

# FAU FINANCE CORPORATION

777 Glades Road  
Administration Building 10, Room 345  
Boca Raton, Florida 33431

October 28, 2013

VIA CERTIFIED MAIL AND E-MAIL

U.S. Bank National Association  
Corporate Trust Services  
550 W. Cypress Creek road – Suite 380  
Fort Lauderdale, FL 33309

Attn: Lindsay Corzine, Review Analyst

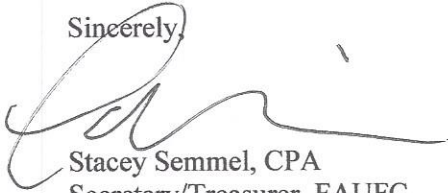
Dear Ms. Corzine,

Pursuant to the Trust Indenture (“Indenture”), Series 2010A, 2010A BABs, 2012B and 2012A, between FAU Finance Corporation (“FAUFC”) and U.S. Bank, as Trustee (“Trustee”), please find enclosed the following.

- a. Audited financial reports of FAUFC for the period ending June 30, 2013;

Please let me know if you have any questions about the enclosed documents.

Sincerely,



Stacey Semmel, CPA  
Secretary/Treasurer, FAUFC  
Assistant Vice President for Financial Affairs and University Controller, FAU

cc: Omaira Krueger, U.S. Bank (via e-mail)

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

Financial Report  
For the Year Ended June 30, 2013

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## **Independent Auditor's Report**

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

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

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 and for the year ended June 30, 2013, 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 opinions 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 Corporation'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 Corporation'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 respective financial position of the Corporation, as of June 30, 2013, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

### ***Other Matters***

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 23, 2013 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 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 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.

*McGladrey LLP*

Fort Lauderdale, Florida  
October 23, 2013

## 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 (hereafter University) for the fiscal year ended June 30, 2013, 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 statement of net position; the statement of revenues, expenses, and changes in net position; 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 \$44.5 million of Capital Improvement Revenue Bonds to finance the construction of a 30,000 seat stadium. In November 2012, the FAU Finance Corporation issued Capital Improvement Revenue Bonds (Student Housing Project) Series 2012A totaling \$46,205,000 which mature beginning July 1, 2014 through 2042. The Bond has interest rates ranging from 3% to 5% with semiannual interest payments due on the first of July and January beginning July 1, 2013. In addition, the FAU Finance Corporation issued Capital Improvement Revenue Bond (Student Housing Project) Series 2012B, which refunded the Series 2010B – Taxable Bonds in November 2012. The Capital Improvement Revenue Bond (Student Housing Project) Series 2012B totals \$3,440,000 and matures beginning July 1, 2013 through 2025, with an interest rate of 2.17%.

The FAU Finance Corporation's assets totaled \$199 million at June 30, 2013. This balance reflects \$52.3 million of deposits with a fiscal agent held in connection with the sale of bonds. The FAU Finance Corporation's revenues totaled \$29.3 million for the 2012-13 fiscal year, representing earnings on funds held with fiscal agent, IRS interest credits, housing revenues, athletic fees, and contributions from the University. All funds held with fiscal agent are invested in the State of Florida Special Purpose Investment Account (SPIA). Expenses totaled \$26.7 million for the 2012-13 fiscal year, inclusive of 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**

**Statement of Net Position  
June 30, 2013**

**Assets**

**Current Assets:**

Cash in bank	\$ 2,174,560
Cash with fiscal agent – restricted	25,085,450
Due from University	1,675,976
<b>Total current assets</b>	<b>28,935,986</b>

**Noncurrent Assets:**

Cash with fiscal agent – restricted	27,173,840
Prepaid land lease and other	10,666,667
Capital assets, on leased land (net of depreciation)	130,509,367
Deferred charges – bond issuance costs, net	1,923,170
<b>Total noncurrent assets</b>	<b>170,273,044</b>
<b>Total assets</b>	<b>\$ 199,209,030</b>

**Liabilities**

**Current Liabilities:**

Accounts payable	\$ 460,579
Interest payable	6,610,636
Due to University	3,567,156
Unearned revenue	830,672
Bonds payable – due within one year	2,645,000
<b>Total current liabilities</b>	<b>14,114,043</b>

**Long-term liabilities:**

Bonds payable – due in more than one year	212,430,000
Unamortized premium, net	1,330,711
<b>Total long-term liabilities</b>	<b>213,760,711</b>
<b>Total liabilities</b>	<b>227,874,754</b>

**Net Position (Deficit):**

Invested in capital assets, net of related debt	(5,437,995)
Restricted for debt service and reserve	14,228,696
Restricted for repair and replacement of capital assets	1,144,154
Unrestricted deficit	(38,600,579)
<b>Total net position (deficit)</b>	<b>\$ (28,665,724)</b>

See Notes to Financial Statements

**FAU Finance Corporation**

**Statement of Revenue, Expenses and Changes in Net Position  
For the Year Ended June 30, 2013**

<b>Operating Revenues (Expenses):</b>	
Housing revenue	\$ 21,471,255
Operating expenses	(11,370,940)
Depreciation expense	<u>(3,032,391)</u>
<b>Total operating income</b>	<u>7,067,924</u>
<b>Nonoperating Revenues (Expenses):</b>	
Athletic revenues pledged for debt service	1,734,464
IRS interest credit	3,624,763
Interest income	1,127,001
Contributions from University	1,299,332
Contributions to University	(28,079)
Interest expense	<u>(12,263,962)</u>
<b>Nonoperating expense</b>	<u>(4,506,481)</u>
<b>Changes in net position</b>	2,561,443
<b>Net position (deficit):</b>	
Beginning	<u>(31,227,167)</u>
Ending	<u><u>\$ (28,665,724)</u></u>

See Notes to Financial Statements

**FAU Finance Corporation**

**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

<b>Cash Flow From Operating Activities</b>	
Cash paid to suppliers	\$ (11,047,648)
Athletic fees collected on behalf of the University	1,788,900
Housing contracts – dorm fees	20,989,001
<b>Net cash provided by operating activities</b>	<u>11,730,253</u>
<b>Cash Flow From Capital and Related Financing Activities</b>	
Receipt of IRS interest credit	2,751,402
Payment of interest	(9,230,293)
Acquisition of capital assets	(36,788,192)
Proceeds from bonds	49,645,000
Bond premium	683,445
Payment of bond issuance cost	(278,839)
<b>Net cash provided by capital and related financing activities</b>	<u>6,782,523</u>
<b>Cash Flow From Non-capital and Related Financing Activities</b>	
Contributions to the University	(1,171,146)
Contributions from the University	817,078
Receipt of IRS interest credit	873,360
Payment of interest	(2,614,969)
Athletic fees	1,734,464
<b>Net cash used by non-capital and related financing activities</b>	<u>(361,213)</u>
<b>Cash Flow From Investing Activities</b>	
Interest received	1,127,001
<b>Net increase in cash</b>	<u>19,278,564</u>
<b>Cash</b>	
Beginning	35,155,286
Ending	<u>\$ 54,433,850</u>
<b>Classified as:</b>	
Cash with fiscal agent – restricted (Note 2)	\$ 52,259,290
Cash in bank	2,174,560
	<u>\$ 54,433,850</u>

(Continued)

**FAU Finance Corporation**

**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

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Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Net operating income	\$ 7,067,924
Depreciation expense	3,032,391
Decrease in land lease and other	400,000
Increase in due from University	(482,254)
Increase in accounts payable	128,613
Increase in unearned revenues	656,932
Decrease in other liabilities	(14,473)
Increase in deferred charges	(258,105)
Increase in due to University	1,199,225
<b>Net cash provided by operating activities</b>	<b><u>\$ 11,730,253</u></b>

Supplemental Disclosures of Noncash Capital and Related Financing Activities	
Amount of interest cost which is capitalized	\$ 966,382
Due to University for acquisition of construction in progress	\$ 1,508,674

See Notes to Financial Statements.

## FAU Finance Corporation

### Notes to Financial Statements

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#### **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 Directors of the Corporation are appointed in the following manner – (1) one appointed Director shall be the President of the University or the president's designee; (2) one appointed Director shall be the University Chief Financial Officer or his or her designee; and (3) a minimum of one and maximum of five elected Directors shall be elected by majority vote of the Board of Directors from the nominations of the Corporation's Nominations Committee or from nominations made from the floor. 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 statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

The Corporation adopted GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in the current year. GASB Statement No. 63 required that the statement of net position report assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and the difference between them as net position / deficit. Net position represents the residual interest in the Corporation's assets and consists of three sections: invested in capital assets, net of related debt; restricted net position and unrestricted net position / deficit. The net position component invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation less the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvements of those assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation.

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's revenues are generated primarily from operations of the dorm and stadium facilities. The Corporation's policy is to use restricted resources first, then unrestricted resources when both are available for use to fund activity.

## FAU Finance Corporation

### Notes to Financial Statements

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

**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, 2013, represent money required to be segregated by the Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, Series 2010B – Taxable Bonds, Capital Improvement Revenue Bond (Student Housing Project) Series 2012B, Capital Improvement Revenue Bonds (Student Housing Project) Series 2012A and, the Series 2010 – Taxable Capital Improvement Revenue Bonds (Football Stadium Project) contractual obligations.

**Cash:** For purposes of the statements of cash flows, cash and cash equivalents includes the State of Florida Special Purpose Investments ("SPIA") account (money markets) and cash on hand at the statement date. The fair value of the Corporation's position in the SPIA is the same as the value of the pooled shares. The funds are invested in treasuries and can be withdrawn at any time and are reported at cost. The Corporation considers all highly liquid investments with a maturity of 3 months or less when purchased, to be cash equivalents.

**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 a facility site located on the Boca Raton Campus of the University on which student housing facilities and related surface parking was constructed. The lease also provided the Corporation with a leasehold interest in certain existing student dorm housing facilities on the Boca Raton Campus of the University. The prepaid land lease balance is being amortized on a straight-line basis over the original lease term of 30 years. The unamortized prepaid lease balance at June 30, 2013 was \$10,666,667.

**Capital assets, on leased land:** Capital assets, which include property, plant, and equipment assets, are reported in the statement of net position. The Corporation capitalizes all capital assets with a cost in excess of a \$5,000 threshold and an estimated life greater than one year. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available.

Depreciation on buildings and improvements, furniture, fixtures, and equipment are computed on the straight line basis over the lesser of the useful life of the asset or the land lease term. Depreciation of buildings and improvements, furniture, fixtures and equipment are being computed over useful lives ranging from 10 to 28 years.

**Construction in progress:** Construction in progress is stated at costs and includes costs related to the construction of the new Parliament Hall dorm facilities and capitalized interest costs associated with construction financing. Interest expense of \$966,382 was capitalized for fiscal year 2013.

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

**Bond premium:** Bond premiums are amortized using the effective interest method over the life of the related bond.

**Expenses:** Operating expenses are those costs incurred by the Corporation for the day to day operation of the dormitory facilities. All other expenses, including contributions made to the University, are reported as non-operating expenses.

## FAU Finance Corporation

### Notes to Financial Statements

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

Operating expenses as reported on the statement of revenues, expenses and changes in net assets is comprised of the following categories of expenses:

Category	Amount
Contract services / management fee	\$ 3,781,092
Utilities	1,754,261
Repairs and maintenance	2,744,299
Communications	574,004
Supplies	531,115
Other operating costs	1,986,169
	<u>\$11,370,940</u>

#### Revenues:

*Operating Revenues* – Housing contract dorm revenues are recognized in the period in which housing is provided to students.

*Nonoperating revenues* – Athletic fees are recognized in the period in which goods/services are provided and when seating is made accessible for stadium facility events. IRS interest credit revenue is recognized in the period in which related interest expense is incurred and reported in the financial statements. Contributions from University are recognized as revenues when eligibility requirements are met. Interest income is recognized in the period that interest on investments is earned.

#### Note 2. Cash

**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 Securities and Exchange Commission (SEC) or other investments authorized by the Corporation’s Board of Directors.

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 17.57, 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.

## FAU Finance Corporation

### Notes to Financial Statements

#### Note 2. Cash (Continued)

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

Account	Noncurrent	Current	Total
Construction fund	\$10,627,854	\$ -	\$ 10,627,854
Debt service fund	-	14,697,125	14,697,125
Reserve fund	16,545,986	-	16,545,986
Revenue fund	-	83,927	83,927
Repair and Replacement Fund	-	1,144,154	1,144,154
Surplus Fund	-	9,160,244	9,160,244
<b>Total</b>	<b>\$27,173,840</b>	<b>\$25,085,450</b>	<b>\$ 52,259,290</b>

**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, 2013:

Investment Type	Fair Value	Investment Maturity (In Years) Less Than 1 year
State of Florida Special Purpose Investment Account – Money Market Funds	\$52,259,290	\$ 52,259,290

**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, 2013.

**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.

## FAU Finance Corporation

### Notes to Financial Statements

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#### Note 2. Cash (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 investments 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 asset balances for the year ended June 30, 2013:

Asset	Beginning Balance	Additions	Ending Balance
Construction in progress	\$ -	\$ 36,324,944	\$ 36,324,944
Buildings and improvements	99,302,222	395,981	99,698,203
Furniture, fixtures and equipment	712,822	67,267	780,089
<b>Property and equipment, gross</b>	<b>100,015,044</b>	<b>36,788,192</b>	<b>136,803,236</b>
Less accumulated depreciation	(3,261,478)	(3,032,391)	(6,293,869)
<b>Property and equipment, net</b>	<b>\$ 96,753,566</b>	<b>\$ 33,755,801</b>	<b>\$ 130,509,367</b>

#### Note 4. Bonds Payable

Pursuant to the Balanced Budget and Emergency Deficit Control Act enacted on March 1, 2013, the President of the United States issued a sequestration order which required automatic spending cuts ("sequestration") as the result of the United States Congress' failure to enact legislation to reduce the federal budget deficit. Among the federal expenditures affected by these cuts are subsidies due to state and local governments which issued bonds pursuant to several bond programs authorized by United States Congress during the depths of the economic downturn. As a result of sequestration, federal subsidy payments for the Corporation's Build America Bonds (BAB) were reduced by 8.7% effective March 27, 2013, from 35% to 26.3%, for the July 1, 2013 payment.

##### Series 2010—A&B Bonds

Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, and Series 2010B Taxable Bonds were issued in March 2010 for construction of the Innovation Village Dorm facility. The Issuance of the bonds provided the Corporation with a federal subsidy through a refundable tax credit paid to the Corporation each fiscal year by the Internal Revenue Service (IRS), in an amount equal to 35% of the total coupon interest payable to investors on these taxable bonds, which was subsequently reduced to 26.3% as a result of sequestration.

The Series 2010A – Tax-Exempt Bonds total \$8,475,000 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 totaling \$3,365,000 were refunded in November 2012 with the issuance of the Series 2012B – Capital Improvement Revenue Bond in the amount of \$3,440,000. The refunding resulted in an economic gain of \$2.1 million to the Corporation.

## FAU Finance Corporation

### Notes to Financial Statements

#### Note 4. Bonds Payable (Continued)

##### Series 2012B – The Capital Improvement Revenue Bonds

The Series 2012B – Capital Improvement Revenue Bonds (Student Housing Project) in the amount of \$3,440,000 were issued in November 2012. The bonds mature July 2013 through 2025, with an interest rate of 2.17%.

##### Series 2012A – Taxable Capital Improvement Revenue Bonds

The Series 2012A – Capital Improvement Revenue Bonds in the amount of \$46,205,000 were issued in July 2012 for construction of Student Housing Project – Parliament Hall dorms. The bonds mature beginning July 1, 2014 through 2042, with interest rates ranging from 3% to 5%.

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 for the Series 2010A and 2012A&B student housing bonds, net of direct pay subsidies expected to be received on each respective interest payment date.

##### Series 2010 – Taxable Capital Improvement Revenue Bonds

Series 2010 – Taxable Capital Improvement Revenue Bonds were issued November 2010 in the amount of \$44,500,000 and financed 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 bear interest at an annual rate of 5.78% and mature in 2040. Issuance of the bonds provided the Corporation with a federal subsidy through a refundable tax credit paid to Corporation each fiscal year by the IRS, in an amount equal to 35% of the total coupon interest payable to investors in these taxable bonds, which was subsequently reduced to 26.3% as a result of sequestration.

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. The Corporation is required to adopt an operating budget for each fiscal year covering all operations and operating expenses which shall assure that pledged revenues will exceed all contemplated expenses by at least 25%.

In accordance with trust indenture agreements for each bond series discussed previously, 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 (see Note 2).

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

Debt	Beginning Balance	Additions	Repayments	Ending Balance	Due Within One Year
Bonds, Series 2010A Innovation Village	\$ 120,930,000	\$ -	\$ -	\$ 120,930,000	\$ 1,555,000
Bonds, Series 2010B Innovation Village	3,365,000	-	3,365,000	-	-
Bonds, Series 2010 Stadium	44,500,000	-	-	44,500,000	925,000
Bonds, Series 2012A Parliament Hall	-	46,205,000	-	46,205,000	-
Bonds, Series 2012B Innovation Village	-	3,440,000	-	3,440,000	165,000
	<u>\$ 168,795,000</u>	<u>\$ 49,645,000</u>	<u>\$ 3,365,000</u>	<u>\$ 215,075,000</u>	<u>\$ 2,645,000</u>

## FAU Finance Corporation

### Notes to Financial Statements

#### Note 4. Bonds Payable (Continued)

The Corporations expected debt service requirements to maturity are as follows, assuming the bondholders agree to each extended put date under the Series 2010 – Taxable Capital Improvement Revenue Bonds, extending maturity through fiscal year 2041:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,645,000	\$ 13,182,491	\$ 15,827,491
2015	4,005,000	13,025,905	17,030,905
2016	4,530,000	12,819,771	17,349,771
2017	4,795,000	12,596,182	17,391,182
2018	5,000,000	12,346,110	17,346,110
2019-2023	27,960,000	57,420,055	85,380,055
2024-2028	33,560,000	48,314,671	81,874,671
2029-2033	40,495,000	36,718,066	77,213,066
2034-2038	50,530,000	21,921,630	72,451,630
2039-2043	41,555,000	4,673,129	46,228,129
<b>Total</b>	<b>\$ 215,075,000</b>	<b>\$ 233,018,010</b>	<b>\$ 448,093,010</b>

The Series 2010 – Taxable Capital Improvement Revenue Bonds provide bondholders with the option to require that the Corporation purchase the bonds on the initial put date of October 17, 2017 in the amount of \$39,515,000 or agree to an extended put date which cannot exceed three years from the initial put date or each extended put date. The table above does not reflect any accelerated amortizations that may result under the put options as previously discussed. If the bonds are not extended, the amount due in year 2018 above would be \$44,515,000.

#### Pledged Revenue

The Corporation has pledged revenues to repay bonds outstanding as of June 30, 2013. The following table reports the revenues pledged for each debt issue, the amounts of such revenue received in the current year, the current year principal and interest paid on the debt, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenue for each debt, which is the amount of the remaining principal and interest on the bonds at June 30, 2013:

Debt Issue*	Pledged Revenue	Net Available** Revenue	Principal and Interest Paid	Outstanding*** Principal and Interest	Pledged Through
Bonds, Series 2010A & 2012B Innovation Village	Housing Revenues	\$ 10,100,315	\$ 8,780,444	\$278,571,086	2041
Bonds, Series 2012A Parliament Hall	Housing Revenues	\$ -	\$ 1,842,382	\$ 82,330,638	2042
Bonds, Series 2010 Stadium	Athletic Revenues	\$ 1,734,464	\$ 1,734,464	\$ 87,191,286	2041

\*This table should not be used for computing the Debt Service Coverage Ratio as discussed previously in Note 4.

\*\*Net available revenues are defined as gross pledged revenues less applicable operating expenses. Pledged revenues for the Series 2012A Parliament Hall Bonds are zero for fiscal year 2013 since the Parliament Hall facility was being constructed and not in service to generate revenues during the year.

\*\*\* The outstanding principal and interest balance for the Series 2010 – Taxable Capital Improvement Revenue Bonds does not reflect any accelerated maturities that may result under the put options as previously discussed.

## FAU Finance Corporation

### Notes to Financial Statements

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#### **Note 5. 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 the 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, 2013 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 of 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). Under the terms of the operating agreement, on an annual basis, the University is required to deposit pledged revenues with the Corporation that are adequate to make annual debt service payments due on the Series 2010 – Taxable Capital Improvement Revenue 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 the University related to these costs at June 30, 2013 amounted to \$3,567,156. The University provides personnel and administrative support to the Corporation to aid in its operation. The costs of these services are not material to the Corporation, and therefore are not recognized in these financial statements.

##### Due from University

At June 30, 2013, the University owed the Corporation \$1,675,976 for amounts collected on behalf of the Corporation.

##### Contributions from University

The University made contributions of \$1,299,332 to the Corporation to fund the debt service reserve fund of the Series 2010 – Taxable Capital Improvement Revenue Bonds (see Note 1). The contributions will be used by the Corporation to make future debt service payments.

#### **Note 8. Commitments**

At June 30, 2013, the Parliament Hall dorm construction project was ongoing and there was approximately \$8.4 million of construction commitments outstanding to complete this project.