

FAU FINANCE CORPORATION

Item: 3

BOARD OF DIRECTORS

Thursday, December 9, 2010

SUBJECT: REVIEW OF THE FAU FINANCE CORPORATION FINANCIAL REPORT FROM THE DATE OF INCEPTION (AUGUST 12, 2009) THROUGH JUNE 30, 2010.

PROPOSED BOARD ACTION

Information Only.

BACKGROUND INFORMATION

The audited financial statements of the Florida Atlantic University Finance Corporation (FAUFC) are presented to keep the Board of Directors informed about the financial status of the FAUFC. The audited financial statements are for the period ending June 30, 2010.

Supporting Documentation: FAUFC Financial Report 2010.

Presented by: Mr. Dennis Crudele, Chair

Phone: 561-297-3266

FAU Finance Corporation

A component unit of Florida Atlantic University

Financial Report
From the date of inception (August 12, 2009) through June 30, 2010

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Independent Auditor's Report

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

We have audited the accompanying statement of financial position of FAU Finance Corporation (the "Corporation"), a direct support organization and component unit of Florida Atlantic University, as of June 30, 2010 and the related statement of activities and cash flows from the date of inception (August 12, 2009) through June 30, 2010. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FAU Finance Corporation as of June 30, 2010, and the changes in its net assets and its cash flows from the date of inception (August 12, 2009) through June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Fort Lauderdale, Florida
November 29, 2010

FAU Finance Corporation

Statement of Financial Position
June 30, 2010

Assets	
Cash with fiscal agent - construction fund	\$ 73,444,706
Cash with fiscal agent - debt service fund	11,273,000
Due from IRS	934,873
Prepaid land lease and others	12,281,371
Construction in progress	25,521,137
Deferred charges – bond issuance costs, net	1,497,639
Cash with fiscal agent - reserve fund	10,980,605
Total assets	<u>\$ 135,933,331</u>
Liabilities and Net Assets	
Accounts payable and accrued expenses	7,400,333
Due to University	4,218,386
Bonds payable	124,295,000
Unamortized premium, net	745,428
Total liabilities	<u>136,659,147</u>
Commitment	-
Net Assets:	
Unrestricted net deficit	(725,816)
Total net assets (deficit)	<u>(725,816)</u>
Total liabilities and net assets	<u>\$ 135,933,331</u>

See Notes to Financial Statements.

FAU Finance Corporation

Statement of Activities

Date of Inception (August 12, 2009) through June 30, 2010

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Changes in Unrestricted Net Assets:	
Interest income	\$ 564,335
Total revenue	<u>564,335</u>
Operating Expenses:	
Rent expense	133,333
Interest expense	2,074,280
Other expenses	17,411
Total operating expenses	<u>2,225,024</u>
Non-Operating Revenue:	
IRS interest credit	934,873
Total non-operating revenue	<u>934,873</u>
Decrease in unrestricted net assets	(725,816)
Net assets:	
Beginning	-
Ending	<u>\$ (725,816)</u>

See Notes to Financial Statements.

FAU Finance Corporation

Statement of Cash Flows

Date of Inception (August 12, 2009) through June 30, 2010

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Cash Flows From Operating Activities	
Decrease in net assets	\$ (725,816)
Adjustments to reconcile net deficit to net cash used in operating activities:	
Changes in assets and liabilities:	
Increase in land lease and other expenses	(12,281,371)
Net cash used in operating activities	<u>(13,007,187)</u>
Cash Flow From Investing Activities	
Acquisition of construction in progress	(14,837,291)
Net cash used in investing activities	<u>(14,837,291)</u>
Cash Flow From Financing Activities	
Proceeds from bonds	124,295,000
Bond premium	745,428
Payment of bond issuance cost	(1,497,639)
Net cash provided by financing activities	<u>123,542,789</u>
Net increase in cash	<u>95,698,311</u>
Cash	
Beginning	-
Ending	<u>\$ 95,698,311</u>
Classified as:	
Cash with fiscal agent - construction fund	\$ 73,444,706
Cash with fiscal agent - debt service fund	11,273,000
Cash with fiscal agent - reserve fund	10,980,605
	<u>\$ 95,698,311</u>
Noncash investing and financing activities:	
Due to university for acquisition of construction in progress	\$ 4,218,386
Accounts payable for the acquisition of construction in progress	7,400,333
Due from IRS	934,873

See Notes to Financial Statements.

FAU Finance Corporation

Notes to Financial Statements

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

On August 12, 2009, the FAU Finance Corporation was incorporated as a not-for-profit organization under the laws of the State of Florida. The Corporation is a direct support organization and a component unit of Florida Atlantic University (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. The governing body of the Corporation is its Board of Directors (the "Board"). The Board is comprised of a maximum of five (5) directors who are responsible for managing, supervising and controlling the business, property, affairs and funds of the Corporation.

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

Basis of presentation: The Corporation presents its financial statements in accordance with the reporting requirements for Not-for-Profit Organizations. The Corporation is required to classify its net assets, revenues and expenses, gains and losses based on the existence or absence of donor imposed restrictions. The Corporation is also required to display each of the three classes of net assets, unrestricted, temporarily restricted and permanently restricted net assets, in the statement of financial position and that the amounts of the change in each of the three classes of net assets, if applicable, be disclosed. The Corporation has no temporarily or permanently restricted net assets. The Corporation's functional expenses consist of \$2,207,613 relating to program and \$17,411 relating to general and administration.

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

Cash: For purposes of the statements of cash flows, cash includes the State of Florida special purpose investments account (money markets) and cash on hand at the statement date. The funds are invested in treasuries and can be withdrawn at any time and are reported at cost. The Corporation has not experienced any losses and believes it is not exposed to any significant risk with respect to cash.

Prepaid land lease and other expenses: The Corporation prepaid to the University the sum of \$12,000,000 which represents the total sum for the ground rent of an Unimproved facility site located on the Boca Raton Campus of the University with the intent to construct student housing facilities and related surface parking.

Construction in progress: Costs related to the construction of the buildings, including interest costs (interest expense, net of IRS interest credit) associated with the construction financing are capitalized. The buildings will not be depreciated until the assets are placed in service.

Deferred charges – bond issuance costs: Bond issuance costs are amortized over the life of the bond using the straight-line method.

Bond premium: The bond premium is amortized using the effective interest method over the life of the bond.

Revenue recognition: Revenue is recognized when the underlying event has occurred.

FAU Finance Corporation

Notes to Financial Statements (Continued)

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

Income taxes: The Corporation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes. Therefore, the financial statements reflect no provision for income taxes.

Management evaluated the Corporation's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Subsequent events: Management has evaluated subsequent events through November 29, 2010, which represents the date that these financial statements were available to be issued.

Note 2. Due from IRS

The Corporation is entitled to receive a direct payment for refundable credit from the IRS pursuant to the provisions of the Build America Bond ("BAB") program. The credit is due semi-annually consistent with the Corporation's debt service payment schedule. See note 3.

Note 3. Bonds Payable

Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, and Series 2010B Taxable Bonds were issued in March 2010. The Series 2010A – Tax-Exempt Bonds amount to \$8,475,000 and mature beginning in July 2013 through 2016, with interest rates ranging from 2.18% through 3.44%. The Series 2010A – taxable BAB Bonds amount to \$112,455,000 and mature beginning in July 2017 through 2021, with interest rates ranging from 5.48% through 6.45%. The Series 2010B Taxable Bonds amount to \$3,365,000 and mature beginning in July 2013 through 2036, with an interest rate of 7.39%. Interest on the bonds is due semiannually on the first of July and January beginning July 1, 2010. Upon completion of construction, the Corporation is required to establish and collect fees, rentals and other charges from students, faculty members and others, in order for the net revenues available for debt service to be sufficient to cover at least 125% of the amount equal to the annual bond service requirement. In accordance with the trust indenture agreement, the Corporation is required to establish and maintain a Debt Service fund (includes a capitalized interest account), a Cost of Issuance fund, a Construction fund, a Reserve fund, a Subordinate Debt Service fund and a Repair and Replacement Fund.

FAU Finance Corporation

Notes to Financial Statements (Continued)

Note 3. Bonds Payable (Continued)

The annual debt service requirements to maturity for the revenue bonds payable are as follows:

Year Ending June 30,	Principal
2011	\$ -
2012	-
2013	-
2014	1,610,000
2015	2,010,000
2016-2020	13,750,000
2021-2025	16,965,000
2026-2030	21,360,000
2031-2035	27,175,000
2036-2040	33,760,000
2041	7,665,000
Total	<u>\$ 124,295,000</u>

Note 4. Operating Lease Commitments

The Corporation leases land under a non-cancelable operating lease agreement dated March 4, 2010 with Florida Atlantic University with terms extending through July 2040. The lease was prepaid in March 2010 by the Corporation to Florida Atlantic University for the sum of \$12,000,000 which represents the total sum for the ground rent of an unimproved Facility site located on the Boca Raton Campus of the University upon which the Corporation will construct student housing facilities and related surface parking. The lease is being amortized to rent expense over the life of the lease. The total rental expense for the year ended June 30, 2010 was \$133,333.

Note 5. Related Party Transactions

Certain construction costs are paid for by the University and then reimbursed by the Corporation. The balance due to Florida Atlantic University related to these costs at June 30, 2010 amounted to \$4,218,386. The University provides personnel and administrative support to the Corporation to aid in its operation. Amount related to this are not material and are not recognized in these financial statements.

Note 6. Subsequent Event

In October 2010, the football stadium project was approved by the Board of Trustees. The 2010 series revenue bonds issued for \$44,500,000 for the construction of the stadium closed on November 24, 2010. The bonds mature in 2040, with an interest rate of 5.78%. Interest on the bonds is due semiannually on the first of July and January beginning July 1, 2011.

Note 7. Commitment

Construction Commitments

At June 30, 2010, the Corporation has active construction projects that amount to approximately \$37 million.