

Florida Atlantic University  
Research Corporation, Inc.

(A Component Unit of  
Florida Atlantic University)

Financial Statements  
For the Year Ended June 30, 2019

**Florida Atlantic University  
Research Corporation, Inc.**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Florida Atlantic University Research Corporation, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida Atlantic University Research Corporation, Inc. (the "Corporation"), a direct support organization and component unit of Florida Atlantic University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2019, and the changes in its financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Corporation's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements, in our report dated October 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Corporation'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 Corporation's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida  
October 28, 2019

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

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the Florida Atlantic University Research Corporation, Inc., a direct support organization and component unit of Florida Atlantic University (thereafter "University") for the fiscal years ended June 30, 2019 and 2018, and should be read in conjunction with the financial statements and notes thereto. This overview is required by the 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 Florida Atlantic University Research Corporation, Inc.'s (the "Corporation") management. Pursuant to GASB Statement No. 35, the Corporation's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

### **FINANCIAL HIGHLIGHTS**

The Corporation is a Florida not-for-profit corporation established by the University in 1990 as a direct support organization. The Corporation was organized for the purpose of promoting, encouraging, and providing assistance to the research activities of the University's faculty, staff, and students. The Corporation has been granted certain rights and responsibilities for the development, protection and commercial application of defined intellectual property. The Corporation is entitled to a portion of the royalties and/or license fees associated with the intellectual property for the benefit of the University. The Board of Directors is the governing body of the Corporation.

The Corporation assets totaled approximately \$ 583,000 and \$ 580,000 at June 30, 2019 and 2018, respectively. Of these balances reflected, cash and investment represent the majority of the total asset values. The Corporation make-up of cash and investment contains funds invested in the State of Florida Special Purpose Investment Account (SPIA); which totaled approximately \$ 479,000 and \$ 496,000 at June 30, 2019 and 2018, respectively. The Corporation's total revenues totaled approximately \$ 353,000 and \$ 425,000 mostly representing royalties for the years ended June 30, 2019 and 2018, respectively. The Corporation's total expenses representing operating expenses associated with the direct operations of the Corporation totaled approximately \$ 285,000 and \$ 404,000 for the years ended June 30, 2019 and 2018, respectively.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Vice President, Financial Management – Division of Research, Florida Atlantic University Research Corporation, Inc., 777 Glades Road, Boca Raton, Florida 33431.

# FINANCIAL STATEMENTS

Florida Atlantic University Research Corporation, Inc.  
Statement of Net Position  
June 30, 2019  
(with comparative totals for June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
Current assets:		
Cash	\$ 83,648	\$ 81,048
Investments	479,358	496,033
Royalties, grants, and contracts receivable	19,023	-
Interest receivable	1,318	740
Prepaid items	-	2,363
	<u>583,347</u>	<u>580,184</u>
Total current assets	<u>583,347</u>	<u>580,184</u>
Total assets	<u>\$ 583,347</u>	<u>\$ 580,184</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,698	\$ 1,335
Royalties, grants, and contracts payable	-	64,870
Unearned revenue	5,000	5,000
	<u>6,698</u>	<u>71,205</u>
Total current liabilities	<u>6,698</u>	<u>71,205</u>
Total liabilities	<u>6,698</u>	<u>71,205</u>
<b>Net Position:</b>		
Restricted for research grants	2,936	-
Unrestricted	573,713	508,979
	<u>576,649</u>	<u>508,979</u>
Total net position	<u>576,649</u>	<u>508,979</u>
Total liabilities and net position	<u>\$ 583,347</u>	<u>\$ 580,184</u>

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

Florida Atlantic University Research Corporation, Inc.  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2019**  
**(with comparative totals for the year ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues:</b>		
Royalties	\$ 210,835	\$ 269,669
Grants and contracts	113,220	124,558
Other operating revenue	<u>11,267</u>	<u>22,392</u>
Total operating revenues	<u>335,322</u>	<u>416,619</u>
<b>Operating Expenses:</b>		
Program and other expenses	155,673	192,943
Royalty expenses	<u>129,336</u>	<u>210,654</u>
Total operating expenses	<u>285,009</u>	<u>403,597</u>
Operating income	<u>50,313</u>	<u>13,022</u>
<b>Non-operating Revenues:</b>		
Investment income	<u>17,357</u>	<u>8,128</u>
Change in net position	67,670	21,150
<b>Net Position:</b>		
Beginning of year	<u>508,979</u>	<u>487,829</u>
End of year	\$ <u><u>576,649</u></u>	\$ <u><u>508,979</u></u>

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

**Florida Atlantic University Research Corporation, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**  
**(with comparative totals for the year ended June 30, 2018)**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities:</b>		
Cash receipts from royalties	\$ 194,748	\$ 269,669
Cash receipts from grants and contracts	110,284	49,558
Cash receipts from other operating revenue	11,267	22,392
Payments to suppliers and others	<u>(347,153)</u>	<u>(399,060)</u>
Net cash provided by (used in) operating activities	<u>(30,854)</u>	<u>(57,441)</u>
<b>Cash Flows From Investing Activities:</b>		
Sale (purchase) of investments, net	16,675	(7,446)
Investment income	<u>16,779</u>	<u>8,092</u>
Net cash provided by (used in) investing activities	<u>33,454</u>	<u>646</u>
Net increase (decrease) in cash	2,600	(56,795)
Cash, beginning of year	<u>81,048</u>	<u>137,843</u>
Cash, end of year	<u>\$ 83,648</u>	<u>\$ 81,048</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:</b>		
Net operating income	\$ 50,313	\$ 13,022
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Royalties, grants, and contracts receivable	(19,023)	-
Prepaid items	2,363	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	363	(8,652)
Royalties, grants, and contracts payable	(64,870)	13,189
Unearned revenue	<u>-</u>	<u>(75,000)</u>
Net cash provided by (used in) operating activities	<u>\$ (30,854)</u>	<u>\$ (57,441)</u>

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

**Note 1 - Description and Nature of Organization and Significant Accounting Policies**

On November 21, 1990, the Florida Atlantic University Research Corporation, Inc., (the "Corporation") was incorporated as a not-for-profit organization under Chapter 617, Florida Statutes. 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 was organized for the purpose of promoting, encouraging, and providing assistance to the research activities of the University's faculty, staff, and students. The Corporation has been granted certain rights and responsibilities for the development, protection and commercial application of defined intellectual property. The Corporation is entitled to a portion of the royalties and/or license fees associated with the intellectual property for the benefit of the University. The Board of Directors is the governing body 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.

During 2004, the Corporation formed Hoot/Wisdom Recordings, LLC; Hoot/Wisdom Music Publishing, LLC; and Hoot/Insight Music Publishing, LLC (collectively, the LLCs) to benefit the University's research and educational programs. As the LLCs generate financial activity, such activity is consolidated with the Corporation's activities.

The Corporation also accepts and administers contracts and grants from private industry, foundations, and other agencies.

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

The statement of net position reports assets plus deferred outflows of resources, liabilities plus deferred inflows of resources; and the difference between them as net position. Net position represents the residual interest in the Corporation's assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The remaining net position is reported as unrestricted, on such portion where there are no restrictions on the residual interest in the Corporation's assets.

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.

**Cash:** For purposes of the statement of cash flows, cash includes cash on deposit and cash on hand at the statement date.

**Note 1 - Description and Nature of Organization and Significant Accounting Policies (continued)**

**Investments:** Investments include the State of Florida Special Purpose Investment Account (“SPIA”). The fair value of the Corporation’s position in the SPIA is the same as the value of the pooled shares. SPIA funds are combined with State funds and invested in various fixed income components. These components include Certificates of Deposit and Securities Lending program as well as short-term liquidity, cash enhanced, conservative core and core strategies. The funds can be withdrawn at any time and are reported at fair value, which seek to maintain a \$1.00 per share value.

**Patent costs:** In general, the cost of patents acquired is amortized using the straight-line method over the benefit life of the agreement. As of June 30, 2019 and 2018, the Corporation’s patent costs were fully amortized and therefore are not represented on the statement of net position.

**Unearned revenue:** Unearned revenue represents resources received before revenue has been earned, which includes grant and contract agreements. Unearned revenue totaled \$ 5,000 as of June 30, 2019 and 2018.

**Royalties:** Royalties are recorded on a monthly basis, if the amount owed to the Corporation can be determined and invoiced, based on the terms of the agreement. Once the funds have been received by the Corporation, the University will invoice the Corporation on a semi-annual basis, for the portion of royalties owed to the University.

**Grants and contracts:** Grants and contracts are recorded when amounts are owed to the Corporation, based on the terms of the grant or contract. Once funds have been received, the University will invoice the Corporation for the grant or contract revenue received by the Corporation.

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

**Income taxes:** The Corporation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

**Reclassifications:** Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year’s format. Total net position and change in net positions are unchanged due to these reclassifications.

**Date of management review:** Subsequent events were evaluated by management through October 28, 2019 which is the date the financial statements were available to be issued.

Florida Atlantic University Research Corporation, Inc.  
Notes to Financial Statements  
June 30, 2019  
(with comparative totals for June 30, 2018)

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**Note 2 - Investments**

The Corporation is authorized to invest in the State of Florida Special Purpose Investment Account (SPIA). SPIA pooled investments with the State Treasury are not registered with the SEC. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.575, Florida Statutes. SPIA pooled investments are recorded at fair value based on net asset value of the pool, which is consistent with the treatment of “2a-7 like” pool.

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

All of the Corporation’s recurring fair value measurements as of June 30, 2019 and 2018, are valued based on the Corporation’s share of the pool (Level 3 inputs).

**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. The effective duration of the Florida Treasury Investment Pool is 2.71 and 3.00 years at June 30, 2019 and 2018, respectively.

The following table shows the Corporation’s investments at June 30, 2019 and 2018:

Investment Type:	2019 Fair Value	2018 Fair Value
State of Florida Special Purpose Investment Account (SPIA)	\$ 479,358	\$ 496,033

**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. As a SPIA participant, the Corporation invests in the Florida Treasury Investment Pool. The Florida Treasury Pool is rated AA-f and A+f as of June 30, 2019 and 2018, respectively.

**Foreign currency risk:** State law and investment policy do not authorize the Treasury Investment Pool to purchase investments in foreign currencies; therefore, the Treasury Investment Pool is not exposed to foreign currency risk.

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

**Note 2 - Investments (continued)**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, a broker-dealer) to a transaction, an entity will not be able to recover the value of its investments or collateral securities that are in the possession of another party. As applicable, 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 - Royalty Agreements**

The Corporation has several royalty agreements with third parties for the use of certain patents that expire through 2044. The royalty agreements generally provide for sales-based royalties with specific minimum requirements, and may include a patent purchase option. Revenues resulting from these royalty agreements totaled approximately \$ 211,000 and \$ 270,000 for the years ended June 30, 2019 and 2018, respectively.

Under separate agreements with the University and the patent's inventor, portions of the royalty proceeds are shared between the inventor and the University. During 2019 and 2018, approximately \$ 129,000 and \$ 211,000, respectively, was disbursed or accrued as payable to patent inventors and to the University under these agreements.

**Note 4 - Grants and Contracts**

Grants and contracts revenue, consisting of cost reimbursements or payments due according to agreement terms, totaled approximately \$ 113,000 and \$ 125,000 for the years ended June 30, 2019 and 2018, respectively.

Grants and contracts are subject to annual renewal and periodic amendment and require the fulfillment of certain conditions as set forth in the instrument of grant or contract. Failure to fulfill the conditions could result in the return of the funds to the grantor/contract agencies. Although that is a possibility, the Corporation deems the contingency remote.

**Note 5 - Related Party Transactions**

The Corporation is a direct support organization for the University and transactions between the Corporation and University are varied and material. The Corporation's Board is comprised, primarily, of University representatives. The University performs certain research projects on behalf of the Corporation pursuant to separate agreements between the University and the Corporation. The Corporation also reimburses the University for legal and other costs the University incurs in patenting technologies.

**OTHER REPORTS OF  
INDEPENDENT AUDITORS**

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 Research Corporation, Inc.

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 Research Corporation, Inc. (the "Corporation"), a direct support organization and component unit of Florida Atlantic University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 28, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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 Corporation's financial statements are free of 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*.

The Corporation's prior year comments and recommendations were implemented or are no longer relevant.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KEEFE McCULLOUGH

Fort Lauderdale, Florida  
October 28, 2019