



Item: AF: I-1b

**AUDIT AND FINANCE COMMITTEE**

Wednesday, November 16, 2016

**SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION FOR THE YEAR ENDED JUNE 30, 2016.**

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**PROPOSED COMMITTEE ACTION**

Information only.

**BACKGROUND INFORMATION**

The audited financial statements of the Florida Atlantic University Research Corporation (FAURC) are presented to keep the Board of Trustees informed about the financial status of the Corporation. The audited financial statements are for the period ended June 30, 2016 and were presented to the FAURC Board of Directors on October 30, 2016.

**IMPLEMENTATION PLAN/DATE**

Not applicable.

**FISCAL IMPLICATIONS**

Not applicable.

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**Supporting Documentation:** Florida Atlantic University Research Corporation Financial Statements for the Year Ended June 30, 2016.

**Presented by:**

Ms. Dorothy Russell, Vice President for Financial Affairs and CFO  
Dr. Daniel Flynn, Vice President of Research

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Florida Atlantic University  
Research Corporation, Inc.

(A Direct Support Organization of  
Florida Atlantic University)

Financial Statements and Additional Information  
For the Year Ended June 30, 2016

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

**Table of Contents**

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Independent Auditor's Report	1-2
Management's Discussion and Analysis (Not Covered by Independent Auditor's Report)	3
<b>Financial Statements</b>	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-10
<b>Other Reports of Independent Auditors</b>	
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 <i>Government Auditing Standards</i>	11-12

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida Atlantic University Research Corporation, Inc. (the "Corporation"), a direct support organization of Florida Atlantic University, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2016, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

The financial statements of the Corporation as of June 30, 2015, were audited by other auditors whose report, dated October 27, 2015, expresses an unmodified opinion on those financial statements.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
October 25, 2016

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

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the Florida Atlantic University Research Corporation, Inc., a direct support organization of Florida Atlantic University (thereafter "University") for the fiscal years ended June 30, 2016 and 2015, and should be read in conjunction with the financial statements and notes thereto. This overview is required by the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the Florida Atlantic University Research Corporation, Inc.'s (the "Corporation") management. Pursuant to GASB Statement No. 35, the Corporation's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

### **FINANCIAL HIGHLIGHTS**

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

The Corporation assets totaled approximately \$ 547,000 and \$517,000 at June 30, 2016 and 2015, respectively. Of these balances reflected, cash and cash equivalents represent the majority of the total asset values. The Corporation make-up of cash and cash equivalents contains funds invested in the State of Florida Special Purpose Investment Account (SPIA); which totaled approximately \$ 482,000 and \$ 476,000 at June 30, 2016 and 2015, respectively. The Corporation's total revenues totaled approximately \$ 204,000 and \$ 236,000 mostly representing royalties and nongovernmental grants and contracts for the years ended June 30, 2016 and 2015, respectively. The Corporation's total expenses representing operating expenses associated with the direct operations of the Corporation totaled approximately \$ 143,000 and \$ 214,000 for the years ended June 30, 2016 and 2015, respectively.

### **REQUESTS FOR INFORMATION**

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

# FINANCIAL STATEMENTS

Florida Atlantic University Research Corporation, Inc.  
Statement of Net Position  
June 30, 2016  
(with comparative totals for June 30, 2015)

	2016	2015
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 545,528	\$ 516,570
Due from University	575	-
Interest receivable	769	402
Total current assets	<u>546,872</u>	<u>516,972</u>
Total assets	<u>\$ 546,872</u>	<u>\$ 516,972</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 4,015	\$ 197
Royalties payable	37,842	37,706
Unearned revenue	-	35,305
Total current liabilities	<u>41,857</u>	<u>73,208</u>
Total liabilities	<u>41,857</u>	<u>73,208</u>
<b>Net Position:</b>		
Total net position - unrestricted	<u>505,015</u>	<u>443,764</u>
Total liabilities and net position	<u>\$ 546,872</u>	<u>\$ 516,972</u>

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



Florida Atlantic University Research Corporation, Inc.  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2016**  
**(with comparative totals for June 30, 2015)**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues:</b>		
Royalties	\$ 157,048	\$ 172,930
Nongovernmental grants and contracts	22,259	44,971
Other operating revenue	18,483	13,648
Total operating revenues	<u>197,790</u>	<u>231,549</u>
<b>Operating Expenses:</b>		
Contractual and program expenses	64,893	134,106
Royalty expenses	43,056	61,540
Other expenses	34,880	18,613
Total operating expenses	<u>142,829</u>	<u>214,259</u>
Operating income	<u>54,961</u>	<u>17,290</u>
<b>Non-operating Revenues:</b>	<u>6,290</u>	<u>4,075</u>
Investment income		
Change in net position	<u>61,251</u>	<u>21,365</u>
<b>Net Position:</b>		
Beginning of year	<u>443,764</u>	<u>422,399</u>
End of year	\$ <u><u>505,015</u></u>	\$ <u><u>443,764</u></u>

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

**Florida Atlantic University Research Corporation, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2016**  
**(with comparative totals for June 30, 2015)**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities:</b>	\$ 121,743	\$ 135,224
Cash receipts from royalties		
Cash receipts from grants and contracts	22,259	44,971
Cash receipts from other operating revenue	18,483	13,648
Payments to suppliers for goods and services	(138,875)	(188,357)
Net cash provided by (used in) operating activities	23,610	5,486
<b>Cash Flows From Investing Activities:</b>		
Investment income	<u>5,923</u>	<u>4,264</u>
Net cash provided by (used in) investing activities	<u>5,923</u>	<u>4,264</u>
<b>Cash Flows From Financing Activities</b>		
Net advances to University	(575)	(36,758)
Net cash provided by (used in) financing activities	(575)	(36,758)
Net increase (decrease) in cash and cash equivalents	28,958	(27,008)
Cash and cash equivalents, beginning of year	516,570	543,578
Cash and cash equivalents, end of year	\$ <u>545,528</u>	\$ <u>516,570</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:</b>	\$ 54,961	\$ 17,290
Net operating income (loss)		
Changes in operating assets and liabilities:		
(Increase) decrease in prepaids and deposits	-	7,500
Increase (decrease) in accounts payable	3,818	(15,069)
Increase (decrease) in royalties payable	136	22,080
Increase (decrease) in unearned revenue	(35,305)	(26,315)
Net cash provided by (used in) operating activities	\$ <u>23,610</u>	\$ <u>5,486</u>

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

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

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

During 2004, the Corporation formed Hoot/Wisdom Recordings, LLC; Hoot/Wisdom Music Publishing, LLC; and Hoot/Insight Music Publishing, LLC (collectively, the LLCs) to benefit the University's research and educational programs. During 2016 and 2015, the LLCs generated approximately \$ 8,000 and \$ 2,000 in revenue, respectively. As the LLCs generate financial activity, such activity is consolidated with the Corporation's activities.

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

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

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

The accounting and financial reporting treatments applied to a fund are determined by its measurement focus. The Corporation's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**Cash and cash equivalents:** For purposes of the statement of cash flows, cash and cash equivalents includes the State of Florida Special Purpose Investments ("SPIA") account and cash on hand at the statement date. The fair value of the Corporation's position in the SPIA is the same as the value of the pooled shares. SPIA funds are combined with State funds and invested in various fixed income components. These components include a Certificates of Deposit and Securities Lending program as well as short-term liquidity, cash enhanced, conservative core and core strategies. The funds can be withdrawn at any time and are reported at fair value, which seek to maintain a \$1.00 per share value. The Corporation considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

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

**Capital assets:** Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Depreciation of capital assets is calculated using the straight-line method over the assets' estimated service lives. As of June 30, 2016 and 2015, the Corporation's capital assets were fully depreciated and therefore are not represented on the statement of net position.

**Patent costs:** In general, the cost of patents acquired is amortized using the straight-line methods over the benefit life of the agreement. As of June 30, 2016 and 2015, the Corporation's patent costs were fully amortized and therefore are not represented on the statement of net position.

**Unearned revenue:** Unearned revenue represents resources received before revenue has been earned, which includes grant and contract agreements. There was no unearned revenue as of June 30, 2016. Unearned revenue as of June 30, 2015 was approximately \$ 35,000.

**Revenue recognition:** Revenues are recognized in the period in which the related services, contracts and grants are provided. All amounts which are received in advance are deferred until the related services have been performed.

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

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

**Reclassifications:** Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Date of management review:** The Corporation's management has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 25, 2016, the date the financial statements were available to be issued.

**Note 2 - Cash and Cash Equivalents**

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

**Florida Atlantic University Research Corporation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**  
**(with comparative totals for June 30, 2015)**

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**Note 2 - Cash and Cash Equivalents (continued)**

**Interest rate risk:** Interest rate risk is the risk that changes in the market interest rate will adversely affect the fair value of an investment. The Corporation's investment policy does have a provision which limits investment maturity as a mean of managing exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair value of the Corporation's investments and market interest rate fluctuations is provided by the following table that shows the distribution of the Corporation's investment by weighted-average maturity at June 30, 2016 and 2015:

Investment Type:	2016		2015	
	Fair Value	Investments (In Years) Less Than 1 Year	Fair Value	Investments (In Years) Less Than 1 Year
State of Florida Special Purpose Account (SPIA)	\$ 481,542	\$ 481,542	\$ 475,693	\$ 475,693

**Credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As a SPIA participant, the Corporation invests in the Florida Treasury Investment Pool. The Florida Treasury Pool is rated A+f as of June 30, 2016 and 2015.

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

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

**Note 3 - Royalty Agreements**

The Corporation has several royalty agreements with third parties for the use of certain patents that expire through 2044. The royalty agreements generally provide for sales-based royalties with specific minimum requirements, and may include a patent purchase option. Revenues resulting from these royalty agreements totaled approximately \$ 157,000 and \$ 173,000 for the years ended June 30, 2016 and 2015, respectively.

Under separate agreements with the University and the patent's inventor, portions of the royalty proceeds are shared between the inventor and the University. During 2016 and 2015, approximately \$ 43,000 and \$ 62,000, respectively, was disbursed or accrued as payable to patent inventors and to the University under these agreements.

**Note 4 - Nongovernmental Grants and Contracts**

Nongovernmental grants and contracts revenue, consisting of reimbursements under contracts with various entities, totaled approximately \$ 22,000 and \$ 45,000 for the years ended June 30, 2016 and 2015, respectively.

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

**Note 5 - Related Party Transactions**

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

OTHER REPORTS OF  
INDEPENDENT AUDITORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Florida Atlantic University Research Corporation, Inc. (the "Corporation"), a direct support organization of Florida Atlantic University, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated October 25, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KEEFE McCULLOUGH

Fort Lauderdale, Florida  
October 25, 2016