FAU
BOARD OF TRUSTEES
Florida Atlantic University

MINUTES
AUDIT AND FINANCE COMMITTEE
Wednesday, October 22, 2008

AF: A-M. Roll Call and Approval of Minutes for the June 11, 2008 BOT Audit and Finance Committee Meeting.

Ms. Nancy Blosser, Chair of the Audit and Finance Committee, convened this meeting at 1:16 p.m. Roll call commenced with the following Committee members participating:

Mr. Anthony Barbar, Mr. Abraham Cohen, Dr. Rajendra Gupta, Mr. Bob Stilley, Mr. Thomas Workman and Dr. Tim Lenz.

The following Board of Trustees members also participated:

Mr. Scott Adams, Mr. Armand Grossman, Mrs. Lalita Janke, Mrs. Sherry Plymale and Dr. Eric Shaw.

The following University officials participated:

Mr. Frank T. Brogan, President; Dr. Kenneth A. Jessell, Vice President for Financial Affairs; Mr. Morley Barnett, Inspector General, and Mr. David Kian, General Counsel.

Chair Blosser called for comment and/or correction to the minutes of the June 11, 2008 BOT Audit and Finance Committee meeting and with none put forth, a motion was made and seconded to approve the minutes without change. The motion passed unanimously.

AF: A-1. Request to Amend the 2007-2008 and 2008-2009 FAU Operating Budgets to Reflect Changes Associated with the Lease of Florida Atlantic University's Educational Broadband Service Spectrum to Clearwire Spectrum Holdings II, LLC.

Dr. Jessell addressed this item noting it as a formal request for approval to modify the 2007-2008 Operating Budget as revenues associated with the lease to Clearwire Spectrum Holdings had been received last fiscal year and to modify the 2008-2009 Operating Budget as revenues and expenditures will be occurring this fiscal year.

Members were reminded that at the September 10, 2008 Board of Trustees Committee of the Whole meeting, there had been a presentation on Florida Atlantic University's lease of its excess Educational Broadband Service (EBS) spectrum capacity to Clearwire. Additionally noted during that presentation was the proposed expenditure plan for the payments that focused on six strategic areas including Fostering Student Successes, Strengthening the Information Technology Infrastructure; Strategic Investment in Research;

University-wide Academic Enhancement; Establishing an Academic Enhancement Endowment; and Rewarding Faculty and Staff Contributions to Florida Atlantic University's Mission.

In reference to the last component of the expenditure plan, Rewarding Faculty and Staff Contributions to Florida Atlantic University's Mission, approval is requested to provide all eligible personnel a salary increase of one percent, effective November 1, 2008, as well as a one-time non-recurring lump-sum bonus of $1,000 and to establish a comparable pool of funding to address potential compensation increases for in-unit faculty currently in collective bargaining negotiations.

Chair Blosser called for a motion to recommend amending the 2007-2008 and 2008-2009 FAU Operating Budgets to reflect changes associated with the lease of Florida Atlantic University's Educational Broadband Service Spectrum to Clearwire Spectrum Holdings II, LLC. including the one percent employee salary increase and the $1,000 one-time lump sum bonus. A motion to recommend approval of this item to the Board of Trustees was made and seconded.

Discussion followed regarding the low percentage of the salary increase being offered to personnel in light of the fact that no raises, with the exception of the University President, have been given the past two years. Members were informed that cost of the salary increase and bonus for employees paid from the Educational and General component was $1.57 million annually; it was further noted that this amount does not include the cost for employees paid other funding components i.e. auxiliaries, grants, etc. General consensus of Committee members was agreement of the need for a higher percentage increase but that it was not possible at this time due to continuing budget reductions and the non-recurring nature of the Clearwire lease monies being utilized to provide the salary increase and bonus.

Chair Blosser addressed concerns related to the low percentage increase being proposed, noting the lengthy, in-depth and thorough information provided Members during the September presentation. Members were informed then of the expenditure plan being implemented, including the proposed base salary increase, the bonus, and the actual cost anticipated to fund this initiative. The presentation and expenditure plan was carefully constructed to allow increases the institution could afford to spend in consideration of only those Clearwire monies being received. It was stressed that these monies are entirely separate from state funding which did not allow for any salary increases. Chair Blosser noted that a percentage change at this point in time, which would conflict with the tacit approval provided to administration in September, would require a complete revision of the entire expense budget.

Clarification was provided by Administration advising that this item reflects the expenditure plan provided in September and is before Members now for formal approval since it was provided as an information item during the September meeting.

Additional discussion included:

- Emphasis on the non-recurring nature of the Clearwire lease funding;
- The terms of the lease which provide for three ten-year terms, wherein Clearwire can withdraw from the agreement during any renewal period;
- The President's salary increase and the split funding responsibility between the institution and the FAU Foundation, Inc.;
- The future creation of an Ad-hoc Committee within the Faculty Senate to recommend ways of increasing faculty salaries and commensurate funding; and,

- The agreement that all faculty and staff deserve higher salary increases, but of the need for Board members to be fiscally responsible to the University and that to put anything above one percent at this time fails that commitment.

Chair Blosser then reiterated the motion currently on the floor. With no further discussion, voting commenced and with unanimous approval the motion passed.

<u>AF: I-1a. Review of Audits: Report No. FAU 07/08-5, Employee Outside Activities and Additional / Dual Compensation Audit, 2007/08 Academic Year.</u>

Mr. Barnett addressed this item advising that this issue had not been audited for several years. The objective was to determine the adequacy of the systems, policies, and procedures. He noted that reporting continues to increase but a survey indicates a need for additional dissemination of policy requirements. He noted the positive results of the efforts of an academic committee formed to provide clarification of the requirements before engaging in outside activities.

Conversation followed on the continued need to better communicate knowledge of the requirements associated with these functions. Upon query, verification was provided that all outside activities, rather than just those with possible conflicts of interest, need to be reported.

<u>AF: I-1b. Review of Audits: Summary of Follow-up Audit Recommendations Scheduled to be Implemented During the Period April 1 through June 30, 2008.</u>

Mr. Barnett advised members that this report provides results of the continuous follow-up to prior incomplete audit recommendations. He noted more than half had been fully completed, with 12 partially completed and one incomplete. The incomplete recommendation would remain on this report indefinitely as it deals with personnel needed to monitor NCAA recruiting processes and that with current budget constraints fulfilling this recommendation is not possible at this time.

<u>AF: I-2. Review of the Office of Inspector General Report of Annual Activities for Fiscal Year Ended June 30, 2008.</u>

Addressing his last agenda item, Mr. Barnett advised that this annual report summarizes for the Committee all internal audits performed, the follow-up efforts on prior audit recommendations, investigations, and consulting activities, and provides a listing of those services planned for action this fiscal year.

Dialogue followed on how the Inspector General's office decided which entities to audit. A review of the survey process was explained and Mr. Barnett agreed to provide copies of the survey documents utilized.

<u>AF: I-1c. Review of Audits: Report No. 2008-198, Florida Bright Futures Scholarship Program Operational Audit.</u>

Dr. Jessell took the floor to advise members that this state audit is performed to determine the extent to which Florida's public universities and community colleges implemented procedures to administer the Florida Bright Futures Scholarship Program for the fiscal year ended June 30, 2007. With no findings, Florida Atlantic University was in total compliance with program requirements.

AF: I-3. Review of the First Quarter Status of Florida Atlantic University's 2008-2009 Operating Budget, July 1–September 30, 2008, Including Fourth Quarter 2007-2008.

Dr. Jessell began this presentation with the largest component of the operating budget:

Educational and General. This budget is comprised of General Revenue, Student Fee Trust Fund and the Education Enhancement Trust Fund or lottery collections. Dr. Jessell then reviewed the initial budget approved by the Board of Trustees in June with actual revenues collected and expended through September.

Dr. Jessell then addressed the potential for additional current year budget reductions in the Educational and General category anticipated to be at minimum four percent; this is in addition to the $18 million in reductions already incurred prior to the application of the tuition increase.

In reality, Florida Atlantic University's recurring reduction is expected to be approximately eight percent. The decrease to four percent is a result of the Governor's budget amendment to the current year operating budget which utilized $672 million from the State's Budget Stabilization Fund to offset the anticipated $1.5 billion general revenue shortfall. The Governor also implemented a four percent holdback (one percent per quarter) which translates to approximately $7.3 million in general revenue for Florida Atlantic University. For Florida Atlantic University's total budget, including student fees, the reduction still reflects a projected three percent reduction – at a minimum. As Members are aware, FAU prepared for this situation at the beginning of the fiscal year by setting aside nearly $4.3 million in reserves, but the recurring nature of this reduction will adversely affect the 2009-2010 fiscal year budget.

The current statewide $1.5 billion dollar shortfall was predicted during the August Revenue Estimating Conference, but already for September sales tax revenues are down another $25 million. The situation is poor and at this rate, funding levels won't return to those of 2004-2005 until 2011. Dr. Jessell indicated anticipation of a special legislative session in the future to deal with continuing shortfalls.

The next Revenue Estimating Conference is set for November and updated information will be provided as it becomes available. In the meantime, administrative discussions are in progress to address both current year and future year reductions in the most creative and productive manner possible.

Student Financial Aid. This budget includes financial aid from all sources including federal and state awards, and scholarships, as well as the student fees required by the legislature. It is only a pass-through account where the monies are received and distributed to students. Budget statistics through September followed with Dr. Jessell noting this budget as on track to projections.

Grants and Contracts-Sponsored Research. This budget includes funding from federal, state and local agencies, as well as foundations and other private sources. It also includes the grant funding for the A.D. Henderson University School and payroll, clearinghouse functions for the FAU Foundation, Inc., and HBOI research activity. Budget statistics through September followed.

Dr. Jessell noted revenues as slightly higher and expenditures are lower than during this same period last year. Members were reminded that this is generally a timing issue as not all revenues and expenditures are earned and distributed evenly during the year. Cash balances are available to cover financial variations until the offsetting funding is available. No budget amendments are anticipated as this budget is close to being on track.

Auxiliary Enterprises. These are the business services functions of the university that are required to operate on a self-sustaining basis, i.e., food services, housing, bookstore, telecommunications, traffic and parking, etc. A review of budget information through September followed.

Dr. Jessell remarked that, as anticipated this time of year, revenues are higher than expenditures with the receipt of housing payments, payment plans, health fees, etc. Expenditures are slightly higher than the same period last year due to the inclusion of HBOI auxiliary functions. Second quarter revenue growth will be insignificant while expenditures will increase. This budget is on track to projections.

Athletics Local. This budget consists of revenue sources that include student fees, ticket sales, games guarantees, sponsorships, etc. and was approved by the Board to mirror the budget developed during annual Athletics Workshop. A review of budget statistics through September followed.

Expenditures are slightly higher than revenues at this point due to the repayment of a 2007-2008 short term loan of $118,000 which was necessary to cover the decline of approximately 7.9 percent in student fee collections for Summer. Dr. Jessell explained that unlike Educational and General funding where revenues from the summer terms are carried forward to the next fiscal year, Auxiliary operations are accrued in semester in which they are earned. The Athletics budget is based upon the Summer 2008, Fall 2008 and Spring 2009 semesters. This decline in collections was not anticipated and became apparent too late to reduce expenditures and the advance was made to cover the shortfall.

Spring enrollment and collections are promising but sponsorship revenue and development revenue are currently below projections in direct response to the nationwide economic situation. The current budget has been developed based on a three percent reduction in credit hours. Monitoring of this budget continues on a regular basis.

Student Government/Student Activities. This budget is funded by student fees and Dr. Jessell commented that, as always, this budget is in great shape with the Student Government administration remaining excellent fiscal managers. Budget information through September was reviewed with the opinion that this budget remains on target with expenditures expected to remain lower that revenues.

Concessions. This small budget is supported by vending and soft drink machines revenues. Expenditures are higher than revenues as was projected during budget construction. Budget information through September followed with the note that this budget is on target to year end with cash balances available as necessary.

A brief review of the current year budget in comparison to prior year followed including revenues, expenditures and cash balances. Dr. Jessell noted the significant reduction in Educational and General expense budget category; anything not essential to operations is being eliminated.

Fourth Quarter Status of Florida Atlantic University's 2007-2008 Operating Budget, July 1, 2007 – June 30, 2008. This presentation is provided as no committee meeting is held immediately after the fiscal year end. The revenues and expenditures ended up in line with projections. Dr. Jessell pointed out that while it may appear an additional $20 million in excess Educational and General cash remains, the fact is these funds are specific appropriations dedicated to projects for HBOI, Torrey Pines, and Medical Education Program over the next few years.

Student Financial Aid and Grants and Contracts ended with expenditures higher than revenues at year end. For Student Financial Aid the issue is explained by timing; Grants and Contracts had prior year Centers of Excellence funding not utilized until this year. For each, current cash balances were available to cover expenses. The Athletics budget balanced with the loan advance provided as previously noted. Student Government-Student Activities revenues were higher and expenditures were lower than projected. Within the Concessions budget, revenues and expenditures ended slightly lower, but the budget remains in good shape.

Upon completion of a summary review of fiscal year 2007-08 results to fiscal year 2006-07, Dr. Jessell concluded the presentation. No questions followed.

Because of the significant impact upon the university's operating budget, Chair Blosser requested and Dr. Jessell confirmed, that every one percent of salary increase equates to approximately $1.5 million annually for the Educational and General budget. Additionally noted was that this increase to the base salary would be compounded by future base increases, but unsupported by recurring dollars. Also not being calculated is the impact of cost to the Auxiliary and Grants and Contract funding components in supporting comparable salary increases which would be an additional $453,000. Dr. Jessell clarified that for this fiscal year, as the approved increase will be effective on November 1, or only 8 months, the actual amount Clearwire monies being spent is approximately $940,000; annualized for a full fiscal year the amount is approximately $1.57 million in the Educational and General budget.

Chair Blosser then stated, to ensure absolute Committee knowledge and understanding of the ramifications of percentage salary increases to the Educational and General budget, that a three percent increase would require $4.5 million annually; a four percent increase equates to $6 million annually. She then reminded Members that the purpose of the BOT Audit and Finance Committee is to assist the Board of Trustees in fulfilling its fiduciary oversight responsibility by taking appropriate action(s) to support effective financial management. To fund those level of percentage increases, additional revenues would need to be produced or comparative annual budget cuts elsewhere in the operating budget would have to be made; not a feat easily accomplished and one representing unrealistic expectation and irresponsibility to the Board's part.

With no further discussion topics, Chair Blosser adjourned this meeting at 2:34 p.m.