Kind Transactions**

The Foundation is supported in its goals by the University's Division of Community Engagement, Development Department. Support from the University includes office space, equipment and funding for operating expenses and salaries for advancement personnel who are critical in the operations of the Foundation. The Foundation has estimated the cost of operational support from the University to be approximately \$ 5,267,000 in 2018 and \$ 4,520,000 in 2017. This support is reported on the statements of activities as contributions and expenses.

### Note 13 - In-Kind Transactions (continued)

The Foundation is a direct support organization of Florida Atlantic University, and as such transfers funds to support the academic programs, scholarships and salaries of faculty members on a monthly basis. At June 30, 2018 and 2017, the total amount due to the University was approximately \$ 3,948,000 and \$ 1,012,000, respectively, and is reflected in accounts payable and other liabilities in the accompanying statements of financial position.

### Note 14 - Related Party Transactions

**Florida Atlantic University:** The Foundation committed \$ 750,000 to the University in fiscal year 2018 for tuition waivers from earnings from the University Commons rent revenues (Note 9) and has a continuing commitment to provide First Generation funds for scholarships from University Commons rent revenues.

In fiscal year 2011, the Florida Atlantic University Finance Corp (FAUFC), a separate direct support organization of the University, entered into a loan agreement for the construction of an on-campus football stadium. The stadium hosted its first home game on October 15, 2011. Among other operating revenues of the stadium, the agreement requires that all revenues associated with priority and premium seating of the stadium are to be pledged toward this credit facility. During the years ended June 30, 2018 and 2017, the Foundation collected approximately \$ 222,000 and \$ 410,000 of priority seating revenues. In compliance with the loan agreement, the Foundation transferred these pledged revenues to the lending financial institution on a monthly basis. As of June 30, 2017, approximately \$ 14,000 was included in restricted cash (Note 1(m)) and in accounts payable and other liabilities, representing June collections which were subsequently transferred to the lender. The Foundation records the gift portion, associated with seating fees, as contribution revenue; however, proceeds related to goods and services of the stadium are treated as agency transactions not affecting the Statements of Activities.

The Foundation is neither a borrower nor a guarantor on this infrastructure loan. The University retains the obligation to fulfill commitments entered into in connection with the sales of goods and services, including sales tax.

During the year ended June 30, 2018, the Foundation entered into an agreement with the University to contribute \$ 5 million, over a two-year period, to support University construction costs and operational expenses. At June 30, 2018, the total amount due to the University was \$ 2.5 million and is reflected in accounts payable and other liabilities in the accompanying statements of financial position.

During the year ended June 30, 2018, the Foundation funded to the University approximately \$ 11.1 million, for the construction of a University complex and facility. As of June 30, 2018, the University had expenditures of approximately \$ 5.4 million relating to construction costs and is reflected in funding of University's infrastructure in the accompanying statements of activities. Additionally, the remaining \$ 5.7 million is reflected in other assets in the accompanying statements of financial position.

**Board of Directors:** The Foundation adheres to a conflict of interest policy with the board members. During the course of business, the Foundation may purchase supplies and/or services at fair market value from companies which have affiliations with the Foundation's board members. All such transactions are undertaken in the best interest of the Foundation and follow established procedures. In the interest of full disclosure, the following business transactions existed as of June 30, 2018:

**Note 14 - Related Party Transactions (continued)**

A board member is the owner and President of a general contractor firm, who pursues construction contracts with the University. The Foundation has an affinity contract with a major financial institution in which a board member is a Senior Vice President. The affinity contract was in place prior to the Senior Vice President becoming a board member. Several trusts are also managed by the same major financial institution. A board member is an Assistant Dean with the Charles E. Schmidt College of Medicine and receives no compensation for his work; this member also is on the Board of a local hospital, which has partnerships with the University. A board member is the CEO of a corporation, which may negotiate with the University in the normal course of business. A board members' spouse is the CEO of a local hospital, which has a partnership with the University. A board members' spouse provides consulting services to the University and Foundation, when needed. Several board members are also volunteer advisory board members to the FAU Colleges and/or the Alumni Association.

**Note 15 - Leave Liability**

Liabilities are generally recorded for annual leave payments that would be paid at the resignation or termination of an employee. During the year ended June 30, 2018, the University assumed all liabilities and responsibilities for all Foundation related employees; where as the Foundation would be no longer required to record and satisfy any related liabilities. For the year ended June 30, 2017, a liability of approximately \$ 280,000 was recorded for the leave payments that the Foundation would have been obligated to reimburse the University.

**Note 16 - Harbor Branch Oceanographic Institute Foundation**

The University acquired Harbor Branch Oceanographic Institute (HBOI) on January 1, 2008. HBOI functions as a college of the University and is the northernmost campus of the University. HBOI is supported by its separate foundation, the Harbor Branch Oceanographic Institute Foundation, (HBOIF). The HBOIF was certified as an official Direct Support Organization (DSO) of the University in May 2008.

The Foundation had agreed with the HBOIF to expand operations and provide for the administration of HBOIF funds and fundraising activities. The HBOIF continues to operate to take in revenue from license plates and administer its endowment, but the majority of all donations continue to be solicited and collected by the Foundation.

Funds managed on behalf of HBOIF are recorded on the Foundation's Statements of Financial Position as a "liability to resource provider." The amount of this liability at June 30, 2018 and 2017 was approximately \$ 26,000.

**Note 17 - Commitments and Contingencies**

The Foundation may be involved in litigation, audits and tax examinations which arise in the normal course of operations. Management believes that the amount of liability resulting from such activities, if any, would not materially impact the Foundation. At June 30, 2018, management did not know of any pending or potential litigation, audits or tax examinations against the Foundation.



**Note 17 - Commitments and Contingencies (continued)**

The Foundation previously entered into an affinity agreement with a bank, whereby the bank would solicit credit card business from the FAU Alumni Association's "members" and in return pay royalties. The contract allows for annual advances of \$ 120,000, which is established as deferred revenue until the revenue is earned. Deferred revenues for the year ended June 30, 2018 and 2017, as a result of this arrangement, were approximately \$ 174,000 and \$ 221,000, respectively.

## SUPPLEMENTARY INFORMATION

**Florida Atlantic University Foundation, Inc.  
 Schedule of Board of Directors and  
 Executive Committee Members  
 June 30, 2018**

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At June 30, 2018, the membership of the Foundation's Board of Directors was comprised of the following individuals, along with their respective terms:

MEMBER	TERM EXPIRES
Bruce H. Allen '71*	June 2021
Zach Berg '97, '00	June 2019
Cheryl Budd	June 2019
Phyllis Gladstein	June 2023
Michael Kaufman	June 2021
Stewart I. Martin '89**	June 2021
Patricia A. McKay '78***	June 2022
Melissa Miller '94, '96, '04	June 2019
Michael Miller	June 2020
William E. Morris	June 2020
Maurice Plough Jr.	June 2019
Brian Poulin	June 2021
Sally Rowley -Williams	June 2021
Dr. Marta Rendon	June 2020
Robert Robes '93	June 2020
Edward Sabin**	June 2021
Steve Schmidt	June 2020
Sue Skemp	June 2022
Jay Weinberg	June 2019
Cheryl Wilke '88	June 2021
Dr. Lorna Sohn Williams	June 2020
General Richard Yules, M.D.**	June 2019

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**LIMITED PURPOSE DIRECTORS**

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Keith Arnold (Philanthropy)	June 2019
Howard R. Cooper (Investment)	June 2020
Michael J. Crowley '80, '81 (Investment)	June 2020
Richard Etner, Jr., SIOR (Real Estate, Philanthropy)	June 2022
Dale Gregory (Finance)	June 2021
Raymond Monteleone '92* (Audit, Finance)	June 2021
Steven Oyer (Investment)	June 2020
Jay Shein (Investment)	June 2020
John Zells (Development, Real Estate)	June 2019

**Florida Atlantic University Foundation, Inc.  
 Schedule of Board of Directors and  
 Executive Committee Members  
 (Continued)  
 June 30, 2018**

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**EX-OFFICIO MEMBERS**

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Dr. John Kelly	University President
Danita Nias**	CEO FAU Foundation
Seth Emmer	Lifelong Learning Representative
Terry Fedele	Chairman, Caring Hearts Auxiliary
Emily Lawless '14	Student Government President
Pablo Paez '03 '08	FAU Alumni Association
Daniel Cane*	Board of Trustees Representative
Kevin Wagner	Faculty Senate President
Kathryn Rendo	Lifelong Learning Representative

**EMERITUS**

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Kathleen Assaf	Director Emeritus
Ronald Assaf	Director Emeritus
Eleanor R. Baldwin	Director Emeritus
Herman Becker	Director Emeritus
Dr. Ira J. Gelb*	Director Emeritus
Marjorie Pearlson	Director Emeritus
Lois Pope	Director Emeritus
Brian Utley	Director Emeritus
Elizabeth S. Zinman	Director Emeritus

\* Indicates members of the Executive Committee

\*\* Indicates Officer

\*\*\* Indicates the Chairman of the Foundation's Board of Directors

**Florida Atlantic University Foundation, Inc.**  
**Schedule of Expenditures of State Financial Assistance**  
**For the Year Ended June 30, 2018**

<u>Grantor/Project Title</u>	<u>State CSFA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<b>State Agency Name:</b>			
Direct Project:			
State of Florida,			
Department of Education -			
University Major Gifts Program	48.074	-	\$ 2,928,330
State of Florida,			
Department of Highway Safety			
and Motor Vehicles -			
Specialty License Plate			
Fund	76.031	-	<u>70,180</u>
Total expenditures of state financial assistance			\$ <u><u>2,998,510</u></u>

**Note 1 - Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") includes the state project activity of Florida Atlantic University Foundation, Inc. (the "Foundation") under programs of the state government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Section 215.97, Florida Statutes and Chapter 10.650, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Foundation it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation. Expenditures reported on the Schedule are reported on the accrual basis of accounting.

**Note 2 - Contingency**

Program expenditures are subject to audit and adjustment by the grantor agencies. If any expenditures were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Foundation. In the opinion of management, all program expenditures included on the accompanying Schedule are in compliance with the terms of the grant agreements and applicable laws and regulations.

**Note 3 - Interest**

No funds, including interest earned on such funds, are due back to the state government.

# INTERNAL CONTROLS AND COMPLIANCE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Florida Atlantic University Foundation, Inc.  
Boca Raton, Florida

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 Florida Atlantic University Foundation, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2018.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
November 1, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

To the Board of Directors  
Florida Atlantic University Foundation, Inc.  
Boca Raton, Florida

**Report on Compliance for Each Major State Project**

We have audited the Florida Atlantic University Foundation, Inc.'s (a nonprofit organization) (the "Foundation") compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on the Foundation's major state project for the year ended June 30, 2018. The Foundation's major state project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state projects.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Foundation's major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the Foundation's compliance.

**Opinion on the Major State Project**

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended June 30, 2018.

## Report on Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

### Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

*Keefe McCullough*

KEEFE McCULLOUGH

Fort Lauderdale, Florida  
November 1, 2018

**Florida Atlantic University Foundation, Inc.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018**

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**A. Summary of Auditor’s Results**

1. The auditor’s report expresses an unmodified opinion on the financial statements of Florida Atlantic University Foundation, Inc. (the “Foundation”).
2. No material weaknesses relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Foundation were disclosed during the audit.
4. No material weaknesses relating to the audit of the major state project are reported in the Independent Auditor’s Report on Compliance for Each Major State Project and on Internal Control Over Compliance Required by Chapter 10.650, *Rules of the Auditor General*.
5. The auditor’s report on compliance for the major state project for the Foundation expresses an unmodified opinion.
6. There are no audit findings relative to the major state project for the Foundation reported in Part C of this schedule.
7. The project tested as a major project is as follows:

<u>State Project</u>	<u>State CSFA No.</u>
State of Florida, Department of Education - University Major Gifts Program	48.074

8. The threshold for distinguishing Type A and Type B projects was \$ 300,000.

**B. Findings - Financial Statements Audit**

No matters are reported.

**C. Findings and Questioned Costs - Major State Financial Assistance Project Audit**

No matters are reported.

**D. Other Issues**

1. A separate management letter was not issued because there were no findings required to be reported in the management letter.
2. No summary schedule of prior audit findings is required because there were no prior audit findings related to state projects.
3. No corrective action plan is required because there were no findings reported under the Florida Single Audit Act.