# FAU FINANCE CORPORATION

**Item: 4**

## BOARD OF DIRECTORS

**January 20, 2012**

**SUBJECT: REVIEW OF THE FAU FINANCE CORPORATION FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2011.**

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### 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 fiscal year ending June 30, 2011.

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**Supporting Documentation:** FAUFC Financial Report 2011.

**Presented by**: Mr. Dennis Crudele, Executive Director

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

Financial Report
For the Year Ended June 30, 2011

**Contents**

McGladrey

**Independent Auditor's Report**

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

We have audited the accompanying financial statements of FAU Finance Corporation (the "Corporation"), a direct support organization and component unit of Florida Atlantic University, as of June 30, 2011 as listed in the table of contents. 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. 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 respective financial position of the Corporation as of June 30, 2011, and the respective changes in financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Fort Lauderdale, Florida
October 14, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the FAU Finance Corporation, a component unit of Florida Atlantic University (thereafter University) for the fiscal year ended June 30, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the FAU Finance Corporation's management. Pursuant to GASB Statement No. 35, the FAU Finance Corporation's financial report includes three basic financial statements: the balance sheet; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

## FINANCIAL HIGHLIGHTS

The FAU Finance Corporation was incorporated on August 12, 2009 as a not-for-profit organization. It was established to assist the activities and educational purposes of the University by providing finance and investment –related assistance in connection with the acquisition or construction of capital or other University projects. In November 2010 the FAU Finance Corporation issued an additional $44.5 million of Capital Improvement Revenue Bonds to finance the construction of a 30,000 seat stadium. The FAU Finance Corporation's assets totaled $166.5 million at June 30, 2011. This balance reflects $68.7 million of deposits with a fiscal agent held in connection with the sale of bonds. The FAU Finance Corporation's revenues totaled $5.4 million for the 2010-11 fiscal year, representing earnings on funds held with fiscal agent and IRS interest credits. All funds held with fiscal agent are invested in the State of Florida Special Purpose Investment Account (SPIA). Expenses totaled $24.6 million for the 2010-11 fiscal year, representing interest paid from the capitalized interest funds held with fiscal agent and contributions made to the University in connection with the stadium facility.

## REQUESTS FOR INFORMATION

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

**FAU Finance Corporation**

**Balance Sheet**
**June 30, 2011**

| | |
|---|---|
| **Assets** | |
| Current Assets: | |
| Cash in bank | $ 315 |
| Cash with fiscal agent – restricted | 42,098,870 |
| **Total current assets** | 42,099,185 |
| | |
| Noncurrent Assets: | |
| Cash with fiscal agent – restricted | 26,579,037 |
| Due from University | 181,982 |
| Prepaid land lease and other | 11,549,608 |
| Capital assets, on leased land | 84,488,631 |
| Deferred charges – bond issuance costs, net | 1,624,206 |
| **Total noncurrent assets** | 124,423,464 |
| **Total assets** | $ 166,522,649 |
| | |
| **Liabilities and Net Assets** | |
| Current Liabilities: | |
| Interest payable | $ 6,207,617 |
| Due to University | 9,494,619 |
| Advance from University | 1,262,041 |
| **Total current liabilities** | 16,964,277 |
| | |
| Long-term liabilities: | |
| Bonds payable | 168,795,000 |
| Unamortized premium, net | 720,301 |
| **Total long-term liabilities** | 169,515,301 |
| **Total liabilities** | 186,479,578 |
| | |
| Commitment | |
| | |
| Net Assets: | |
| Invested in capital assets, net of related debt | - |
| Unrestricted net deficit | (19,956,929) |
| **Total net assets** | (19,956,929) |
| **Total liabilities and net assets** | $ 166,522,649 |

See Notes to Financial Statements.

**FAU Finance Corporation**

**Statement of Revenue, Expenses and Changes in Net Assets**
**For the Year Ended June 30, 2011**

| | |
|---|---|
| Operating Expenses: | |
| Rent expense | $ 400,000 |
| Other expenses | 64,895 |
| **Total operating expense** | 464,895 |
| Nonoperating Revenues (Expenses): | |
| Athletic fees | 179 |
| IRS interest credit | 3,419,172 |
| Interest income | 1,940,870 |
| Interest expense | (7,037,446) |
| Contributions to University | (17,088,993) |
| **Nonoperating loss** | (18,766,218) |
| **Changes in net assets** | (19,231,113) |
| Net assets (defcict): | |
| Beginning | (725,816) |
| Ending | $ (19,956,929) |

See Notes to Financial Statements.

**FAU Finance Corporation**

**Statement of Cash Flows**
**For the Year Ended June 30, 2011**

| | |
|---|---|
| Cash Flow From Operating Activities | |
| Cash paid to suppliers | $ (64,895) |
| Cash received from University | 149,781 |
| **Net cash provided by operating activities** | 84,886 |
| Cash Flow From Capital and Related Financing Activities | |
| Acquisition of construction in progress | (53,364,444) |
| Amortization Bond premium | (25,127) |
| Payment of interest | (8,875,534) |
| **Net cash used by capital and related financing activities** | (62,265,105) |
| Cash Flow From Non-capital and Related Financing Activities | |
| Contributions to the University | (10,851,699) |
| Proceeds from bonds | 44,500,000 |
| Payment of interest | (1,564,693) |
| Payment of bond issuance cost | (126,568) |
| Athletic fees | 179 |
| Advance from University | 1,262,041 |
| **Net cash provided by Non-capital and Related Financing Activities** | 33,219,260 |
| Cash Flow From Investing Activities | |
| Interest received | 1,940,870 |
| **Net decrease in cash** | (27,020,089) |
| Cash | |
| Beginning | 95,698,311 |
| Ending | $ 68,678,222 |
| Classified as: | |
| Cash with fiscal agent – construction fund | 41,617,235 |
| Cash with fiscal agent – debt service fund | 14,735,844 |
| Cash with fiscal agent – reserve fund | 11,251,161 |
| Cash with fiscal agent – revenue fund | 1,073,667 |
| Cash in Bank | 315 |
| | $ 68,678,222 |
| Reconciliation of Operating loss to Net Cash Provided by Operating Activities: | |
| Net operating loss | $ (464,895) |
| Decrease in land lease and other | 731,763 |
| Increase in due from University | (181,982) |
| **Net cash provided by operating activities** | $ 84,886 |
| Supplemental Disclosures of Noncash Investing and Financing Activities | |
| Due to University for acquistion of construction in progress | $ 2,200,269 |
| Capitalized interest expense | 3,402,781 |
| Supplemental Disclosures of Non-capital and Related Financing Activities | |
| Contributions due to University | 6,237,294 |

See 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 of the Florida Atlantic University (the "University"), a part of the State university system of public universities. The Corporation has been organized to assist the activities and educational purposes of the University by providing finance and investment- related assistance in connection with the acquisition or construction of capital or other University projects, including but not limited to the structuring of debt relating thereto. The governing body of the Corporation is its Board of Directors (the "Board"). The Board is comprised of a maximum of five (5) directors who are responsible for managing, supervising and controlling the business, property, affairs and funds of the Corporation. The University's Board of Trustees can unilaterally allow for a decertification of the Corporation and cause for dissolution of the Corporation, resulting in all assets reverting to the University. Consequently, the Corporation meets the criteria for inclusion in the University's reporting entity as a component unit.

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

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

The accounting and financial reporting treatments applied to a fund are determined by its measurement focus. The Corporation's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The corporation is in the initial stage of constructing a dorm and stadium facilities that will be the primary source of revenues. The Corporation's policy is to use restricted resources first, then unrestricted resources when both are available for use to fund activity.

**Accounting estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

**Restricted assets:** Assets required to be segregated by contractual obligations are identified as restricted assets. Restricted assets at June 30, 2011, represent money required to be segregated by the Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, Series 2010B –Taxable Bonds and, the Series 2010 – Taxable Capital Improvement Revenue Bonds (Football Stadium Project) contractual obligations.

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

**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.

**Prepaid land lease and other:** In 2010 the Corporation prepaid to the University the sum of $12,000,000 which represents the total sum for the ground rent of an unimproved facility site located on the Boca Raton Campus of the University on which student housing facilities and related surface parking was constructed. The unamortized prepaid lease balance at June 30, 2011 was $11,519,608.

**Construction in progress:** Costs related to the construction of the student housing facility, including interest costs associated with construction financing are capitalized. The buildings will not be depreciated until the assets are placed in service. Interest expense of $3,402,781 was capitalized.

**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.

**Advance from University:** During the year, stadium seating fees and ticket sales were collected in advance by the University for upcoming events to be hosted in the stadium facility. The amounts were remitted to the Corporation and recorded as an advance from University at year end. The amounts will be used by the Corporation to make future debt service payments on the Series 2010 – Taxable Capital Improvement Revenue Bonds (Stadium Bonds).

**Expenses:** Operating expenses are rental expenses and administrative expenses of the Corporation. All other expenses, including contributions made to the University, are reported as nonoperating expenses. Contributions made to the University were used for construction of the stadium facility assets which is financed by the Series 2010 – Taxable Capital Improvement Revenue Bond proceeds.

## Note 2. Cash and Investments

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

**Note 2. Cash and Investments (Continued)**

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

| Account | Noncurrent | Current | Total |
|---|---|---|---|
| Construction fund | $ 11,786,496 | $ 29,830,739 | $ 41,617,235 |
| Debt service fund | 3,541,380 | 11,194,464 | 14,735,844 |
| Reserve fund | 11,251,161 | - | 11,251,161 |
| Revenue fund | - | 1,073,667 | 1,073,667 |
| **Total** | $ 26,579,037 | $ 42,098,870 | $ 68,677,907 |

**Interest rate risk:** Interest rate risk is the risk that changes in the market interest rate will adversely affect the fair value of an investment. The Corporation's investment policy does have a provision which limits investment maturity as a mean of managing exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair value of the Corporation's investments and market interest rate fluctuations is provided by the following table that shows the distribution of the Corporation's investments by maturity at June 30, 2011:

| Investment Type | Fair Value | Investment Maturity (In Years) Less Than 1 year |
|---|---|---|
| State of Florida Special Purpose Investment Account – Money Market Funds | $ 68,677,907 | $ 68,677,907 |

**Credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Corporation's investment policy limits credit risk by requiring all fixed-income securities to be rated by Moody's as AAA or better. Investments in the State of Florida Special Purpose Investment funds are not rated by a nationally recognized statistical rating agency as of June 30, 2011.

**Custodial credit risk:** Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. It is the Corporation's policy to require that time deposits in excess of FDIC insurable limits be secured by collateral or private insurance to protect public deposits in a single financial institution if it were to default. Under Florida statutes, Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution, eligible collateral equal to between 50% and 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, corporate bonds) to public deposits is dependent upon the depository institution's financial history and its compliance with Florida Statutes, Chapter 280.

**Note 2. Cash and Investments (Continued)**

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

**Note 3. Capital Assets, on Leased Land**

The following is a summary of changes in capital assets for the year ended June 30, 2011:

| Asset | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Construction in progress | $ 25,521,137 | $ 58,967,494 | $ - | $ 84,488,631 |

**Note 4. Bonds Payable**

Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, and Series 2010B Taxable Bonds were issued in March 2010 for the Innovation Project. The Series 2010A – Tax-Exempt Bonds total $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 total $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 total $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.

Series 2010 – Taxable Capital Improvement Revenue Bonds were issued November 2010 in the amount of $44,500,000 to finance the construction of a 30,000 seat stadium facility, parking improvements, and other associated athletic and onsite and offsite infrastructure improvements and projects. The Bonds shall bear interest at an interest rate per annum equal to 5.78% and mature in 2040. Interest shall be payable semi-annually on the first of July and January beginning July 1, 2011. Bondholders have the option to require that the Corporation purchase the bonds on the Initial Purchase Date of October 17, 2017 or agree to an Extended Purchase Date which cannot exceed three years from the Initial Purchase Date or each Extended Purchase Date. The interest rate on the Bonds is subject to adjustment on each Extended Purchase Date and will be determined by taking the 3-year LIBOR swap rate as of the applicable Extended Purchase Date and adding 336 basis points. The Extended Purchase Date interest shall be calculated on the basis of actual number of days elapsed in a 360 day year. Upon completion of construction, the Corporation is required to collect and have available net pledge revenues to be sufficient to cover at least 125% of the amount equal to the annual bond service requirement.

In accordance with trust indenture agreements for the bonds above, the Corporation established and maintains a Debt Service fund (includes a capitalized interest account), a Cost of Issuance fund, a Construction fund, a Reserve fund, a Subordinate Debt Service fund and a Repair and Replacement Fund for each bond issuance.

## Note 4. Bonds Payable (Continued)

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

| Debt | Beginning Balance | Additions | Repayments | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds, Series 2010A Innovation Village | $ 120,930,000 | $ - | $ - | $ 120,930,000 | $ - |
| Bonds, Series 2010B Innovation Village | 3,365,000 | - | - | 3,365,000 | - |
| Bonds, Series 2010 Stadium | - | 44,500,000 | - | 44,500,000 | - |
| | $ 124,295,000 | $44,500,000 | $ - | $ 168,795,000 | $ - |

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

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2012 | $ - | $ 11,754,857 | $ 11,754,857 |
| 2013 | - | 11,490,502 | 11,490,502 |
| 2014 | 2,535,000 | 11,456,032 | 13,991,032 |
| 2015 | 2,970,000 | 11,334,525 | 14,304,525 |
| 2016 | 3,455,000 | 11,175,299 | 14,630,299 |
| 2017-2021 | 19,965,000 | 52,808,767 | 72,773,767 |
| 2022-2026 | 24,425,000 | 46,027,203 | 70,452,203 |
| 2027-2031 | 30,450,000 | 36,823,591 | 67,273,591 |
| 2032-2036 | 38,215,000 | 24,958,781 | 63,173,781 |
| 2037-2041 | 46,780,000 | 10,012,239 | 56,792,239 |
| Total | $ 168,795,000 | $ 227,841,796 | $ 396,636,796 |

## Note 5. Operating Lease Commitments

The Corporation leases land under a noncancelable 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 constructed student housing facilities and related surface parking. The lease is being amortized to rent expense over the life of the lease. The total rental expense for the year ended June 30, 2011 was $400,000.

## Note 6. Stadium Operating Agreement

In November 2010 the University and the Corporation entered into an operating agreement whereby the Corporation issued Series 2010 – Taxable Capital Improvement Revenue Bonds in the amount of $44,500,000 to finance the acquisition, installation and construction a 30,000 seat stadium facility (parking improvements, and other associated athletic and onsite and offsite infrastructure improvements and projects) (thereafter "facility") and the University agreed to operate and manage the facility for use as an athletic stadium to generate revenue to service the related debt. Under the terms of the operating agreement the University will collect and deposit all pledged revenues from operations of the facility in specified accounts as defined in the bond trust indenture agreement. The operating agreement is effective as of November 2010 and will terminate on the date all obligations of the Corporation and University under the bond trust indenture agreement have been fulfilled which is expected to be July 2040 (maturity date of the bonds).

## Note 7. Related Party Transactions

Due to University

Certain construction and related costs are paid for by the University and then reimbursed by the Corporation. The balance due to Florida Atlantic University related to these costs at June 30, 2011 amounted to $9,494,619. The University provides personnel and administrative support to the Corporation to aid in its operation. The amounts related to this are not material and are not recognized in these financial statements.

Due from University

At June 30, 2011, the University owed the Corporation $181,982 for amounts collected on behalf of the Corporation.

Advance from University

The Corporation received advances from the University in the amount of $1,262,041. The amounts advanced will be used by the Corporation to make future debt service payments on the Series 2010 – Taxable Capital Improvement Revenue Bonds (see Note 1).

## Note 8. Commitments

Construction Commitment

At June 30, 2011, the Corporation has active construction projects related to the dorm and stadium facilities that amounted to approximately $13 million.