



Item: AF: I-3c

AUDIT AND FINANCE COMMITTEE

Wednesday, February 16, 2011

SUBJECT: REVIEW OF THE FAU FINANCE CORPORATION FINANCIAL STATEMENTS FOR THE PERIOD AUGUST 12, 2009 THROUGH JUNE 30, 2010.

PROPOSED COMMITTEE ACTION

Information only.

BACKGROUND INFORMATION

The audited financial statements of the FAU Finance Corporation are presented to keep the Board of Trustees informed about the financial status of the Corporation. The audited financial statements are for the period August 12, 2009, the inception date of this direct support organization, through June 30, 2010 and were presented to the Corporation Board of Directors on December 9, 2010 in FASB format and on February 9, 2011 in GASB format with no change in the financial position between the two.

IMPLEMENTATION PLAN/DATE

Not applicable.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: FAU Finance Corporation Financial Statements for the Period August 12, 2009 through June 30, 2010.

Presented by: Mr. Dennis Crudele, Sr. Vice President-Finance

Phone: 561-297-3266

FAU Finance Corporation

(A component unit of Florida Atlantic University)

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of FAU Finance Corporation (the "Corporation"), a direct support organization and component unit of Florida Atlantic University, as of June 30, 2010 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 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 previously present fairly, in all material respects, the financial position of FAU Finance Corporation as of June 30, 2010, and the changes in its financial position and its cash flows from the date of inception (August 12, 2009) through June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 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, 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
January 26, 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 for the fiscal year ended June 30, 2010, 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 assets; 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 Florida Atlantic University by providing finance and investment –related assistance in connection with the acquisition or construction of capital or other University projects. On March 4, 2010 the FAU Finance Corporation issued \$124.3 million of tax-exempt and taxable bonds. The FAU Finance Corporation's assets totaled \$135.9 million at June 30, 2010. This balance reflects \$84.8 million of deposits with a fiscal agent held in connection with the sale of bonds. The FAU Finance Corporation's operating revenues totaled \$564 thousand for the 2009-10 fiscal year, representing earnings on funds held with fiscal agent. All funds held with fiscal agent are invested in the Special Purpose Investment Account (SPIA). Expenses totaled \$2.2 million for the 2009-10 fiscal year, amounts are primarily interest paid from the capitalized interest funds held with agent. Costs related to the construction of the buildings, including interest costs (interest expense, net of IRS interest credit) associated with construction financing are capitalized. Interest expense of \$810,269 was capitalized in the current year.

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, 2010

Assets

Current Assets:	
Due from IRS	\$ 934,873
Total current assets	<u>934,873</u>
Current Restricted Assets:	
Cash with fiscal agent – construction fund	73,444,706
Cash with fiscal agent – debt service fund	11,273,000
Cash with fiscal agent – reserve fund	10,980,605
Total restricted current assets	<u>95,698,311</u>
Noncurrent Assets:	
Prepaid land lease and other	12,281,371
Capital assets	25,521,137
Deferred charges – bond issuance costs, net	1,497,639
Total noncurrent assets	<u>39,300,147</u>
Total assets	<u>\$ 135,933,331</u>

Liabilities and Net Assets

Current Liabilities:	
Accounts payable and accrued expenses	\$ 7,400,333
Due to University	4,218,386
Total current liabilities	<u>11,618,719</u>
Long-Term liabilities:	
Bonds payable	124,295,000
Unamortized premium, net	745,428
Total long-term liabilities	<u>125,040,428</u>
Total liabilities	<u>136,659,147</u>
Commitment	-
Net Assets:	
Unrestricted net deficit	(725,816)
Total net assets (deficit)	<u>(725,816)</u>
Total liabilities and net assets	<u>\$ 135,933,331</u>

See Notes to Financial Statements.

FAU Finance Corporation

Statement of revenue, expenses, and changes in net assets
Date of Inception (August 12, 2009) through June 30, 2010

Operating Expenses:	
Rent expense	\$ 133,333
Other expenses	17,411
Total operating expenses	<u>150,744</u>
Nonoperating Revenues (Expenses):	
IRS interest credit	934,873
Interest income	564,335
Interest expense	(2,074,280)
Total nonoperating revenue (expenses)	<u>(575,072)</u>
Changes in net assets	(725,816)
Net assets:	
Beginning	-
Ending	<u>\$ (725,816)</u>

See Notes to Financial Statements.

FAU Finance Corporation

Statement of Cash Flows

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

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Cash Flows From Operating Activities	
Cash paid to suppliers	\$ (150,744)
Increase in land lease and other	(12,281,371)
Net cash used in operating activities	<u>(12,432,115)</u>
Cash Flow From Capital and Related Financing Activities	
Proceeds from bonds	124,295,000
Acquisition of construction in progress	(13,902,418)
Bond premium	745,428
Payment of bond issuance cost	(1,497,639)
Interest paid on long-term debt	(2,074,280)
Net cash provided by capital and related financing activities	<u>107,566,091</u>
Cash Flow From Investing Activities	
Interest received	564,335
Net increase in cash	<u>95,698,311</u>
Cash	
Beginning	-
Ending	<u>\$ 95,698,311</u>
Classified as:	
Cash with fiscal agent – construction fund	\$ 73,444,706
Cash with fiscal agent – debt service fund	11,273,000
Cash with fiscal agent – reserve fund	10,980,605
	<u>\$ 95,698,311</u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:	
Operating loss	\$ (150,744)
Increase in land lease and other	(12,281,371)
Net cash used in operating activities	<u>\$ (12,432,115)</u>
Supplemental Disclosures of Noncash Investing and Financing Activities	
Due to University for acquisition of construction in progress	\$ 4,218,386
Accounts payable for the acquisition of construction in progress	7,400,333
Due from IRS	934,873

See Notes to Financial Statements.

FAU Finance Corporation

Notes to Financial Statements

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

On August 12, 2009, the FAU Finance Corporation was incorporated as a not-for-profit organization under the laws of the State of Florida. The Corporation is a direct support organization and a component unit of Florida Atlantic University (the "University"). It has been organized and operated to assist the activities and educational purposes of the University by providing finance and investment-related assistance in connection with the acquisition or construction of capital or other University projects, including but not limited to the structuring of debt relating thereto. The governing body of the Corporation is its Board of Directors (the "Board"). The Board is comprised of a maximum of five (5) directors who are responsible for managing, supervising and controlling the business, property, affairs and funds of the Corporation.

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

Basis of presentation: The Corporation 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 economics 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 facilities that will be leased and be the primary operating revenue source. The Corporation's policy is to use restricted resources first, then unrestricted resources when both are available for use to fund activity.

The Corporation applies all applicable GASB Pronouncements as well as Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB Pronouncements pursuant to GASB Statement No. 20. The Corporation has elected not to apply FASB ASC issued subsequent to November 30, 1989.

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 bond ordinance or contractual obligations are identified as restricted assets. Restricted assets at June 30, 2010, represent money required to be segregated by the Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, and Series 2010B Taxable Bonds ordinances.

FAU Finance Corporation

Notes to Financial Statements (Continued)

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

Construction in progress: Costs related to the construction of the buildings, including interest costs (interest expense, net of IRS interest credit) associated with construction financing are capitalized. The buildings will not be depreciated until the assets are placed in service. Interest expense of \$810,269 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.

Operating expenses: As rental operations have not commenced, all revenue is reported as nonoperating. Operating expenses are rental expenses and administrative expenses of the Corporation. All other expenses are reported as nonoperating.

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.

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, 2010:

Investment Type	Fair Value	Investment
		(In Years) Less Than 1 year
State of Florida Special Purpose Investment Account – Money Market Funds	\$ 95,698,311	\$ 95,698,311

FAU Finance Corporation

Notes to Financial Statements (Continued)

Note 2. Cash and Investments (Continued)

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, 2010.

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.

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

The following is a summary of changes in capital assets from the date of inception (August 12, 2009) through June 30, 2010:

Asset	Beginning Balance	Additions	Deletions	Ending Balance
Construction in Progress	\$ -	\$ 25,531,127	\$ -	\$ 25,531,127

Note 4. Due from IRS

The Corporation is entitled to receive a direct payment for refundable credit from the IRS pursuant to the provisions of the Build America Bond ("BAB") program. The credit is due semi-annually consistent with the Corporation's debt service payment schedule. See note 5.

FAU Finance Corporation

Notes to Financial Statements (Continued)

Note 5. Bonds Payable

Series 2010A – Tax-Exempt Bonds, Series 2010A – Taxable BAB Bonds, and Series 2010B Taxable Bonds were issued in March 2010. The Series 2010A – Tax-Exempt Bonds 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.

In accordance with the trust indenture agreement, the Corporation is required to establish and maintain a Debt Service fund (includes a capitalized interest account), a Cost of Issuance fund, a Construction fund, a Reserve fund, a Subordinate Debt Service fund and a Repair and Replacement Fund.

The following is a summary of changes in long-term obligations from the date of inception (August 12, 2009) through June 30, 2010:

Debt	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Bonds, Series 2010A	\$ -	\$ 120,930,000	\$ -	\$ 120,930,000	\$ -
Bonds, Series 2010B	-	3,365,000	-	3,365,000	-
	<u>\$ -</u>	<u>\$ 124,295,000</u>	<u>\$ -</u>	<u>\$ 124,295,000</u>	<u>\$ -</u>

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

Year Ending June 30,	Principal	Interest	Total
2011	\$ -	\$ 2,884,549	\$ 2,884,549
2012	-	8,875,534	8,875,534
2013	-	8,875,534	8,875,534
2014	1,610,000	8,875,534	10,485,534
2015	2,010,000	8,809,270	10,819,270
2016-2020	13,750,000	42,158,770	55,908,770
2021-2025	16,965,000	37,569,931	54,534,931
2026-2030	21,360,000	30,937,609	52,297,609
2031-2035	27,175,000	22,142,055	49,317,055
2036-2040	33,760,000	10,826,450	44,586,450
2041	7,665,000	585,529	8,250,529
Total	<u>\$ 124,295,000</u>	<u>\$ 182,540,765</u>	<u>\$ 306,835,765</u>

Notes to Financial Statements (Continued)

Note 6. 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 will construct student housing facilities and related surface parking. The lease is being amortized to rent expense over the life of the lease. The total rental expense for the year ended June 30, 2010 was \$133,333.

Note 7. Related Party Transactions

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

Note 8. Subsequent Event

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

Note 9. Commitment

Construction Commitments

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