BOARD OF TRUSTEES
Florida Atlantic University

Item: AC: I-1

AUDIT AND COMPLIANCE COMMITTEE

Tuesday, June 4, 2019

SUBJECT: REVIEW OF THE FAU FINANCIAL AUDIT FOR FISCAL YEAR ENDED JUNE 30, 2018.

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

The audit of the financial statements of Florida Atlantic University for the fiscal year ended June 30, 2018, was conducted with auditing standards generally accepted in the United States of America and applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2018. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Our audit disclosed that the basic financial statements of FAU (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, issued by the Comptroller General of the United States.

Our audit objectives were to determine whether Florida Atlantic University and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

Financial Highlights.
The University's assets and deferred outflows of resources totaled $1.1 billion at June 30, 2018. This balance reflects a $43.6 million, or 3.9 percent, increase as compared to the 2016-17 fiscal year, resulting from an increase in investments, amounts due from State, deferred outflows of resources related to pensions and other postemployment (OPEB) benefits, and a decrease in cash and cash equivalents and capital assets. While assets and deferred outflows of resources grew, net capital assets decreased by $16.4 million due to a combination of additions, deletions, and an increase in accumulated depreciation. The implementation of Governmental Accounting Standards Board's (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, required the University to record deferred outflows of resources at June 30, 2018, totaling $2.7 million. This accounting standard requires the University, as a participating employer in the State Group Health Insurance Plan administered by the Florida Department of Management Services, Division of State Group Insurance (DSGI), to recognize its proportionate share of the net OPEB liabilities and related OPEB amounts of the cost-sharing multiple-employer DSGI defined benefit health plan. Total liabilities and deferred inflows of resources increased by $169.4 million, or 52.3 percent, totaling $493.1 million at June 30, 2018, as a result of a $118 million increase in the OPEB liability, a $17.3 million increase in the net pension liability (NPL), a $3.4 million increase in compensated absences, and a $4 million increase in deferred inflows of resources related to pensions. Also related to the implementation of GASB Statement No. 75, deferred inflows of resources related to OPEB totaling $23.2 million were recorded at June 30, 2018. Further, the initial adoption of GASB Statement No. 75 resulted in an adjustment to beginning net position of $129.2 million. As a result, the University's net position decreased by $125.8 million, and the University reported a deficit in the unrestricted net position of $32.5 million at June 30, 2018. However, unrestricted net position as the result of operating and nonoperating activities but before the effect of pension and other post-retirement benefit expense, favorably increased $10.6 million at June 30, 2018. Regardless, the initial adoption of GASB Statement No. 75 resulted in an overall year-end balance of $656.7 million.

The University's operating revenues totaled $290.1 million for the 2017-18 fiscal year, representing a 2.7 percent increase compared to the 2016-17 fiscal year due mainly to a $5.1 million increase in sales and services of auxiliary enterprises and a $3.5 million increase in grants and contracts revenues. Operating expenses totaled $594.9 million for the 2017-18 fiscal year, representing an increase of 8.1 percent as compared the 2016-17 fiscal year due mainly to a $25.3 million increase in compensation and employee benefits from increases in OPEB, NPL, and a University merit program, a $9.4 million increase in the services and supplies associated with the operational costs, and a $9.7 million increase in scholarships, fellowships, and waivers.

IMPLEMENTATION PLAN/DATE

Not applicable.

FISCAL IMPLICATIONS

Not applicable.

Supporting Documentation: FAU Financial Audit for the Fiscal Year Ended June 30, 2018

Presented by: Mr. Jeff Atwater, V.P. Strategic Initiatives and CFO **Phone:** 561-297-3267

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2019-156
March 2019

FLORIDA ATLANTIC UNIVERSITY

For the Fiscal Year Ended
June 30, 2018

Sherrill F. Norman, CPA
Auditor General

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Simone Oladejo, and the audit was supervised by Diana G. Garza, CPA, CFE.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

FLORIDA ATLANTIC UNIVERSITY

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SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements of Florida Atlantic University (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether Florida Atlantic University and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2018. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

Audit Methodology

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Atlantic University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University'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 did not audit the financial statements of the Florida Atlantic University College of Medicine Self-Insurance Program, a blended component unit, which represent 0.50 percent, 0.13 percent, 0.74 percent and 0.33 percent, respectively, of the assets, liabilities, net position, and revenues reported for Florida Atlantic University. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the discretely presented component units columns. The financial statements for the blended and aggregate discretely presented component units were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those financial statements, are based solely on the reports of the other auditors. 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 opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Atlantic University and of its aggregate discretely presented component units as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2. to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported for the 2017-18 fiscal year with amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, 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 March 11, 2019, on our consideration of the Florida Atlantic University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **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***. 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 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 Florida Atlantic University's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 11, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2018, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2018, and June 30, 2017.

FINANCIAL HIGHLIGHTS

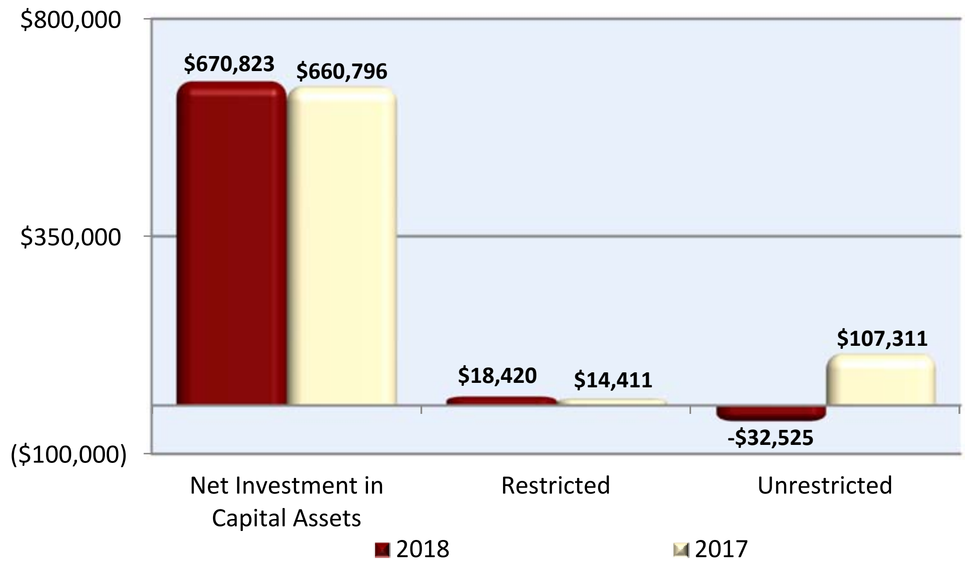
The University's assets and deferred outflows of resources totaled $1.1 billion at June 30, 2018. This balance reflects a $43.6 million, or 3.9 percent, increase as compared to the 2016-17 fiscal year, resulting from an increase in investments, amounts due from State, deferred outflows of resources related to pensions and other postemployment (OPEB) benefits, and a decrease in cash and cash equivalents and capital assets. While assets and deferred outflows of resources grew, net capital assets decreased by $16.4 million due to a combination of additions, deletions, and an increase in accumulated depreciation. The implementation of Governmental Accounting Standards Board's (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* required the University to record deferred outflows of resources at June 30, 2018, totaling $2.7 million. This accounting standard requires the University, as a participating employer in the State Group Health Insurance Plan administered by the Florida Department of Management Services, Division of State Group Insurance (DSGI), to recognize its proportionate share of the net OPEB liabilities and related OPEB amounts of the cost-sharing multiple-employer DSGI defined benefit health plan. Total liabilities and deferred inflows of resources increased by $169.4 million, or 52.3 percent, totaling $493.1 million at June 30, 2018, as a result of a $118 million increase in the OPEB liability, a $17.3 million increase in the net pension liability (NPL), a $3.4 million increase in compensated absences, and a $4 million increase in deferred inflows of resources related to pensions. Also related to the implementation of GASB Statement No. 75, deferred inflows of resources related to OPEB totaling $23.2 million were recorded at June 30, 2018. Further, the initial adoption of GASB Statement No. 75 resulted in an adjustment to beginning net position of $129.2 million. As a result, the University's net position decreased by $125.8 million, and the University reported a deficit in the unrestricted net position of $32.5 million at June 30, 2018. However, unrestricted net position as the result of operating and nonoperating activities but before the effect of pension and other post-retirement benefit expense, favorably increased $10.6 million at June 30, 2018. Regardless, the initial adoption of GASB Statement No. 75 resulted in an overall year-end balance of $656.7 million.

The University's operating revenues totaled $290.1 million for the 2017-18 fiscal year, representing a 2.7 percent increase compared to the 2016-17 fiscal year due mainly to a $5.1 million increase in sales and services of auxiliary enterprises and a $3.5 million increase in grants and contracts revenues. Operating expenses totaled $594.9 million for the 2017-18 fiscal year, representing an increase of 8.1 percent as compared the 2016-17 fiscal year due mainly to a $25.3 million increase in compensation and employee benefits from increases in OPEB, NPL, and a University merit program, a $9.4 million increase in the services and supplies associated with the operational costs, and a $9.7 million increase in scholarships, fellowships, and waivers.

Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2018, and June 30, 2017, is shown in the following graph:

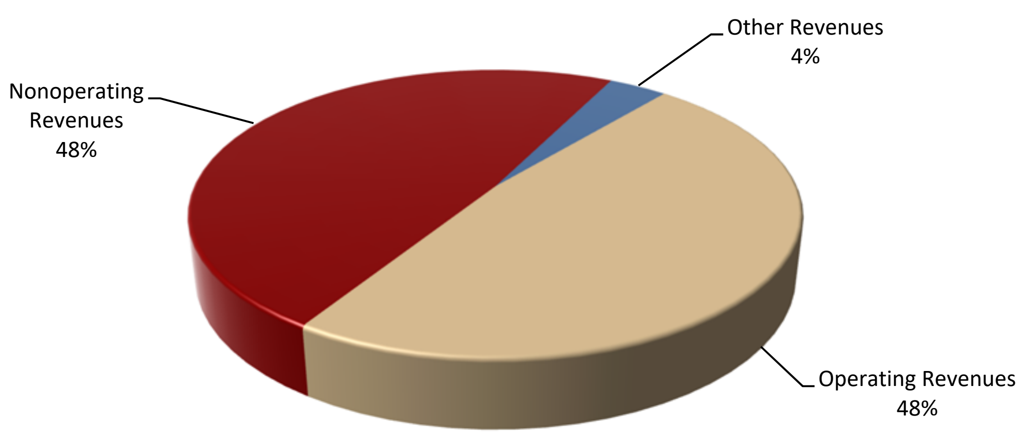
Net Position

(In Thousands)



The following chart provides a graphical presentation of University revenues by category for the 2017-18 fiscal year:

Total Revenues
2017-18 Fiscal Year



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report consists of 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. The financial statements, and notes thereto, encompass the University and its component units. These component units include:

- Blended Component Unit:
  - Florida Atlantic University College of Medicine Self-Insurance Program
- Discretely Presented Component Units:
  - Florida Atlantic University Foundation, Inc.
  - Florida Atlantic University Research Corporation, Inc.
  - Harbor Branch Oceanographic Institute Foundation, Inc.
  - FAU Finance Corporation
  - FAU Clinical Practice Organization, Inc.

Information regarding these component units, including summaries of the blended and discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports. The Florida Atlantic University Foundation, Inc. and the Harbor Branch Oceanographic Institute Foundation, Inc., report under Financial Accounting Standards Board (FASB) and, as such, do not include an MD&A in their audit reports.

The Statement of Net Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	2018	2017
Assets		
Current Assets	$ 336,712	$ 302,920
Capital Assets, Net	730,428	746,843
Other Noncurrent Assets	17,897	7,013
Total Assets	1,085,037	1,056,776
Deferred Outflows of Resources	64,773	49,455
Liabilities		
Current Liabilities	62,264	50,209
Noncurrent Liabilities	402,008	271,939
Total Liabilities	464,272	322,148
Deferred Inflows of Resources	28,820	1,565
Net Position		
Net Investment in Capital Assets	670,823	660,796
Restricted	18,420	14,411
Unrestricted	(32,525)	107,311
Total Net Position	$ 656,718	$ 782,518

Total assets as of June 30, 2018, increased by $28.3 million or 2.7 percent. The increase in current assets is due to more University funds being reported as investments and an increase in funds due from State. Specifically, funds due from State for capital construction projects increased by $17.8 million mainly due to expansion of the Student Union, the Jupiter STEM/Life Science Building, and the Cooling Towers Replacement. While current assets increased, net capital assets decreased $16.4 million due to a combination of $23.8 million of additions, $23.3 million of deletions and a $16.9 million increase in accumulated depreciation. Compared to the 2016-17 fiscal year, and as a result of the actuarial valuation for the period as of June 30, 2018, and the adoption of GASB Statement No. 75, deferred outflows of resources increased by $15.3 million and deferred inflows of resources increased $27.3 million. Overall, total liabilities as of June 30, 2018, increased by $142.1 million or 44.1 percent due to new liabilities recorded from the adoption of GASB Statement No. 75 for the University's proportionate share of OPEB liabilities of $118 million, an increase in the University's proportionate share of the NPL of $17.3 million, and an increase of $3.4 million in compensated absences. The net effect of total assets and deferred outflows of resources minus liabilities and deferred inflows of resources decreased the University's net position by $125.8 million.

<u>The Statement of Revenues, Expenses, and Changes in Net Position</u>

The statement of revenues, expenses, and changes in net position presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2017-18 and 2016-17 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
Operating Revenues	$ 290,129	$ 282,374
Less, Operating Expenses	594,905	550,553
Operating Loss	(304,776)	(268,179)
Net Nonoperating Revenues	285,908	254,694
Loss Before Other Revenues	(18,868)	(13,485)
Other Revenues	22,310	11,766
Net Increase (Decrease) In Net Position	3,442	(1,719)
Net Position, Beginning of Year	782,518	798,267
Adjustments to Beginning Net Position (1)	(129,242)	(14,030)
Net Position, Beginning of Year, as Restated	653,276	784,237
Net Position, End of Year	$ 656,718	$ 782,518

(1) For the 2017-18 fiscal year, as discussed in Note 3. to the financial statements, the University's beginning net position was decreased in conjunction with the implementation of GASB Statement No. 75. For the 2016-17 fiscal year, the adjustment to beginning net position was due to a one-time extraordinary circumstance surrounding the conversion grant data to a new ERP system.

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2017-18 and 2016-17 fiscal years:

Operating Revenues
For the Fiscal Years

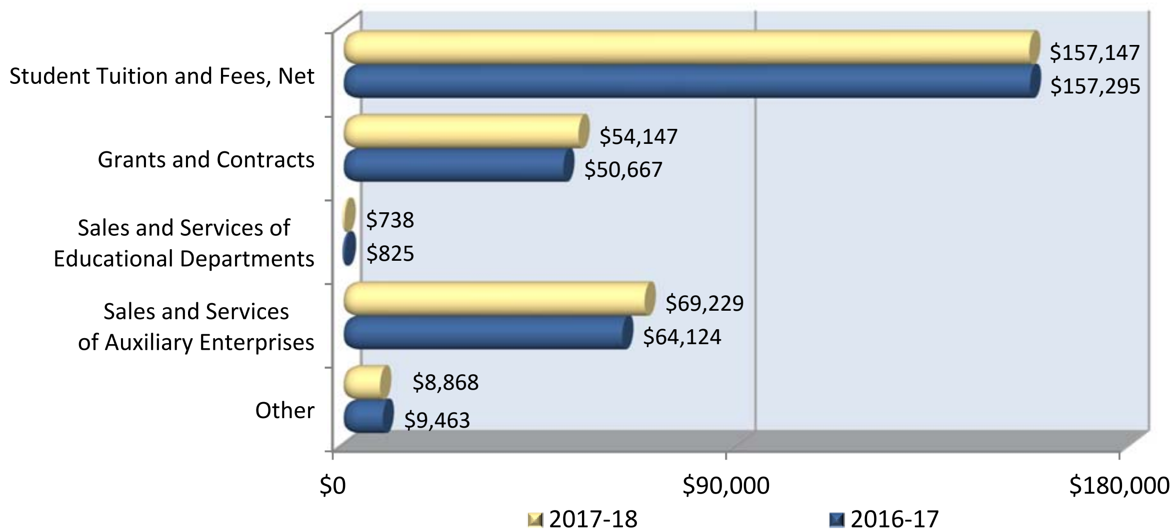
(In Thousands)

	2017-18	2016-17
Student Tuition and Fees, Net	$ 157,147	$ 157,295
Grants and Contracts	54,147	50,667
Sales and Services of Educational Departments	738	825
Sales and Services of Auxiliary Enterprises	69,229	64,124
Other	8,868	9,463
Total Operating Revenues	$ 290,129	$ 282,374

The following chart presents the University's operating revenues for the 2017-18 and 2016-17 fiscal years:

Operating Revenues

(In Thousands)



For the fiscal year ending June 30, 2018, the University's operating revenues had an overall increase of $7.8 million. This impact is mainly attributable to the increase in sponsored awards and the rise in auxiliary revenues. Due to strategic planning and implementation, student tuition and fees were consistent with prior year and continue to reflect a high caliber student population enrolled in more billable credit hours. Additionally, there was an increase in revenues generated from sponsored awards as the University has laid the foundation for world-class research programs including developing centers and institutes such as the Brain Institute, the Institute for Sensing & Embedded Network Systems Engineering (I-SENSE), Harbor Branch Oceanographic Institute, the Center for Environmental Studies, the USDOT's Transportation Center, and the Nikon Center of Excellence. In addition, sales and services of auxiliary enterprises increased $5.1 million due to an increase in the Graduate Medical Education program in the areas of emergency medicine and general surgery.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the 2017-18 and 2016-17 fiscal years:

Operating Expenses
For the Fiscal Years

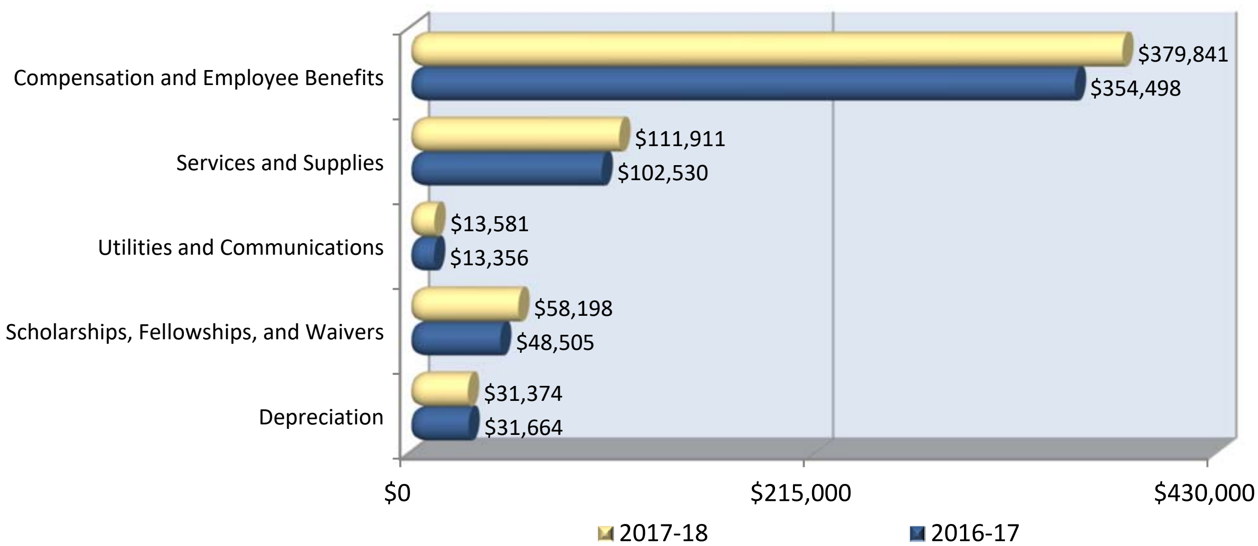
(In Thousands)

	2017-18	**2016-17**
Compensation and Employee Benefits	$ 379,841	$ 354,498
Services and Supplies	111,911	102,530
Utilities and Communications	13,581	13,356
Scholarships, Fellowships, and Waivers	58,198	48,505
Depreciation	31,374	31,664
Total Operating Expenses	$ 594,905	$ 550,553

The following chart presents the University's operating expenses for the 2017-18 and 2016-17 fiscal years:

Operating Expenses

(In Thousands)



As a whole, total operating expenses increased by $44.4 million, primarily due to an increase in compensation and employee benefits expense, services and supplies, and scholarships, fellowships, and waivers. Compensation and employee benefits expense increased $25.3 million and is attributable to OPEB and pension expense, a combination of one-time merit payments awarded as a percentage of base salary from performance reviews for the 2016-17 fiscal year, and United Faculty of Florida (UFF) collective bargaining unit increases. The $9.4 million increase in services and supplies expense is due to the repairs and maintenance costs for the operations of the University. The $9.7 million increase in scholarships, fellowships, and waivers is due to increased funding from the Florida Bright Futures Program and the Florida Student Assistance Grant (FSAG) Program, and an increase in State mandated exemptions which provide free or reduced in-state tuition waivers.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2017-18 and 2016-17 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
State Noncapital Appropriations	$ 191,156	$ 190,415
Federal and State Student Financial Aid	69,714	53,659
Investment Income	4,524	3,423
Unrealized Losses	(1,425)	(5,113)
Other Nonoperating Revenues	27,775	19,833
Loss on Disposal of Capital Assets	(2,488)	(3,784)
Interest on Capital Asset-Related Debt	(3,268)	(3,307)
Other Nonoperating Expenses	(80)	(432)
Net Nonoperating Revenues	$ 285,908	$ 254,694

Total net nonoperating revenues increased by $31.2 million, or 12.3 percent and is primarily due to an increase of $16.1 million in Federal and State Student Financial Aid, lower unrealized losses and an increase in other nonoperating revenue. For the 2017-18 fiscal year, State noncapital appropriations represents the largest component of nonoperating revenues and is consistent with the 2016-17 fiscal year performance funding received based on the University's achievement of criteria established by the Board of Governors including but not limited to improved graduation rates and academic progress. Federal and State Student Financial Aid increased as a result of an increase in State financial aid from the Florida Bright Futures Program, the FSAG Program, and the Federal Pell Grant Program. Further, other nonoperating revenues increased by $7.9 million primarily from the University's receipt of institutional support from the FAU Foundation for the construction of the Schmidt Family Complex for Academic and Athletic Excellence. The $3.7 million change in unrealized losses is due to the decrease in the Fair Market Value adjustment factor to 0.9872 at June 30, 2018, from 0.9923 at June 30, 2017, used in the valuation of the University's investments with the State Treasury.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues for the 2017-18 and 2016-17 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
State Capital Appropriations	$ 21,125	$ 11,608
Capital Grants, Contracts, Donations, and Fees	1,185	158
Total	$ 22,310	$ 11,766

Overall, other revenues increased by $10.5 million due to an increase in State capital appropriations. Compared to the 2016-17 fiscal year, State capital appropriations for the 2017-18 fiscal year included State support for the expansion project for the Student Union and significant State support related to the construction of the FAU STEM/Life Science Building on the University's MacArthur Campus in Jupiter, Florida.

The Statement of Cash Flows

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2017-18 and 2016-17 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
Cash Provided (Used) by:		
Operating Activities	$ (253,748)	$ (211,474)
Noncapital Financing Activities	285,126	262,966
Capital and Related Financing Activities	(15,950)	(25,622)
Investing Activities	(21,923)	(19,136)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,495)	6,734
Cash and Cash Equivalents, Beginning of Year	13,101	6,367
Cash and Cash Equivalents, End of Year	$ 6,606	$ 13,101

Major sources of funds came from State noncapital appropriations ($191.2 million), net student tuition and fees ($152.3 million), Federal Direct Student Loan receipts ($123.4 million), sales and services of auxiliary enterprises ($68.5 million), Federal and State student financial aid ($70.1 million), grants and contracts ($56.1 million), and other nonoperating receipts ($23.7 million). Major uses of funds were for payments made to and on behalf of employees totaling $355.3 million, disbursements to students for Federal Direct Student Loans totaling $123.2 million, payments to suppliers totaling $126.6 million, and payments to and on behalf of students for scholarships totaling $56.3 million. Changes in cash and cash equivalents were the result of the following factors:

- The increase in cash used by operating activities was due primarily to an increase in payments to employees and suppliers.
- The increase in cash provided by noncapital financing activities was primarily due to increase in Federal and State student financial aid.
- The decrease in cash used by capital and related financing activities was primarily due to the decrease in the purchase or construction of capital assets.

Capital Assets, Capital Expenses and Commitments, and Debt Administration

Capital Assets

At June 30, 2018, the University had $1.2 billion in capital assets, less accumulated depreciation of $454.4 million, for net capital assets of $730.4 million. Depreciation charges for the current fiscal year totaled $31.4 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2018	**2017**
Land	$ 9,918	$ 9,856
Construction in Progress	24,107	15,316
Buildings	831,265	841,328
Infrastructure and Other Improvements	104,330	100,020
Furniture and Equipment	100,196	99,311
Library Resources	61,817	65,492
Property Under Capital Leases and Leasehold Improvements	45,817	45,645
Works of Art and Historical Treasures	5,364	5,364
Computer Software	2,051	2,081
Capital Assets, Gross	1,184,865	1,184,413
Less Accumulated Depreciation	454,437	437,570
Capital Assets, Net	$ 730,428	$ 746,843

Additional information about the University's capital assets is presented in the notes to financial statements.

Capital Expenses and Commitments

Major capital expenses through June 30, 2018, were incurred on the following projects: Student Union Renovation, Jupiter STEM/Life Science Building, Schmidt Family Complex for Academic and Athletic

Excellence, Breezeway Renovations and Repairs, Cooling Towers Replacement, and Engineering West HVAC Renovations. The University's major construction commitments at June 30, 2018, are as follows:

	Amount (In Thousands)
Total Committed	$ 84,210
Completed to Date	24,107
Balance Committed	$ 60,103

Additional information about the University's construction commitments is presented in the notes to financial statements.

Debt Administration

As of June 30, 2018, the University had $70.2 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of $5.1 million, or 6.7 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	2018	2017
Capital Improvement Debt	$ 63,220	$ 67,615
Capital Leases	6,954	7,613
Total	$ 70,174	$ 75,228

Additional information about the University's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's economic condition is closely tied to that of the State of Florida. The Florida Legislature adopted a 2.4 increase in the Educational and General Budget allocation for State universities for the 2018-19 fiscal year. Florida Atlantic University's share of that increase translated to an increase of $6.7 million in Educational and General Fund including performance funding, the World Class Faculty and Scholar Program, and the University Professional and Graduate Degree Excellence Program. The funding priorities for Florida higher education continue to focus on efforts to maintain a stable funding environment including enrollment increase support and recognition of specific programmatic initiatives and support for the 2015-2025 Strategic Plan. Base funding initiatives to strengthen graduation rates, enhance recruitment/retention efforts and growing academic program offerings continue to be the priorities of the University campus for the 2018-19 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to David (Art) Kite, Executive Associate Vice President for Financial Affairs and Deputy Chief Financial Officer, Florida Atlantic University, 777 Glades Road, Boca Raton, Florida 33431.

FLORIDA ATLANTIC UNIVERSITY
A Component Unit of the State of Florida
Statement of Net Position
June 30, 2018

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 6,596,618	$ 36,526,670
Cash with Fiscal Agent	-	28,621,893
Investments	257,509,023	150,752,699
Accounts Receivable, Net	22,259,985	12,149,882
Loans and Notes Receivable, Net	4,803,689	-
Due from State	35,380,630	-
Due from Component Units/University	7,436,687	2,761,458
Net Investment in Direct Financing-Type Lease	-	534,000
Other Current Assets	2,725,847	6,241,673
Total Current Assets	336,712,479	237,588,275
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	-	18,186
Restricted Cash with Fiscal Agent	9,464	17,764,093
Restricted Investments	17,376,829	171,189,463
Net Investment in Direct Financing-Type Lease	-	6,134,000
Accounts Receivable, Net	-	16,040,471
Loans and Notes Receivable, Net	510,820	-
Depreciable Capital Assets, Net	692,085,783	120,317,761
Nondepreciable Capital Assets	38,342,269	20,153,617
Other Noncurrent Assets	-	8,666,667
Total Noncurrent Assets	748,325,165	360,284,258
Total Assets	1,085,037,644	597,872,533
DEFERRED OUTFLOWS OF RESOURCES		
Related to Other Postemployment Benefits	2,690,000	-
Related to Pensions	62,082,601	-
Total Deferred Outflows of Resources	64,772,601	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	7,746,491	1,313,952
Salary and Wages Payable	9,351,490	6,341
Deposits Payable	9,904,670	-
Due to State	50,873	-
Due to Component Units/University	2,761,458	7,436,687
Unearned Revenue	21,202,014	3,107,372
Other Current Liabilities	-	6,158,950
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	4,560,000	-
Bonds Payable	-	5,155,000
Certificates of Participation Payable	-	534,000
Capital Leases Payable	680,797	-
Unearned Lease Revenue	400,000	-
Compensated Absences Payable	2,336,135	-
Other Postemployment Benefits Payable	2,607,000	-
Net Pension Liability	663,334	-
Total Current Liabilities	62,264,262	23,712,302

FLORIDA ATLANTIC UNIVERSITY
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2018

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable (CIDP)	58,660,000	-
CIDP Net Unamortized Premium and Discount	4,193,298	-
Bonds Payable	-	189,465,000
Bonds Payable Unamortized Premium	-	1,091,169
Certificates of Participation Payable	-	6,134,000
Capital Leases Payable	6,272,859	-
Unearned Lease Revenue	8,266,667	-
Other Noncurrent Liabilities	1,649,202	-
Compensated Absences Payable	29,692,871	-
Other Postemployment Benefits Payable	178,922,000	-
Net Pension Liability	114,351,072	-
Total Noncurrent Liabilities	402,007,969	196,690,169
Total Liabilities	464,272,231	220,402,471
DEFERRED INFLOWS OF RESOURCES		
Related to Other Postemployment Benefits	23,228,628	-
Related to Pensions	5,591,428	-
Total Deferred Inflows of Resources	28,820,056	-
NET POSITION		
Net Investment in Capital Assets	670,823,386	(13,751,215)
Restricted for Nonexpendable:		
Endowment	-	170,186,509
Restricted for Expendable:		
Debt Service	-	20,551,413
Loans	3,888,619	-
Other	14,531,128	203,667,783
Unrestricted	(32,525,175)	(3,184,428)
TOTAL NET POSITION	$ 656,717,958	$ 377,470,062

The accompanying notes to financial statements are an integral part of this statement.

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FLORIDA ATLANTIC UNIVERSITY
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $66,999,415	$ 157,147,126	$ -
Federal Grants and Contracts	25,977,931	-
State and Local Grants and Contracts	15,941,166	2,910,376
Nongovernmental Grants and Contracts	12,227,759	1,709,360
Sales and Services of Educational Departments	737,834	-
Sales and Services of Auxiliary Enterprises (Pledged for Capital Improvement Debt: $5,555,108 for Housing and $7,018,025 for Parking)	69,228,836	-
Sales and Services of Component Units	-	36,379,762
Royalties and Licensing Fees	-	211,907
Gifts and Donations	-	16,974,467
Interest on Loans and Notes Receivable	87,865	189,282
Other Operating Revenues	8,780,073	1,618,781
Total Operating Revenues	290,128,590	59,993,935
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	379,840,519	15,932,397
Services and Supplies	111,910,767	20,013,750
Utilities and Communications	13,581,474	2,223,286
Scholarships, Fellowships, and Waivers	58,198,086	7,805,102
Depreciation	31,373,587	5,709,076
Other Operating Expenses	-	12,097,673
Total Operating Expenses	594,904,433	63,781,284
Operating Loss	(304,775,843)	(3,787,349)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	191,156,393	-
Federal and State Student Financial Aid	69,714,205	-
Investment Income	4,524,028	11,058,141
Net Realized and Unrealized Gain (Loss) on Investments	(1,425,539)	15,476,616
Other Nonoperating Revenues	27,775,391	6,866,324
Loss on Disposal of Capital Assets	(2,488,476)	-
Interest on Capital Asset-Related Debt	(3,267,687)	(11,380,335)
Other Nonoperating Expenses	(80,203)	(6,056,346)
Net Nonoperating Revenues	285,908,112	15,964,400
Income (Loss) Before Other Revenues	(18,867,731)	12,177,051
State Capital Appropriations	21,124,453	-
Capital Grants, Contracts, Donations, and Fees	1,185,312	11,690,504
Increase in Net Position	3,442,034	23,867,555
Net Position, Beginning of Year	782,518,343	353,602,507
Adjustment to Beginning Net Position	(129,242,419)	-
Net Position, Beginning of Year, as Restated	653,275,924	353,602,507
Net Position, End of Year	$ 656,717,958	$ 377,470,062

The accompanying notes to financial statements are an integral part of this statement.

FLORIDA ATLANTIC UNIVERSITY
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2018

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 152,317,882
Grants and Contracts	56,141,238
Sales and Services of Educational Departments	737,834
Sales and Services of Auxiliary Enterprises	68,529,653
Interest on Loans and Notes Receivable	87,865
Payments to Employees	(355,338,448)
Payments to Suppliers for Goods and Services	(126,629,825)
Payments to Students for Scholarships and Fellowships	(56,302,178)
Loans Issued to Students	(261,401)
Collection on Loans to Students	304,048
Other Operating Receipts	6,665,649
Net Cash Used by Operating Activities	(253,747,683)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	191,156,393
Federal and State Student Financial Aid	70,064,531
Federal Direct Loan Program Receipts	123,377,488
Federal Direct Loan Program Disbursements	(123,151,436)
Other Nonoperating Receipts	23,678,718
Net Cash Provided by Noncapital Financing Activities	285,125,694
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	8,710,899
Capital Grants, Contracts, Donations, and Fees	1,185,311
Purchase or Construction of Capital Assets	(17,447,158)
Principal Paid on Capital Debt	(4,395,000)
Interest Paid on Capital Debt	(3,067,925)
Principal Paid on Capital Leases	(659,062)
Interest Paid on Capital Leases	(199,762)
Other Debt Related Disbursements	(77,778)
Net Cash Used by Capital and Related Financing Activities	(15,950,475)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investments	(26,349,274)
Investment Income	4,426,695
Net Cash Used by Investing Activities	(21,922,579)
Net Decrease in Cash and Cash Equivalents	(6,495,043)
Cash and Cash Equivalents, Beginning of Year	13,101,125
Cash and Cash Equivalents, End of Year	$ 6,606,082

FLORIDA ATLANTIC UNIVERSITY
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2018

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (304,775,843)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	31,373,587
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(3,534,045)
Inventories	27,866
Loans and Notes Receivable	42,647
Other Current Assets	(188,599)
Accounts Payable	(746,690)
Salaries and Wages Payable	417,218
Deposits Payable	3,888,812
Compensated Absences Payable	3,445,680
Unearned Revenue	(1,534,168)
Other Liabilities	(223,224)
Other Postemployment Benefits Payable	(11,223,416)
Net Pension Liability	17,344,744
Deferred Outflows of Resources Related to Other Postemployment Benefits	(2,690,000)
Deferred Inflows of Resources Related to Other Postemployment Benefits	23,228,628
Deferred Outflows of Resources Related to Pensions	(12,626,966)
Deferred Inflows of Resources Related to Pensions	4,026,086
NET CASH USED BY OPERATING ACTIVITIES	$ (253,747,683)

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES

Unrealized losses on investments were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (1,425,539)
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (2,488,476)

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the Executive Officer and the Corporate Secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of criteria for determining component units, the Florida Atlantic University College of Medicine Self-Insurance Program (Program), is included within the University's reporting entity as a blended component unit. The Program was created on June 23, 2011, by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes, and its sole purpose is to assist in providing comprehensive general liability (malpractice) coverage for the University and its affiliated individuals and entities, and is therefore reported as if it is part of the University. Condensed financial statements for the University's blended component unit are shown in a subsequent note. The condensed financial statements are reported net of eliminations.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, certain affiliated organizations are included within the University's reporting entity as discretely presented component units. The University further categorizes its component units as Direct-Support Organizations and Health Science Center Affiliates. An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual reports are submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the Office of University Relations. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

Direct-Support Organizations. The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011 are considered component units of Florida Atlantic University and, therefore, the latest audited financial statements of these organizations are included in the University's financial statements by discrete presentation. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. The Statutes authorize these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- Florida Atlantic University Foundation, Inc. (FAU Foundation) is a separate corporation operating independently from the University and, as such, receives and administers most private support for the University. Any person or organization contributing money, stock, or any other item to be used in support of the general or specific support of the University usually does so through the offices of the FAU Foundation.
- Florida Atlantic University Research Corporation, Inc. (Research Corporation) was established by Florida Atlantic University in 1990. It has been organized to promote and encourage, and to provide assistance to, the research activities of the University's faculty, staff, and students. The Research Corporation has been granted rights and responsibilities for the development, protection, and commercial application of defined and selected intellectual property. In consideration of its efforts, the Research Corporation is entitled to a portion of the royalties, license fees, or other revenue for the benefit of the University. The Research Corporation also accepts and administers contracts and grants from private industry, foundations, and other agencies whenever it is required by the granting agency, or when it is in the best interest of the University.
- Harbor Branch Oceanographic Institute Foundation, Inc. (HBOI Foundation) is a separate corporation operating independently from the University that became a provider of funding and support for the research and education in marine science and ocean engineering to the Harbor Branch Oceanographic Institute, a research institute within the University. The HBOI Foundation receives and administers most private support to the Institute as it increases the understanding of oceans and coastal areas through exploration and scientific investigation.
- FAU Finance Corporation (Finance Corporation) is a separate corporation operating independently from 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.

Health Science Center Affiliates. The FAU Clinical Practice Organization, Inc. (FAU CPO) is closely affiliated with the University's Charles Schmidt College of Medicine, the Christine E. Lynn College of Nursing, and other participating colleges and units within the University. The FAU CPO was incorporated on May 3, 2011, as a not-for-profit organization under Chapter 617, Florida Statutes. It was established to promote and support medical education, patient care, research, and the administration and distribution of funds exclusively for support of the mission and objectives of the University in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans, adopted by the University, pursuant to Board of Governors Regulation 9.017.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
- Other Required Supplementary Information

Measurement Focus and Basis of Accounting. Basis of accounting refers to when revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

The University's blended and discretely presented component units use the economic resources measurement focus and the accrual basis of accounting. The Research Corporation, the Finance Corporation, and the FAU CPO follow GASB standards of accounting and financial reporting. The FAU Foundation and the HBOI Foundation follow FASB standards of accounting and financial reporting for not-for-profit organizations.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from revenues and expenses for reporting purposes.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income. Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the University’s policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University applied “The Alternate Method” as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida’s multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

Three of the University’s component units, FAU Foundation, Research Corporation, and Finance Corporation reported cash, cash equivalents, and cash with fiscal agent at fair value of $59,139,018 at June 30, 2018, invested in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard and Poor’s and had an effective duration of 3 years and a fair value factor of 0.9872 at June 30, 2018. The component units rely on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

Capital Assets. University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital leases and leasehold improvements, works of art and historical treasures, and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of $250 for library resources and $5,000 for tangible personal property, new buildings, and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 50 years
- Infrastructure and Other Improvements – 5 to 50 years

- Furniture and Equipment – 3 to 30 years
- Library Resources – 7 to 10 years
- Property Under Capital Lease – Various based on lease terms
- Leasehold Improvements – Various based on lease terms
- Works of Art and Historical Treasures – 15 to 50 years
- Computer Software – 3 to 15 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, capital leases payable, unearned lease revenue, other noncurrent liabilities, compensated absences payable, other postemployment benefits payable, and net pension liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

Pensions. For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Reporting Change

The University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and requires employers participating in cost-sharing multiple-employer defined postemployment benefit health plans (other than retirement) to report the employers' proportionate share of the net OPEB liabilities of the defined OPEB plans. The University participates in the State Group Health Insurance Plan administered by the Florida Department of Management Services, Division of State Group Insurance (DSGI). The effects of implementing this Statement are discussed in Note 3.

3. Adjustment to Beginning Net Position

The beginning net position of the University was decreased by $129,242,419 due to implementation of GASB Statement No. 75. As a result of the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75, the University's total OPEB liability increased by $131,541,000 to $195,051,000, deferred outflows of resources increased to $2,298,581, and deferred inflows of resources remained unchanged as of July 1, 2017.

4. Deficit Net Position in Individual Funds

The University reported an unrestricted net position which included a deficit in the current funds – unrestricted. This deficit can be attributed to the full recognition of the OPEB liability in the current unrestricted funds due to implementation of GASB Statement No. 75. The University had a deficit unrestricted net position of $32,525,175 at June 30, 2018.

5. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA) and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open end or closed end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University 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 University's recurring fair value measurements as of June 30, 2018, are valued using quoted market prices (Level 1 inputs), with the exception of investments with the State Treasury which are valued based on the University's share of the pool (Level 3 inputs).

External Investment Pools.

The University reported investments at fair value totaling $271,314,494 at June 30, 2018, in the SPIA investment pool, representing ownership of a share of the pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. 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 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 3 years, and fair value factor of 0.9872 at June 30, 2018. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments.

The University's College of Medicine Self-Insurance Program, a blended component unit of the University, invested in equity mutual funds and bond mutual funds. Equity mutual fund investments consist of shares in Vanguard International Stock Index Fund and Vanguard Total Stock Market Index Fund. Bond mutual fund investments consist of shares owned in Vanguard Short-Term Bond Index Fund and Vanguard Intermediate Term Bond Index Fund. The Program's investments are recorded at fair value and the program categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The Program's recurring fair value measurements at June 30, 2018, for its equity mutual funds and bond mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Program are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their net asset value (NAV) and to transact at that price. The mutual funds held by the Program are deemed to be actively traded.

The Program's investments at June 30, 2018 are reported as follows:

	Self-Insurance Program Investments			
Investments by Fair Value Level	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity Mutual Funds				
Domestic Equity Funds	$ 725,044	$ -	$ -	$ 725,044
Global Equity Funds	340,102	-	-	340,102
Total Equity Mutual Funds	1,065,146	-	-	1,065,146
Bond Mutual Funds				
Short-Term Bond Funds	2,008,352	-	-	2,008,352
Intermediate-Term Bond Funds	497,860	-	-	497,860
Total Bond Mutual Funds	2,506,212	-	-	2,506,212
Total Investments by Fair Value Level	$ 3,571,358	$ -	$ -	$ 3,571,358

The following risks apply to the Program's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program's investments in bond mutual funds are subject to interest rate risk. The effective duration of the Program's investments in bond mutual funds as of June 30, 2018, range from 2.71 years to 6.39 years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk (by the GASB) and do not require disclosure of credit quality. At June 30, 2018, the Program held bond mutual funds which have underlying investments with quality ratings by nationally recognized rating agencies as shown below:

Self-Insurance Program's Investments Quality Ratings

Investment Type	Fair Value	AAA/Aaa	AA/Aa	A/Ba	Less Than A/Ba Or Not Rated
Bond Mutual Funds	$ 2,506,212	$ -	$ 2,008,352	$ 497,860	$ -

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the Program and are not registered in the Program's name. The Program has not identified any investments falling into this category as of June 30, 2018.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investments in a single issuer. The Program places no limit on the amount it may invest in one issuer. Investments that consist of more than 5 percent of the Program's investments at June 30, 2018 are shown below:

Self-Insurance Program's Concentration of Credit Risk

Investment Type	Fair Value	Percent of Program's Total Investments
Vanguard International Stock Index Fund	$ 340,102	10%
Vanguard Total Stock Market Index Fund	725,044	20%
Vanguard Short-Term Bond Index Fund	2,008,352	56%
Vanguard Intermediate-Term Bond Index Fund	497,860	14%
Total Investments	$ 3,571,358	100%

The Program's formal investment policy in place does not specifically address any of the types of risks identified above.

Component Units' Investments – FAU Foundation.

The FAU Foundation, a component unit of the University, invested primarily in domestic and international equity, fixed income securities, and alternative investments such as hedge funds, private equity and real asset funds. Investments at June 30, 2018, consisted of the following at their fair value:

Investment Type	Amount
United States Equities	$ 55,584,213
International Equities	65,646,177
Fixed Income Securities	26,856,693
Hedge Funds	50,798,137
Private Equity Funds	18,129,063
Real Asset Funds	25,186,870
Total Investments	$ 242,201,153

Interest and dividend income reflected in the statements of activities for the year ended June 30, 2018, is presented net of the estimated investment manager/custodian fees of approximately $1,942,000. Investments in common stocks (equities) and exchange traded funds are carried at market value, as quoted on major stock exchanges. Investments in equity funds, fixed income funds, commodities and real estate investment trusts are carried at market value, as reported by the issuers. Alternative investments consist of hedge funds, private equity, and real asset funds. Alternative investments (nontraditional, not readily marketable assets), some of which are structured such that the FAU Foundation holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may in turn include investments in both nonmarketable and market traded securities. Valuation of these investments and, therefore FAU Foundation holdings, are determined by the investment manager or general partner. Values may be based on historical costs, appraisals, or other estimates that require varying degrees of judgment. While these financial instruments may contain varying degrees of risk, the FAU Foundation's risk with respect to such transactions is limited to its capital balance, and any remaining commitments, in each investment. The financial statements of the investees are audited annually by certified public accounting firms.

The FAU Foundation believes the methods for providing estimated fair values on these financial instruments are reasonable. Alternative investments often do not have readily determinable market values and their estimated value is subject to uncertainty. Therefore, there may be a significant difference between their estimated value and the value that would have been used had a readily determinable fair market value for such investments existed.

Investments in equities and domestic fixed income securities are highly liquid. The investments in international fixed income are restricted by the donors to remain in these investments. If liquidation were allowed, the sale would likely be discounted on a secondary market. Several hedge fund instruments require an initial lock up period from 1 to 3 years. The FAU Foundation typically selects the shortest lock up period available when initiating a purchase. Certain private equity and real asset fund investments may require a lock-up period of up to 10 years or for the duration of the partnership, although distributions of capital are periodically made by the managing partners when a project completes.

The FAU Foundation invests in hedging activities in order to mitigate the risk inherent with market fluctuations and its hedge fund managers may invest in derivative instruments. At June 30, 2018, the FAU Foundation invested approximately 21 percent of the managed portfolio with hedge fund managers.

Component Units' Investments – FAU Foundation – Funds Held in Trust by Others.

The FAU Foundation is the sole beneficiary of certain trusts that are not in its possession or under its control, but are held and administered by outside trustees. These funds held in trust by others are considered part of the FAU Foundation's endowments. The FAU Foundation recognizes the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or when the FAU Foundation is notified of its existence. The present value is calculated using discount rates the year in which the trust was established.

Funds held in trust by others at June 30, 2018, consisted of the following at their fair value:

Investment Type	Amount
United States Equities	$ 1,664,564
International Equities	706,319
Fixed Income Securities	431,664
Hedge Funds	340,370
Cash and Equivalents	58,073
Commodities	129,630
Total Funds Held in Trust	$ 3,330,620

Component Units' Investments – FAU Foundation - Fair Value Measurement.

The following table presents the FAU Foundation's investments measured at fair value as of June 30, 2018, which include investments and funds held in trust by others, on the statement of financial position. These assets are classified by Accounting Standards Codification (ASC) No. 820 fair value hierarchy as follows:

Florida Atlantic University Foundation, Inc.

Investment Type	Level 1	Level 2	Level 3	Investments Valued at NAV	Total
Equities	$ 123,601,273	$ -	$ -	$ -	$ 123,601,273
Other	16,113,575	58,073	-	78,470,495	94,642,143
Fixed Income	22,944,600	4,343,757	-	-	27,288,357
Total Investments	$ 162,659,448	$ 4,401,830	$ -	$ 78,470,495	$ 245,531,773

For the year ended June 30, 2018, there were no transfers between Levels. The FAU Foundation's policy is to recognize transfers in and out as of the actual date of the event or change in circumstances that caused the transfer.

The following table identifies alternative investments held by the FAU Foundation at June 30, 2018:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Long-Short Strategy	$ 22,009,875	$ -	Quarterly and Semi-Annually	60 to 180 Days
Private Equity	18,129,063	17,006,271	Duration of Partnership	N/A
Multi-Strategy	12,352,791	-	Quarterly, Over One Year and Duration of Partnership	60 to 70 Days and N/A
Real Assets	9,543,296	1,200,274	Monthly and Duration of Partnership	30 Days and N/A
Distressed Strategy	5,336,226	-	Duration of Partnership	75 Days and N/A
Relative Value Credit Strategy	4,820,343	-	Quarterly	45 Days
Small/Micro Cap Healthcare Strategy	3,358,517	-	Semi-Annually	30 Days
Global Macro Strategy	2,920,384	-	Monthly	60 Days
Total	$ 78,470,495	$ 18,206,545		

Component Units' Investments – HBOI Foundation.

The HBOI Foundation, a component unit of the University, invested in various types of mutual funds and exchange traded funds, multi-strategy hedge funds, and diversified offshore funds. The fair value of investments at June 30, 2018, including the following:

HBOI Foundation, Inc.

Investment Type	Not Classified	Level 1	Level 2	Level 3	Total
Cash Equivalents	$ 51,400	$ -	$ -	$ -	$ 51,400
Land Held for Investment	691,553	-	-	-	691,553
Mutual Funds and Exchange Traded Funds:					
Fixed Income	-	16,902,749	-	-	16,902,749
Large Cap	-	32,810,970	-	-	32,810,970
Small Cap	-	12,027,390	-	-	12,027,390
International	-	12,602,086	-	-	12,602,086
Alternative	-	1,324,241	-	-	1,324,241
Total Investments	$ 742,953	$ 75,667,436	$ -	$ -	$ 76,410,389

Concentration of Credit Risk: The HBOI Foundation's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents, which include checking accounts placed with federally insured financial institutions. Such accounts may at times exceed federally insured limits. The HBOI Foundation has not experienced any losses on such accounts. The HBOI Foundation has significant investments in equities, mutual funds, exchange traded funds, and hedge funds, which are also subject to concentrations of credit risk. Investments are made by investment managers engaged by the HBOI Foundation and the investments are monitored for the HBOI Foundation by an investment consultant. Although the market value of investments is subject to fluctuations on a day-to-day basis, management believes the investment policy is prudent for the long-term welfare of the HBOI Foundation and its beneficiaries.

6. Receivables

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2018, the University reported the following amounts as accounts receivable:

Description	Amount
Student Tuition and Fees	$ 12,574,392
Contracts and Grants	7,734,700
Other	1,950,893
Total Accounts Receivable	$ 22,259,985

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowance for Doubtful Receivables. Allowances for doubtful accounts and loans and notes receivable are reported based on management's best estimate as of fiscal year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans and notes receivable are reported net of allowances of $13,908,371 and $277,841 respectively, at June 30, 2018.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

7. Due From State

The amount due from State consists of $35,380,630 of Public Education Capital Outlay (PECO) and Capital Improvement Fee allocations due from the State to the University for construction of University facilities.

8. Due From and To Component Units/University

The $7,436,687 reported as due from component units consists of amounts owed to the University by the FAU Foundation to reimburse funds expended out of departmental FAU Foundation accounts; by the Finance Corporation for the reimbursement of costs associated with student housing operations; by the FAU CPO for the reimbursement of costs associated with the FAU CPO; by the HBOI Foundation to reimburse the University for FAU Harbor Branch research costs; and by the Research Corporation for legal and other costs the University incurs on behalf of the Research Corporation in patenting technologies. The $2,761,458 reported as due to component units consists of amounts owed by the University to the FAU Foundation pursuant to an agreement to support the FAU Foundation's operations; the Finance Corporation pursuant to a management agreement for operations; the FAU CPO pursuant to an agreement to support the FAU CPO's operations; and the Research Corporation pursuant to an agreement to support the Research Corporation's operations.

9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 9,856,277	$ 62,000	$ -	$ 9,918,277
Works of Art and Historical Treasures	4,316,620	-	-	4,316,620
Construction in Progress	15,316,240	12,608,055	3,816,923	24,107,372
Total Nondepreciable Capital Assets	$ 29,489,137	$ 12,670,055	$ 3,816,923	$ 38,342,269
Depreciable Capital Assets:				
Buildings	$ 841,327,960	$ -	$ 10,062,492	$ 831,265,468
Infrastructure and Other Improvements	100,019,847	4,772,578	462,876	104,329,549
Furniture and Equipment	99,311,344	5,635,052	4,750,182	100,196,214
Library Resources	65,492,129	533,698	4,208,457	61,817,370
Property Under Capital Leases and Leasehold Improvements	45,645,487	171,217	-	45,816,704
Works of Art and Historical Treasures	1,047,328	-	-	1,047,328
Computer Software	2,080,608	24,500	54,297	2,050,811
Total Depreciable Capital Assets	1,154,924,703	11,137,045	19,538,304	1,146,523,444
Less, Accumulated Depreciation:				
Buildings	263,690,347	17,549,932	7,045,661	274,194,618
Infrastructure and Other Improvements	40,154,865	3,144,431	104,208	43,195,088
Furniture and Equipment	60,582,070	7,083,874	3,663,866	64,002,078
Library Resources	58,946,295	2,022,257	3,673,285	57,295,267
Property Under Capital Leases and Leasehold Improvements	12,109,206	1,467,231	-	13,576,437
Works of Art and Historical Treasures	225,709	25,658	-	251,367
Computer Software	1,862,382	80,204	19,780	1,922,806
Total Accumulated Depreciation	437,570,874	31,373,587	14,506,800	454,437,661
Total Depreciable Capital Assets, Net	$ 717,353,829	$ (20,236,542)	$ 5,031,504	$ 692,085,783

10. Unearned Revenue

Unearned revenue at June 30, 2018, includes PECO appropriations for which the University had not yet received approval from the Florida Department of Education to spend the funds, student tuition and fees received prior to fiscal year end related to subsequent accounting periods, grant funds, capital prepayments and other prepayments received but not expended as of June 30, 2018. As of June 30, 2018, the University reported the following amounts as unearned revenue:

Description	Amount
Student Tuition and Fees	$ 9,037,826
Capital Prepayments	5,770,257
Contracts and Grants	3,694,873
Other Prepayments	2,500,000
State Capital Appropriations	199,058
Total Unearned Revenue	$ 21,202,014

11. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2018, include capital improvement debt payable, capital leases payable, unearned lease revenue, other noncurrent liabilities, compensated absences payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2018, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable (1)	$ 67,615,000	$ -	$ 4,395,000	$ 63,220,000	$ 4,560,000
Capital Leases Payable	7,612,717	-	659,061	6,953,656	680,797
Unearned Lease Revenue	9,066,667	-	400,000	8,666,667	400,000
Other Noncurrent Liabilities	1,833,748	-	184,546	1,649,202	-
Compensated Absences Payable	28,583,326	5,804,336	2,358,656	32,029,006	2,336,135
Other Postemployment Benefits Payable	63,510,000	143,546,209	25,527,209	181,529,000	2,607,000
Net Pension Liability	97,669,662	72,088,940	54,744,196	115,014,406	663,334
Total Long-Term Liabilities	$ 275,891,120	$ 221,439,485	$ 88,268,668	$ 409,061,937	$ 11,247,266

(1) Capital Improvement Debt Payable does not include $4,193,298 in net discounts and premiums outstanding for the year ended June 30, 2018.

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2018:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2016A Student Housing	$ 53,040,000	$ 48,585,000	4.0 - 5.0	2036
Parking Garage Debt:				
2013A Parking Facility	21,490,000	14,635,000	2.375 - 5.0	2032
Total Capital Improvement Debt	$ 74,530,000	$ 63,220,000		

(1) Capital Improvement Debt Payable does not include $4,193,298 in net discounts and premiums outstanding for the year ended June 30, 2018.

The University has pledged a portion of future housing system revenues and parking system revenues to repay $63,220,000 in capital improvement (housing, parking, etc.) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing system revenues and parking system revenues and are payable through 2036. The University has committed to appropriate each year from the housing system revenues and the parking system revenues amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt (net of discounts and premiums) is $86,204,312 and principal and interest paid for the current year totaled $7,462,925. During the 2017-18 fiscal year, housing system revenues and parking system revenues totaled $5,555,108, and $7,018,025, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	Principal (1)	Interest	Total
2019	$ 4,560,000	$ 2,892,125	$ 7,452,125
2020	4,810,000	2,664,125	7,474,125
2021	5,035,000	2,423,625	7,458,625
2022	3,685,000	2,171,875	5,856,875
2023	3,865,000	1,987,625	5,852,625
2024-2028	18,850,000	7,502,381	26,352,381
2029-2033	17,935,000	2,979,556	20,914,556
2034-2036	4,480,000	363,000	4,843,000
Total	$ 63,220,000	$ 22,984,312	$ 86,204,312

(1) Capital Improvement Debt Payable does not include $4,193,298 in net discounts and premiums outstanding for the year ended June 30, 2018.

Bonds Payable – Component Unit. The Finance Corporation had the following bonds payable outstanding at June 30, 2018:

Bonds Payable	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
Series 2010A Taxable BAB Bonds, Innovation Village	$ 112,455,000	$ 109,755,000	5.48 - 7.64	2040
Series 2017 Taxable Bonds, Stadium	40,035,000	40,035,000	2.61	2040
Series 2012B Tax-Exempt Bonds, Innovation Village	3,440,000	2,270,000	2.17 - 2.64	2025
Series 2012A Tax-Exempt Bonds, Parliament Hall	46,205,000	42,560,000	3.0 - 5.0	2042
Total Bonds Payable	$ 202,135,000	$ 194,620,000		

(1) Bonds Payable does not include $1,091,169 in unamortized bond premiums in the total principal outstanding for the year ended June 30, 2018.

The Finance Corporation extinguished long-term capital improvement debt obligations by the issuance of new long-term capital improvement debt instruments as follows:

- On August 30, 2017, the Finance Corporation issued $40,035,000 of Capital Improvement Revenue Refunding Bonds (Football Stadium Project), Series 2017 to refund the then outstanding Series 2010 Bonds. At August 30, 2017, the Series 2010 Bonds were considered retired/fully defeased. The Series 2017 Bonds bear interest at a 10-year fixed rate of 2.61 percent subject to adjustment through maturity. As a result of the refunding, the Finance Corporation reduced its capital improvement debt service requirement by $8,337,201 over the next 23 years and obtained an economic gain of $6,370,507. At June 30, 2018, the outstanding balance of the defeased debt was $0.

Annual requirements to amortize all bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	Principal (1)	Interest	Total
2019	$ 5,155,000	$ 10,847,407	$ 16,002,407
2020	5,550,000	10,598,174	16,148,174
2021	5,745,000	10,334,471	16,079,471
2022	5,955,000	10,049,090	16,004,090
2023	6,175,000	9,741,651	15,916,651
2024-2028	34,125,000	43,432,584	77,557,584
2029-2033	40,680,000	33,056,035	73,736,035
2034-2038	50,200,000	19,800,464	70,000,464
2039-2042	41,035,000	4,297,251	45,332,251
Total	$ 194,620,000	$ 152,157,127	$ 346,777,127

(1) Bonds Payable does not include $1,091,169 in unamortized bond premiums in the total principal outstanding for the year ended June 30, 2018.

Capital Leases Payable. During the 2011-12 fiscal year, the University entered into a capital lease agreement for energy equipment in the amount of $1,082,030 with stated interest rate of 3.28 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	Amount
2019	$ 153,982
2020	141,150
Total Minimum Payments	295,132
Less, Amount Representing Interest	9,476
Present Value of Minimum Payments	$ 285,656

The University entered into a capital lease agreement in connection with the Certificates of Participation (COP) issued by FAU Foundation to build dormitory buildings on the John D. MacArthur Campus in Jupiter, Florida. The University, in exchange for use of the buildings, makes lease payments sufficient to cover all amounts due under the COP. At June 30, 2018, the amount reported by the University as capital leases payable include $6,668,000, representing the total future payments remaining under the COP net of restricted cash on deposit with the Trustee.

Certificates of Participation – Component Unit. The FAU Foundation refunded its 1999 and 2000 Certificates of Participation through the issuance of Series 2012 Certificates of Participation for $9,540,000. These funds were used to build dormitory buildings on the John D. MacArthur Campus in Jupiter, Florida. The stated interest rate on the 2012 certificates is 2.93 percent. At June 30, 2018, Certificates of Participation payable are as follows:

COP Series	Amount of Issues	Total Retired	Outstanding Principal	Outstanding Interest	Interest Rate	Maturity Date
2012	$ 9,540,000	$ 2,872,000	$ 6,668,000	$ 1,232,640	2.93	2030

The FAU Foundation entered into agreements with the University, whereby the University was allowed use of the buildings in exchange for the University paying all amounts due under the Certificates.

Unearned Lease Revenue. The University leased land to the Finance Corporation under a noncancelable agreement dated March 4, 2010, with terms extending through July 2040. The lease was prepaid in March 2010 by the Finance Corporation to the University for the sum of $12,000,000, which is being amortized over the life of the agreement. The unearned lease revenue amount held by the University totaled $8,666,667 at June 30, 2018, of which $400,000 was reported as current.

Other Noncurrent Liabilities. This represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors' Regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2018, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $32,029,006. The current portion of the compensated absences liability, $2,336,135, is the amount expected to be paid in the coming fiscal year and represents a 3-year historical percentage of leave disbursements applied to the 3-year average accrued leave liability.

Other Postemployment Benefits Payable. As a participating employer in the State Employees' Group Health Insurance Plan, the University recognizes its proportionate share of the collective other postemployment benefits liability of the multiple-employer defined benefit health plan. As of June 30, 2018, the University's proportionate share of the total OPEB liability totaled $181,529,000. Note 12. includes a complete discussion of the OPEB plan.

Net Pension Liability. As a participating employer in the Florida Retirement System (FRS), the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2018, the University's proportionate share of the net pension liabilities totaled $115,014,406. Note 13. includes a complete discussion of defined benefit pension plans.

12. Other Postemployment Benefits

General Information about the OPEB Plan

Plan Description. The Division of State Group Insurance's Other Postemployment Benefits Plan (OPEB Plan) is a multiple-employer defined benefit plan administered by the State of Florida. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. A retiree means any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a "retiree" if he or she meets the age and service requirements to qualify for normal retirement or has attained the age of 59.5 years and has the years of service required for vesting. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Governor's recommended budget and the General Appropriations Act. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

Benefits Provided. The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

Proportionate Share of the Total OPEB Liability

The University's proportionate share of the total OPEB liability of $181,529,000 was measured as of June 30, 2017, and was determined by an actuarial valuation as of July 1, 2017. At June 30, 2018, the University's proportionate share, determined by its proportion of total benefit payments made, was 1.68 percent, which was an increase of 0.03 from its proportionate share measured as of July 1, 2016.

Actuarial Assumptions and Other Inputs. The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.6 percent
Salary increases	3.25 percent, average, including inflation
Discount rate	3.58 percent
Healthcare cost trend rates	
Preferred Provider Option (PPO) Plan	7.8 percent for 2018, decreasing to an ultimate rate of 3.8 percent for 2076 and later years
Health Maintenance Organization (HMO) Plan	5.2 percent for 2018, decreasing to an ultimate rate of 3.8 percent for 2076 and later years
Retirees' share of benefit-related costs	100 percent of projected health insurance premiums for retirees

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The demographic actuarial assumptions for retirement, disability incidence, and withdrawal used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2014, adopted by the FRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the July 1, 2017 valuation were based on a review of recent plan experience done concurrently with the July 1, 2017, valuation.

The following changes have been made since the prior valuation:

- The census data reflects changes in status for the 24-month period since July 1, 2015.
- The annual per capita claim costs have been updated to reflect current age-adjusted premiums.
- The premium rates have been updated to use the rates effective for 2017.
- Healthcare inflation rates have been updated to reflect the recent Getzen model published by the Society of Actuaries. Additionally, the updated trend rates reflect the information from the Report on the Financial Outlook for the fiscal years ending June 30, 2017, through June 30, 2023, as adopted August 3, 2017, by the Self-Insurance Estimated Conference.
- The active mortality rates have been updated to use rates mandated by Chapter 2015-157, Laws of Florida for pension plans. This law mandates the use of the assumption in either of the two most recent FRS valuations. The rates are those outlined in the Milliman's July 1, 2016, FRS valuation report.
- The discount rate as of the measurement date for GASB Statement No. 75 purposes is 3.58 percent. The prior GASB Statement No. 45 valuation used 4.00 percent. The GASB Statement No. 75 discount rate is based on the 20-year municipal bond rate as of June 29, 2017.

Sensitivity of the University's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the University's proportionate share of the total OPEB liability, as well as what the University's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	**Current Discount Rate (3.58%)**	**1% Increase (4.58%)**
University's proportionate share of the total OPEB liability	$222,651,000	$181,529,000	$149,808,000

Sensitivity of the University's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the University's proportionate share of the total OPEB liability, as well as what the University's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (6.8 percent decreasing to 2.58 percent) or 1 percentage point higher (8.8 percent decreasing to 4.58 percent) than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
University's proportionate share of the total OPEB liability	$147,429,000	$181,529,000	$227,111,000

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

For the fiscal year ended June 30, 2018, the University recognized OPEB expense of $12,005,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change of assumptions or other inputs	-	25,671,509
Changes in proportion and differences between University benefit payments and proportionate share of benefit payments	-	(2,442,881)
Transactions subsequent to the measurement date	2,690,000	-
Total	$ 2,690,000	$ 23,228,628

Of the total amount reported as deferred outflows of resources related to OPEB, $2,690,000, resulting from transactions (e.g. University benefit payments) subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability and included in OPEB expense in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (3,318,000)
2020	(3,318,000)
2021	(3,318,000)
2022	(3,318,000)
2023	(3,318,000)
Thereafter	(6,638,628)
Total	$ (23,228,628)

13. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS).

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option

Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The University's FRS and HIS pension expense totaled $19,600,655 for the fiscal year ended June 30, 2018.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class* (SMSC) – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of creditable service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

The DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age, and/or years of service, average final compensation, and credit service. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

Class, Initial Enrollment, and Retirement Age/Years of Service	% Value
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Senior Management Service Class	2.00
Special Risk Class	3.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-18 fiscal year were:

Class	Percent of Gross Salary Employee	Employer (1)
FRS, Regular	3.00	7.92
FRS, Senior Management Service	3.00	22.71
FRS, Special Risk	3.00	23.27
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	13.26
FRS, Reemployed Retiree	(2)	(2)

(1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The University's contributions to the Plan totaled $9,549,544 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a liability of $90,358,755 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The University's proportionate share of the net pension liability was based on the University's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the University's proportionate share was 0.305479393 percent, which was an increase of 0.021184317 from its proportionate share measured as of June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of $17,695,883. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,292,759	$ 500,541
Change of assumptions	30,366,921	-
Net difference between projected and actual earnings on FRS Plan investments	-	2,239,316
Changes in proportion and differences between University contributions and proportionate share of contributions	8,253,417	246,778
University FRS contributions subsequent to the measurement date	9,549,544	-
Total	$ 56,462,641	$ 2,986,635

The deferred outflows of resources totaling $9,549,544, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 7,334,519
2020	15,107,645
2021	10,140,570
2022	2,371,667
2023	6,511,895
Thereafter	2,460,166
Total	$ 43,926,462

Actuarial Assumptions. The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.10 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate (Property)	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

(1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.10 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.10 percent) or 1 percentage point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
University's proportionate share of the net pension liability	$163,543,889	$90,358,755	$29,598,326

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2018, the University reported a payable of $933,740 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2018.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2018, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled $1,307,247 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a liability of $24,655,651 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within 1 year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The University's proportionate share of the net pension liability was based on the University's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the University's proportionate share was 0.230589109 percent, which was an increase of 0.008488278 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the University recognized pension expense of $1,904,772. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 51,337
Change of assumptions	3,465,737	2,132,000
Net difference between projected and actual earnings on HIS Plan investments	13,673	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	833,303	421,456
University HIS contributions subsequent to the measurement date	1,307,247	-
Total	$ 5,619,960	$ 2,604,793

The deferred outflows of resources totaling $1,307,247 resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 433,468
2020	430,881
2021	429,639
2022	397,383
2023	211,003
Thereafter	(194,454)
Total	$ 1,707,920

Actuarial Assumptions. The total pension liability at July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	3.58 percent

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 3.58 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used in the 2017 valuation was updated from 2.85 percent to 3.58 percent.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 3.58 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	**Current Discount Rate (3.58%)**	**1% Increase (4.58%)**
University's proportionate share of the net pension liability	$28,135,363	$24,655,651	$21,757,244

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Comprehensive Annual Financial Report.

14. Retirement Plans – Defined Contribution Pension Plans

<u>FRS Investment Plan</u>. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State's Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the

Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

Class	Percent of Gross Compensation
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2018, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may roll over vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled $1,484,387 for the fiscal year ended June 30, 2018.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, for a total of 8.45 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled $12,132,856, and employee contributions totaled $7,672,489 for the 2017-18 fiscal year.

15. Construction Commitments

The University's construction commitments at June 30, 2018, were as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Student Union Renovation	$ 22,766,555	$ 204,004	$ 22,562,551
Jupiter STEM/Life Science Building	12,881,247	11,508	12,869,739
Schmidt Family Complex for Academic and Athletic Excellence	11,147,154	5,376,897	5,770,257
Breezeway Renovation/Repairs	4,802,768	4,562,071	240,697
Cooling Towers Replacement	3,500,000	518,658	2,981,342
Engineering West HVAC Renovations	3,182,708	887,087	2,295,621
Subtotal	58,280,432	11,560,225	46,720,207
Total Other Commitments (1)	25,930,265	12,547,147	13,383,118
Total	$ 84,210,697	$ 24,107,372	$ 60,103,325

(1) Total other commitments includes a multitude of minor projects. Such minor projects represent any individual capital project under $3 million in aggregate representing a renovation, remodel, or substantial capital improvement. These projects are mainly funded by general appropriations and auxiliary sources.

16. Operating Lease Commitments

The University leased various vehicles and equipment under operating leases, which expire in various intervals through the 2022-23 fiscal year. In addition, the University leased building space under operating leases, which expire in various intervals through the 2027-28 fiscal year. The University also leased land on which a University building is located, and the lease will expire in 2086. These leased assets and the related commitments are not reported on the University's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2019	$ 2,206,185
2020	2,182,550
2021	1,050,945
2022	1,034,277
2023	1,031,508
2024-2028	3,278,865
2029-2033	142,278
2034-2038	142,278
2039-2043	142,278
2044-2048	142,278
2049-2053	142,278
2054-2058	142,278
2059-2063	142,278
2064-2068	142,278
2069-2073	142,278
2074-2078	142,278
2079-2083	142,278
2084-2086	85,367
Total Minimum Payments Required	$ 12,434,755

17. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2017-18 fiscal year, for property losses, the State retained the first $2 million per occurrence for all perils except named windstorm and flood. The State retained the first $2 million per occurrence with an annual aggregate retention of $40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $92.5 million for named windstorm and flood through February 14, 2018, and decreased to $78 million starting February 15, 2018. For perils other than named windstorm and flood, losses in excess of $2 million per occurrence were commercially insured up to $225 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to $200,000 per person and $300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

University Self-Insured Program.

The Florida Atlantic University College of Medicine Self-Insurance Program (Program) was established pursuant to Section 1004.24, Florida Statutes, on June 23, 2011. The Program provides professional and general liability protection for the Florida Atlantic University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff and resident physicians. Liability protection is afforded to the students at the colleges. The Program provides legislative claims bill protection. The Program is distinct from and entirely independent of the self-insurance programs administered by the State.

The Program provides the Board of Trustees with protection of $200,000 per claim and $300,000 for all claims arising from a single occurrence; $100,000 per claim and $200,000 for all claims arising for the acts and omissions of students of the colleges protected by the Program engaged in assigned activities at affiliated hospitals or other healthcare affiliates, and student coverage of $1 million limit per occurrence; $250,000 per occurrence in the event that the personal immunity to tort claims as described in Section 768.28(9), Florida Statutes, is inapplicable as to an employee or agent of the Board of Trustees which such employee or agent functions within the course and scope of his or her employment or agency; and $250,000 for employees who act as a Good Samaritan or are engaged in approved Community Service. Under this claims-incurred policy written directly with the Program participants, protection is provided against claims that arise from incidents occurring during the term of the policies irrespective of the time the claim is asserted.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported. The following schedule represents the changes in claims liability for the past 2 fiscal years for the University's self-insured program:

Fiscal Year	Claims Liability Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liability End of Year
2016-17	$ 155,231	$ 264,200	$ (38,954)	$ 380,477
2017-18	380,477	438,999	(239,579)	579,897

18. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

Functional Classification	Amount
Instruction	$ 154,594,696
Research	44,800,528
Public Services	6,024,929
Academic Support	72,097,177
Student Services	16,490,444
Institutional Support	76,939,489
Operation and Maintenance of Plant	20,367,524
Scholarships, Fellowships, and Waivers	58,198,086
Depreciation	31,373,587
Auxiliary Enterprises	114,017,973
Total Operating Expenses	$ 594,904,433

19. Segment Information

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are required to be accounted for separately. The following financial information for the University's Housing and Parking Services represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Position

	Housing Facility	Parking Facility
Assets		
Current Assets	$ 7,355,200	$ 13,722,617
Capital Assets, Net	73,346,125	29,967,218
Total Assets	80,701,325	43,689,835
Liabilities		
Current Liabilities	1,143,759	62,674
Noncurrent Liabilities	57,760,747	15,786,549
Total Liabilities	58,904,506	15,849,223
Net Position		
Net Investment in Capital Assets	15,585,378	14,180,668
Unrestricted	6,211,441	13,659,944
Total Net Position	$ 21,796,819	$ 27,840,612

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Housing Facility	Parking Facility
Operating Revenues	$ 7,887,857	$ 7,018,025
Depreciation Expense	(2,629,554)	(1,096,829)
Other Operating Expenses	(1,070,383)	(2,977,171)
Operating Income	4,187,920	2,944,025
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	55,509	212,287
Interest Expense	(2,468,935)	(535,258)
Other Nonoperating Expense	(1,665,892)	(673,429)
Net Nonoperating Expenses	(4,079,318)	(996,400)
Increase in Net Position	108,602	1,947,625
Net Position, Beginning of Year	21,688,217	25,892,987
Net Position, End of Year	$ 21,796,819	$ 27,840,612

Condensed Statement of Cash Flows

	Housing Facility	Parking Facility
Net Cash Provided (Used) by:		
Operating Activities	$ 7,067,466	$ 3,936,742
Noncapital Financing Activities	(1,661,737)	(2,129,713)
Capital and Related Financing Activities	(6,619,654)	(649,917)
Investing Activities	1,205,809	(1,157,112)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,116)	-
Cash and Cash Equivalents, Beginning of Year	4,197,079	650
Cash and Cash Equivalents, End of Year	$ 4,188,963	$ 650

20. Blended Component Unit

The University has one blended component unit as discussed in Note 1. The following financial information is presented for the University's blended component unit:

Condensed Statement of Net Position

	Florida Atlantic University College of Medicine Self-Insurance Program	University	Total Primary Government
Assets:			
Current Assets	$ 5,417,225	$ 331,295,254	$ 336,712,479
Capital Assets, Net	-	730,428,052	730,428,052
Other Noncurrent Assets	-	17,897,113	17,897,113
Total Assets	5,417,225	1,079,620,419	1,085,037,644
Deferred Outflows of Resources	-	64,772,601	64,772,601
Liabilities:			
Other Current Liabilities	584,175	61,680,087	62,264,262
Noncurrent Liabilities	-	402,007,969	402,007,969
Total Liabilities	584,175	463,688,056	464,272,231
Deferred Inflows of Resources	-	28,820,056	28,820,056
Net Position:			
Net Investment in Capital Assets	-	670,823,386	670,823,386
Restricted - Expendable	-	18,419,747	18,419,747
Unrestricted	4,833,050	(37,358,225)	(32,525,175)
Total Net Position	$ 4,833,050	$ 651,884,908	$ 656,717,958

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Blended Component Unit Florida Atlantic University College of Medicine Self-Insurance Program	University	Total Primary Government
Operating Revenues	$ 974,058	$ 289,154,532	$ 290,128,590
Depreciation Expense	-	(31,373,587)	(31,373,587)
Other Operating Expenses	(715,080)	(562,815,766)	(563,530,846)
Operating Income (Loss)	258,978	(305,034,821)	(304,775,843)
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	-	293,170,017	293,170,017
Interest Expense	-	(3,267,687)	(3,267,687)
Other Nonoperating Expense	-	(3,994,218)	(3,994,218)
Net Nonoperating Revenues	-	285,908,112	285,908,112
Other Revenues	1,000,000	21,309,765	22,309,765
Increase in Net Position	1,258,978	2,183,056	3,442,034
Net Position, Beginning of Year	3,574,072	778,944,271	782,518,343
Adjustment to Beginning Net Position (1)	-	(129,242,419)	(129,242,419)
Net Position, Beginning of Year, as Restated	3,574,072	649,701,852	653,275,924
Net Position, End of Year	$ 4,833,050	$ 651,884,908	$ 656,717,958

(1) Adjustment to beginning net position due to the implementation of GASB Statement No. 75, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employee defined health plans to report the employers' proportionate share of the net OPEB liability of the defined health plans.

Condensed Statement of Cash Flows

	Blended Component Unit Florida Atlantic University College of Medicine Self-Insurance Program	University	Total Primary Government
Net Cash Provided (Used) by:			
Operating Activities	$ 381,799	$ (254,129,482)	$ (253,747,683)
Noncapital Financing Activities	1,000,000	284,125,694	285,125,694
Capital and Related Financing Activities	-	(15,950,475)	(15,950,475)
Investing Activities	(570,236)	(21,352,343)	(21,922,579)
Net Increase (Decrease) in Cash and Cash Equivalents	811,563	(7,306,606)	(6,495,043)
Cash and Cash Equivalents, Beginning of Year	1,021,892	12,079,233	13,101,125
Cash and Cash Equivalents, End of Year	$ 1,833,455	$ 4,772,627	$ 6,606,082

21. Discretely Presented Component Units

The University has five discretely presented component units as discussed in Note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

Condensed Statement of Net Position

	Direct-Support Organizations				Health Science Center Affiliates	
	Florida Atlantic University Foundation, Inc.	Florida Atlantic University Research Corporation, Inc.	Harbor Branch Oceanographic Institute Foundation, Inc.	FAU Finance Corporation	FAU Clinical Practice Organization, Inc.	Total
Assets:						
Current Assets	$ 118,583,002	$ 580,184	$ 80,501,708	$ 36,482,656	$ 1,440,725	$ 237,588,275
Capital Assets, Net	16,869,615	-	27,332	123,574,431	-	140,471,378
Other Noncurrent Assets	193,382,120	-	-	26,430,760	-	219,812,880
Total Assets	328,834,737	580,184	80,529,040	186,487,847	1,440,725	597,872,533
Liabilities:						
Current Liabilities	7,140,099	71,205	905,514	14,597,611	997,873	23,712,302
Noncurrent Liabilities	6,134,000	-	-	190,556,169	-	196,690,169
Total Liabilities	13,274,099	71,205	905,514	205,153,780	997,873	220,402,471
Net Position:						
Net Investment in Capital Assets	16,869,615	-	-	(30,620,830)	-	(13,751,215)
Restricted Nonexpendable	170,186,509	-	-	-	-	170,186,509
Restricted Expendable	118,988,610	-	79,727,975	25,502,611	-	224,219,196
Unrestricted	9,515,904	508,979	(104,449)	(13,547,714)	442,852	(3,184,428)
Total Net Position	$ 315,560,638	$ 508,979	$ 79,623,526	$ (18,665,933)	$ 442,852	$ 377,470,062

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Direct-Support Organizations				Health Science Center Affiliates	
	Florida Atlantic University Foundation, Inc.	Florida Atlantic University Research Corporation, Inc.	Harbor Branch Oceanographic Institute Foundation, Inc.	FAU Finance Corporation	FAU Clinical Practice Organization, Inc.	Total
Operating Revenues	$ 20,171,659	$ 416,619	$ 3,025,895	$ 32,013,943	$ 4,365,819	$ 59,993,935
Depreciation Expense	(4,816)	-	(2,636)	(5,701,624)	-	(5,709,076)
Operating Expenses	(31,028,419)	(403,597)	(3,160,517)	(18,839,093)	(4,640,582)	(58,072,208)
Operating Income (Loss)	(10,861,576)	13,022	(137,258)	7,473,226	(274,763)	(3,787,349)
Net Nonoperating Revenues (Expenses)	13,302,222	8,128	7,603,162	(4,954,008)	4,896	15,964,400
Other Revenues, Expenses, Gains, and Losses	11,690,504	-	-	-	-	11,690,504
Increase (Decrease) in Net Position	14,131,150	21,150	7,465,904	2,519,218	(269,867)	23,867,555
Net Position, Beginning of Year	301,429,488	487,829	72,157,622	(21,185,151)	712,719	353,602,507
Net Position, End of Year	$ 315,560,638	$ 508,979	$ 79,623,526	$ (18,665,933)	$ 442,852	$ 377,470,062

22. Subsequent Events – Component Unit

In January 2019, the Finance Corporation issued $90.6 million in Capital Improvement Refunding Revenue Bonds (Student Housing Project), Series 2019A for the purpose of the advance refunding of the Taxable Improvement Revenue Bonds (Innovation Village), Series 2010A.

Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability

	2017(1)	**2016**(1)
University's proportion of the total other postemployment benefits liability	1.68%	1.65%
University's proportionate share of the total other postemployment benefits liability	$ 181,529,000	$ 195,051,000
University's covered-employee payroll	$ 205,900,798	$ 182,835,559
University's proportionate share of the total other postemployment benefits liability as a percentage of its covered-employee payroll	88.16%	106.68%

(1) The amounts presented for each fiscal year were determined as of June 30.

Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
University's proportion of the FRS net pension liability	0.305479393%	0.284295076%	0.286843379%	0.268741487%	0.205028713%
University's proportionate share of the FRS net pension liability	$ 90,358,755	$ 71,784,730	$ 37,049,671	$ 16,397,183	$ 35,294,567
University's covered-employee payroll (2)	$ 205,900,798	$ 182,835,559	$ 172,516,889	$ 171,154,757	$ 161,228,170
University's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	43.88%	39.26%	21.48%	9.58%	21.89%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of University Contributions – Florida Retirement System Pension Plan

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	$ 9,549,544	$ 7,952,381	$ 6,932,989	$ 6,993,485	$ 5,886,579
FRS contributions in relation to the contractually required contribution	(9,549,544)	(7,952,381)	(6,932,989)	(6,993,485)	(5,886,579)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
University's covered-employee payroll (2)	$ 223,425,863	$ 205,900,798	$ 182,835,559	$ 172,516,889	$ 171,154,757
FRS contributions as a percentage of covered-employee payroll	4.27%	3.86%	3.79%	4.05%	3.44%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, State university system optional retirement plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan

	2017 (1)	2016 (1)	2015 (1)	2014 (1)	2013 (1)
University's proportion of the HIS net pension liability	0.230589109%	0.222100831%	0.224309818%	0.222149140%	0.229169248%
University's proportionate share of the HIS net pension liability	$ 24,655,651	$ 25,884,932	$ 22,876,073	$ 20,771,487	$ 19,952,196
University's covered-employee payroll (2)	$ 72,121,462	$ 60,852,426	$ 67,036,627	$ 65,674,496	$ 66,275,325
University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	34.19%	42.54%	34.12%	31.63%	30.11%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Schedule of University Contributions – Health Insurance Subsidy Pension Plan

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required HIS contribution	$ 1,307,247	$ 1,220,334	$ 1,138,408	$ 857,452	$ 761,008
HIS contributions in relation to the contractually required HIS contribution	(1,307,247)	(1,220,334)	(1,138,408)	(857,452)	(761,008)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
University's covered-employee payroll (2)	$ 77,121,704	$ 72,121,462	$ 60,852,426	$ 67,036,627	$ 65,674,496
HIS contributions as a percentage of covered-employee payroll	1.70%	1.69%	1.87%	1.28%	1.16%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

1. Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The University's June 30, 2018, proportionate share of the total OPEB liability significantly increased from the prior fiscal year as a result of changes to benefits and assumptions as discussed below:

Changes of Assumptions. In 2018, amounts reported as changes of assumptions resulted primarily from adjustments to active mortality rates, updates to HMO and PPO healthcare claims costs, changes in retiree contributions, change in trend rates, and a change in the discount rate of return. (Refer to Note 12. to the financial statements for further details.)

2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.60 percent to 7.10 percent, and the active member mortality assumption was updated.

3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal rate used to determine total pension liability increased from 2.85 percent to 3.58 percent.

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House of Representatives, and the
Legislative Auditing Committee

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*

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 the Florida Atlantic University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 11, 2019, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University'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 University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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*.

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

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 11, 2019