FAU BOARD OF TRUSTEES
Florida Atlantic University

Item: AF: A-M

AUDIT AND FINANCE COMMITTEE

April 20, 2011

SUBJECT: ROLL CALL AND APPROVAL OF THE DRAFT MINUTES OF THE FEBRUARY 16, 2010 AUDIT AND FINANCE COMMITTEE MEETING.

PROPOSED COMMITTEE ACTION

Initiate roll call to document member participation to ensure appropriate quorum numbers are achieved and to approve the minutes of the February 16, 2010 Audit and Finance Committee meeting.

COMMITTEE MEMBERS

Mr. Anthony Barbar, Chair ____

Mr. Thomas Workman, Jr., Vice Chair ____

Mr. Robert Stilley (ex-officio) ____

Mr. David Feder ____

Dr. Rajendra Gupta ____

Dr. Tim Lenz ____

Mr. Robert Rubin ____

Mr. Paul Tanner ____

BOT MEMBERS

Mrs. Nancy Blosser ____

Dr. Jeffrey Feingold ____

Mr. Ayden Maher ____

Ms. Sherry Plymale ____

BOARD OF TRUSTEES
Florida Atlantic University

DRAFT MINUTES
AUDIT AND FINANCE COMMITTEE
Wednesday, February 16, 2011

AF: A-M. Roll Call and Approval of Minutes for the December 15, 2010 BOT Audit and Finance Committee meeting.

Mr. Anthony Barbar, Chair of the Board of Trustees (BOT) Audit and Finance Committee (AFC), convened this meeting at 12:00 p.m. Roll call commenced with the following Committee members, in addition to Mr. Barbar, participating: Mr. Thomas Workman, Jr., Mr. Robert Stilley, Mr. David Feder (via-teleconferencing), Dr. Tim Lenz, and Mr. Paul Tanner.

Other Trustees attending the meeting included: Mrs. Sherry Blosser, Mr. Ayden Maher and Ms. Sherry Plymale.

The following University officials participated: Dr. Mary Jane Saunders, University President; Mr. Dennis Crudele, Senior Vice President for Financial Affairs; Dr. Charles Brown, Senior Vice President for Student Affairs; Mr. Morley Barnett, Inspector General; and, Mr. David Kian, Senior Vice President for Strategic Relations and General Counsel.

Mr. Barbar called for approval of the minutes of the December 15, 2010 AFC meeting. A motion was made and seconded to approve the minutes without change or correction. No discussion or commentary followed. **The motion passed unanimously.**

AF: A-1. Request for Approval of Materials and Supplies Fees (Fees for New Courses and Increases in Existing Fees).

Mr. Crudele advised that this is a request to approve materials and supplies fees for specific new and existing courses. Florida Statute authorizes the BOT to set materials and supplies fees to offset the cost of consumable materials or supplies that are required for instructional activities. These fees apply only to students enrolled in these specific courses and are published in the schedule of classes to inform students of the fee requirement prior to class registration.

Members were informed that annually in December fee requests are received in the Provost's Office and a rigorous internal review begins to verify course needs and appropriate materials pricing. Each requesting academic unit must provide a list of the supplies/materials, their cost and expected course enrollment to calculate the per student share of the costs. Fund received from these fees are deposited in dedicated auxiliary accounts to provide accountability since they are subject to auditing processes. A summary review of each academic area and their fee requests commenced.

Discussions began on the following topics:

- The fees FAU charges are comparable to those charged by other system institutions and that each institution implements these fees and, with bulk purchasing power, the costs remain lower than individual purchases would yield.
- The significant increase in some of the Applied Music fees are due to the inadvertent omission of these courses from the 2010 list of fees; to ensure consistency across all courses, the fees are included here with the others that had been increased in 2010.
- The review process: The Provost issues a call through the Office of the Dean to each academic unit to submit fiscal year fee requests. The requests must include the required materials/supplies, their cost, and expected course enrollment; this information yields the student's share of the expense. The Provost's Office reviews each request to ensure compliance with the statute and BOG regulations, as well as ensuring comparison pricing to ensure the best pricing is achieved.

A motion was made and seconded to recommend to the Board of Trustees approval of the request to approve the materials and supplies fees as presented. **The motion passed unanimously.**

AF: I-1. Summary of Follow-up on Audit Recommendations to be Implemented during the period July 1 through December 31, 2010.

Mr. Barnett addressing this agenda item noting it as a summary of prior audit recommendations due to be implemented by management during the July-December 2010 time period. He expressed satisfaction that the majority of recommendations having been implemented and verified. Of those recommendations listed as partially implemented, management has indicated completion but OIG staff still needs to complete test verification. One item has been designated indeterminate while awaiting results of the State Auditor General's current IT Audit.

Mr. Crudele provided additional assurance to the implementation of those recommendations designated partially implemented. Additionally, the recommendations associated with the Pharmacy are on target to March completion once software interfacing can be integrated to the Banner System.

Conversation followed with Mr. Barnett discussing a modification to the reporting format by adding another column indicating those items management deems implemented but lacking OIG verification.

AF: I-2a. Review of Audits: Report No. FAU 10/11-1, Revenue-generating Contracts for the Period January 1 through June 30, 2010.

Mr. Barnett advised that it was determined that contracts were being effectively monitored for compliance with contract terms and that internal control over revenue recognition and commission calculations were adequate and effective. This audit resulted in no recommendations.

AF: I-2b. Review of Audits: Report No. FAU 10/11-2, Construction for the Period January 1 through September 30, 2010.

Mr. Barnett advised that three recommendations were made relating to the adequacy of documentation for review and approval of construction invoices and compliance with established construction manager bidding procedures. Management will be modifying written internal Policy and Procedures to address these issues and initiating additional training to ensure compliance.

Summary comments followed noting that these recommendations address procedural issues rather than any substantive issues or indications of fraud.

Mr. Crudele explained that the next four items are a review of the highlights of the financial statements of FAU's component units, or direct support organizations (DSO), which are non-profit organizations created to support academic and financial programs benefitting FAU. He noted that the presentation of these financial statements are intended to keep the Committee informed of the financial standing of these components in consideration of their inclusion in the FAU financial statements and their affect on the overall health of FAU.

AF: I-3a. Review of the Financial Statements of FAU DSOs: Florida Atlantic University Foundation, Inc. Financial Statements and Additional Information, June 30, 2010 and 2009.

Mr. Crudele advised that the total assets of the FAU Foundation, Inc. (FAUF) increased by $7 million in 2010 due primarily to the improvement in market returns. The investments increased by almost $8 million for the year, and cash increased by $3.7 million.

A collection of Russian Art work received in 2005 and valued at $2.2 million was reappraised in 2010 with new value of $200,000 causing the FAUF Art and Library collections to decrease by $2 million.

Expenses fell from $31.8 million in 2009 to $16.5 million in 2010 largely to the large activity in 2009 which included a payment for construction of facilities including the Alumni Center and the Living Room Theater (LRT). The LRT was a Courtelis Match project in which the FAUF was repository of that funding pending project completion. Expenses also fell because of reduced spending allocation from endowments.

Realized and unrealized market returns took a much needed turn in 2010, recording a gain of $12.7 million as compared to the losses of 2009.

Mr. Crudele advised that the overall financial stability of the FAUF is very good.

No questions or comments were put forth by Committee members.

AF: I-3b. Review of the Financial Statements of FAU DSOs: Florida Atlantic University Research Corporation, Audit of Financial Statements for Fiscal Years Ended June 30, 2010 and 2009.

Mr. Crudele advised that this audit was performed by Templeton & Co. for the Florida Atlantic University Research Corporation (FAURC) which was established as an FAU DSO in 1990 to focus on the development, protection and commercialization of the University's intellectual property. The auditors issued an unqualified audit report.

The FAURC wholly owns the Hoot/Wisdom Recordings, LLC, Hoot/Wisdom Music Publishing, LLC, and the Hoot/Insight Music Publishing, LLC, all established to benefit the College of Arts and Letter's Music department's research and educational programs. Collectively, these LLC's do not hold any assets and there are no financial activities to be reported by the them.

The FAURC's net assets increased in 2010 by $56,814 to $324,679. A significant decrease in expenditures between 2009 and 2010 is due to the transfer of the Memory and Wellness Center from the FAURC to an FAU auxiliary account.

As required by the IRS, the FAURC's Tax Form 990 was reviewed by the FAURC Board on January 25, 2011 and has been filed with the IRS.

No questions or comments followed from the Committee.

AF: I-3c. Review of the Financial Statements of FAU DSOs: FAU Finance Corporation Financial Statements for the Period August 12, 2009 through June 30, 2010.

Mr. Crudele noted the audit period of this report as August 12, 2009, the inception date of this DSO which was created to finance the Innovation Village projects, through June 30, 2010. The report, in FASB format, was presented to the FAU Finance Corporation (FAUFC) Board on December 9, 2010 and then on February 9, 2011 in GASB format with no change in financial position between the two. The report was reformatted to GASB standards on the recommendation of the State Auditor General in recognition of changes to the FAUFC By-laws requiring oversight of the FAUFC Board membership by the FAU BOT.

The auditing firm of McGladrey & Pullen, LLP gave an unqualified opinion with highlights including:

- $97 million in cash primarily with the trustee bank, U. S. Bank, for the Innovation Village Housing (IVH) project.
- A $12 million prepaid land lease to FAU for the IVH project.
- Net assets (loss) – Explained as only a timing issue causing a temporary loss due to the computation of capitalized interest according to recognized accounting principles.

During fiscal year 2011, the interest will be capitalized since a substantial amount of the project will be completed by June 30, 2011 and therefore the interest will be removed from the fund balance and moved to assets. This is only a timing issue due to the construction period.

Mr. Crudele noted that this Committee will be presented in the near future with housing rate proposals and the FAUFC's Housing Operating Budget for fiscal year 2011-12.

No questions or comments were put forth by the Committee.

AF: I-3d. Review of the Financial Statements of FAU DSOs: Harbor Branch Oceanographic Institute Foundation, Inc. Consolidated Financial Statements for the Years Ended June 30, 2010 and 2009.

Mr. Crudele noted this audit has just been released and will be presented to the Harbor Branch Oceanographic Institute Foundation's (HBOIF) Foundation Board of Directors at their next meeting. It was conducted by the firm Cross, Fernandez & Riley, LLP who concluded the financial statements accurately reflect the financial standing of the HBOIF. Highlights include:

- A gain on the sale of land of $12 million (transfer back to the state).
- An increase in donations from prior year of $8 million which increased unrestricted net assets by $20 million.
- Investments grew by $25 million which are primary invested in Level 1 investments and fixed income funds.
- Investments had a positive gain in of $1.6 million versus a 2009 fiscal year loss of $3.6 million.
- Harbor Branch Holdings, Inc., which includes its wholly-owned subsidiary Oceans, Reefs and Aquariums, had a loss of approximately $300,000.
  Members were advised that this fiscal year, in October 2010, the HBOIF received a Letter of Intent indicating an interest in acquiring the assets of Oceans, Reefs, and Aquariums; negotiations are ongoing and should be complete in the next thirty days.

Mr. Crudele noted that weaknesses in internal controls, primarily associated with Oceans, Reefs and Aquariums which is a for-profit subsidiary owed by the HBOIF, were identified and are cause for concern. These weaknesses include lack of support documentation, failure to use appropriate template forms created for them, untimely banking reconciliations, and sub-recipient license plate agreements not complying with Florida Statutes. Additionally, many recommendations from the 2009 and 2008 fiscal years were either still incomplete or not implemented. Corrections are underway. The HBOIF recently replaced their Chief Financial Officer who has been employed the last few weeks. Mr. Crudele advised the Committee that he will be meeting with the HBOIF on March 10 to review correction plans requiring definitive actions and timelines to completion. Quarterly reconciliations are being implemented rather than the current annual reconciliations and procedures associated with license plate revenues, a large part of HBOI revenues, have already been brought into compliance internally and with the Department of Transportation.

Mr. Crudele reiterated that the financial status of component units affects the financial health of FAU and that continued lack of compliance is unacceptable; monitoring is scheduled to ensure appropriate controls are implemented.

Commentary followed from Mr. Stilley, Chair of the FAU Board of Trustees, assuring Mr. Crudele of the full support of the Board in thus matter.

With agreement of the Committee, Mr. Barber adjourned the meeting at 12:30 p.m. for a short break.

Mr. Barbar reconvened the meeting at 1:08 p.m.

AF: I-4. Review of FAU Athletics Department Independent Accountant's Report on Agreed-Upon Procedures, June 30, 2010.

Mr. Crudele noted this report was prepared by Mayer Hoffman McCann P.C. and evaluates whether the accompanying unaudited statement of revenue and expenses is in compliance with National Collegiate Association Bylaw 6.2.3.1. As required, the report is also submitted to the Board of Governors.

Members were informed of the various categories of revenue and expense that were tested during the course of this review. No findings or significant exceptions to procedures were noted.

These reports are due annually and were used in securing the financing of $44.5 million loan for the FAU Stadium. Mr. Crudele advised that approximately $904,000 (year end balances minus some contractual obligations) are being held in a separate reserve account to address financing needs of the stadium project; any unneeded funds will be returned to the Athletics Department.

No questions or comments followed from Committee members.

AF: I-5. Review of the Second Quarter Status of Florida Atlantic University's 2010-11 Operating Budget, July 1-December 31, 2010.

Mr. Crudele began a review of the financial status of the seven components comprising FAU's Operating Budget for the first six months of fiscal year 2010-11:

Educational and General. This budget pays for instruction, research, maintenance, etc. and is funded by General Revenue, the Education Enhancement Trust Fund, the Student Fee Trust Fund, and Federal Grants. Of budgeted revenue projections of approximately $256.5 million, approximately $106.1 million has been received. Of the projected expense budget of approximately $247.8 million, which includes a reserve of approximately $8.7 million in student fee budget authority held in unallocated reserves, approximately $124.2 million, or 50 percent, has been spent.

As mentioned the projected expenditure for the fiscal year reflects approximately $8.7 million in student fee budget authority and also BOG amendments at almost $600,000 received for additional Risk Management Insurance Fund. Risk Management is received by the BOG then distributed to each institution. It appears next fiscal year the BOG will discontinue this practice and maintain the fund centrally.

Still noteworthy are the Summer 2010 enrollments exceeding budgeted projections by 13.1 percent and the Fall semester enrollment expected to exceed projections by 7.3 percent over the 2009-10 fiscal year periods. Preliminary projects show Spring 2011 exceeding projections by 8.5 percent. It is anticipated that student credit hours will equal 643,216 or approximately 8.7 percent over initial projections; a record for FAU.

Mr. Crudele advised that 25 percent funding releases are still being received. He reminded members that in prior years, releases had been decreased quarterly effectively constituting a budget cut.

Addressing the results of the Revenue Estimating Conference, he noted that while collections haven't been as robust as had been hoped, actual funds are available to finance current fiscal year allocations.

Responding to questioning on the Student Fee Trust Fund, members were informed that this is not Student Government funding, but rather the authority for the collection of tuition revenues.

Student Financial Aid. This component represents financial aid, scholarship and loan funds received and disbursed to students; a pass-through account. Budgeted revenues are projected at $145,900,561 with actual revenues to date of $90.8 million; budgeted expenses are projected at $145,644,180 and actual expenses to date are at $77,745,693, or approximately 53 percent of projected expenditures. This current expenditure of 53 in comparison to the same period prior of 55 percent.

Members were reminded of the probability of third quarter adjustments to the Student Financial Aid budget authority similar to that required last fiscal year to cover summer enrollment needs.

Grants and Contracts-Sponsored Research. This budget consists of funding from federal and state agencies, foundations and private sources that facilitate specific research projects or to provide specific services. Of the budgeted revenues projected at $63,720,200, actual revenues at mid-year are $23,339,882. Projected budgeted expenditures are $62,974,241 with actual expenses to date of $23,869,850.

Mr. Crudele noted revenues in sponsored research remain slightly up from this time last year, $23,339,882 vs. $23,282,855. The financial realities of cost reimbursable grant awarding was explained to the Committee.

Auxiliary Enterprises. This budget component consists of operations that are required to be self-supporting and must generate adequate revenue to cover expenditures and support future renovations and building or equipment replacement. Auxiliary operations include, among others, Food Services, Housing and the Book Store.

A healthy component of the Operating Budget, budgeted revenues are projected at $106,155,850 with actual revenues received at $62,847,964; expenses are budgeted at $106,155,850 with actually expenditures at $36,352,465. This budget is believed to be on target to projections.

Upon query, members were informed that reaching the projected $106.2 million in revenues is probable. The next quarter will bring in Spring Housing and Food Service fees to boost funding levels.

Athletics Local. This budget supports student athletic programs and is funded mostly by student athletics fees, with other sources such as ticket sales, game guarantees, Title IX Gender Equity funding. Budgeted revenues are $14,013,105 with actual revenues as of December 31 at $12,363,531. A review of monies collected by category followed. Budgeted expenses are projected at $14,011,516 with actual expenditures to date of $7,596,706.

Members were advised that athletic fee collections are now expected to exceed projections primarily due to the increase in student athletics fees in conjunction with increased Fall enrollment. Additionally, ticket revenues exceeded projections and game guarantees should be achieved but corporate sales are below expectations. Close monitoring of this budget is ongoing.

Mr. Crudele noted the expectation that revenues will exceed expenditures again this year and those excess funds will be allocated to a reserve account pending stadium financing obligations.

Responding to questioning on corporate sales, Mr. Crudele advised the Committee that a marketing plan, in conjunction with the new stadium, is in progress with high expectations of loge and suite sales to the corporate community. An additional explanation followed advising that this budget was built based on prior year figures with modest adjustment in consideration of stadium revenues.

Student Activities. This component supports student clubs and organizations primarily through the Activities and Services (A&S) fee. The budgeted revenues are projected to be $8,555,293. Actual revenues to date are $9,044.383. Budgeted expenses are $9,935,432 with actual expenses to date of $5,826,767.

Mr. Crudele reminded members that as in the past, because of the large Student Activities budget surplus, Student Government has again been allowed to budget high expenditures. This year, actual expenses are higher than prior years, but expenditure patterns and budget viability continue to be monitored by Student Affairs management. Sufficient cash remains available to cover expenditures.

Conversations followed clarifying that expenditures in this budget have never exceeded revenues. The A&S category has been allowed to budget expenditures higher than revenues expected to be received in a fiscal year based upon available cash balances. Regardless of the authorities given, expenditures have never actually exceeded the revenues received in a fiscal year which in turn produces a surplus. That surplus then carries forward to the next fiscal year, enabling the budget to again possibly have higher expenditure budget authority.

Additional discussion centered on management's decision, at this time, to withdraw the planned request for approval to increase the revenue budget authority.

Concessions. This component consists primarily of funds from soda and snack machines. The budgeted revenues this year are at $500,250 with actual revenues as of December 31 at $332,903. Budgeted Expenses are $500,250 and actual expenses to date are $169,923. This budget is on target to projections with expenditures less than prior year at this same time.

No questions or comments followed from the Committee.

A summary of student credit hour data began noting enrollment increases in the Summer term at 13.1 percent and preliminary Fall and Spring terms at 7.3 percent and 8.5, respectively, reflecting a total 8.7 percent increase over projections for the year.

Mr. Crudele acknowledged the fact that to cover budget decreases expected from the loss of stimulus funding, non-recurring allocations, and requisite funding of the BOT authorized salary increases, FAU implemented a 15 percent tuition increase, a strategy critical to success especially in consideration of the discontinuation of state funding of enrollment growth. Data shows that FAU has realized initial goals but must continue to increase tuition and continue enrollment growth As long as no legislative budget cuts are implemented FAU remains on target.

He additionally acknowledged the importance of maintaining high student credit hours which equates directly to revenue. One positive factor to student recruiting/credit hours, especially out-of-state students paying full tuition, is the new residential housing soon to come online ensuring living continuity to students that could not be offered previously.

No further questions or commentary were put forth from the Committee.

Agenda Addition: Review of the Governor's Budget and Policy Recommendations.

Mr. Crudele advised that he had been asked to provide a summary review of the recently released Governor's Budget recommendations. He explained that no hand-out had been prepared as these are preliminary recommendations that are submitted to the Legislature and are the framework from which the Legislative budget construction processes begins as mandated by law.

He noted that for the first time since the early 1990s, the Governor proposed a 2 year budget; a proposal contrary to the Florida Constitution which mandates annual budget processes.

Highlights affecting higher education included:

- Federal stimulus and non-recurring general revenue will not be replaced which equates system-wide to $186 million budgetary decrease.
- No New Florida funding. FAU had received $10 million which was non-recurring; no real loss associated with this recommendation.
- Employee contributions to retirement to be implemented with percentages still being discussed. The recommendation relieves FAU from being the full contributor to this program. A preliminary analysis is being developed and will be presented to the Committee as more definitive information is received.
- The 2011-12 health benefits program is recommended to be funded next fiscal year but with changes for fiscal year 2012-13 including higher deductibles/co-payments expected of employees.
- Deferred Retirement Option Program (DROP) to be discontinued.
- No base tuition increased has been recommended. This means for FAU to maintain the 15 percent tuition increase plan necessary to maintain budgetary integrity, the anticipated increases will have to be accomplished as differential tuition which bodes poorly for Florida Pre-paid Plans and their associated value degradation; a possible factor to rejection of the Governor's recommendation.
- PECO reduction. A somber situation in that the BOG has recommended redirection of a majority of this funding to one individual institution's needs. This shift eliminates funding of the obligation incurred by FAU to reimburse $2 million annually, from PECO monies, to Palm Beach County when the agreement was made to enable Scripps Florida construct temporary facilities on FAU's MacArthur campus. Requests to fulfill this financial obligation have been forwarded to the BOG.

With no further questions or other discussion items put forth, a motion was made and seconded to adjourn this meeting. **The motion passed unanimously**.

The meeting was adjourned at 1:48 p.m.