



MINUTES
AUDIT AND FINANCE COMMITTEE MEETING
Wednesday, February 20, 2008

AF: A-M. Roll Call and Approval of Minutes for the December 12, 2007 BOT Audit and Finance Committee Meeting.

Ms. Blosser, Chair of the Audit and Finance Committee, convened this meeting at 11:15 a.m. Roll call commenced with the following Committee members participating:

Dr. William Bryant, Mr. David Feder, Dr. Rajendra Gupta, Mr. Bob Stilley, Mr. Tony Teixeira, Mr. Thomas Workman, Mr. Norman Tripp and Dr. Roy Levow.

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; Dr. Norman Kaufman, Associate Provost; Mr. Morley Barnett, Inspector General; and Mr. David Kian, General Counsel.

Trustee Blosser called for comment or correction to the minutes of the December 12, 2007 BOT Audit and Finance Committee meeting and with none forthcoming, a motion was made and seconded to approve the minutes without change. The motion passed unanimously.

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

Dr. Norman Kaufman addressed this item by first distributing a revised listing of fees. He advised the revision references the last item on the page which is a course within the Schmidt College of Science which will be offered at the HBOI facility.

An overview of the purpose of and the processes utilized to develop the fees was provided. Dr. Kaufman noted the authority by statute for universities to recover the cost of materials and supplies that are consumed or used during a course or lab that are used exclusively for the students' benefit, i.e., chemicals in a science lab or art supplies, or computer software that is essential to the training mission of the course or discipline. The fees represent traditional and high-tech consumables used mostly by advanced undergraduate and graduate students. These requests are received on a 12-

month cycle, reviewed for conformity to statute, and presented to the Board of Trustees for approval as required by statute. This request is presented earlier and separately from other fee increase requests in consideration of the mid-March publication of the Schedule of Classes program to ensure students are fully informed of the fees in advance of course registration.

Discussion followed on the following topics:

- Status of monies. Members were assured that any monies not utilized during the year remain in the account and are held for use to minimize need for an increase the subsequent year. All funds collected are distributed to the colleges/departments in segregated accounts to ensure audit accountability.
- Software information systems. Members were advised of the increased use of virtual materials and of the need to purchase systems and maintain licensure to provide state-of-the-art student training for real life workforce needs. Additional dialogue followed on the frequency of the need to update these systems and usage of joint purchasing power to reduce expenditures. Internal purchasing is utilized as applicable within colleges and with the cooperation of Information Resource Management overseeing maintenance, but many discipline curriculums both internally and at other universities vary greatly making joint purchasing difficult.

Chair Blosser called for a motion. A motion was made and seconded to recommend approval of the materials and supplies fees increases to the Board of Trustees. The motion passed unanimously.

AF: A-2. Request for Approval of Capital Improvement Trust Fund (CITF) Projects.

Dr. Jessell noted the February 1, 2008 directive from the Chancellor advising that as part of an accelerated release of bond proceeds funding, universities need to develop and submit proposed CITF projects to the BOG no later than February 29 for inclusion on the 2008-2009 Legislative Budget Request. Based upon statutory requirements, committees with broad-based student representation, as well as staff representation, were established to develop this list. These projects must support student related facilities such as recreational facilities and student unions. A review of FAU's list of requested projects by campus followed with the projects totaling \$13.6 million.

With no question or comment put forth, Chair Blosser called for a motion to recommend approval of the CITF projects to the Board of Trustees. A motion was made and seconded. The motion passed unanimously.

AF: I-1A. Review of Audits: Report No. FAU 07/08-2, Construction for the Period July 1, 2004 through September 30, 2007.

Mr. Barnett advised this was an audit to evaluate how well established construction procedures are followed. He noted that the audit contains no evidence of material non-compliance but identified five recommendations to improve internal operating and documentary processes.

Discussion followed and Mr. Barnett assured members that the findings were not of unusual concern and that the audit was expansive enough to satisfy OIG requirements. Additional conversation was held on follow-up procedures, which were reviewed. It was noted that the next agenda item documents established follow-up procedures. Also noted was the availability of follow-up audit information on the BOT website.

AF: I-1B. Review of Audits: Summary of Follow-up Audit Recommendations Scheduled to be Implemented During July 1 through September 30, 2007.

Mr. Barnett addressed this item noting the 13 recommendations fully implemented, eight partially implemented, two not implemented and one that is no longer applicable. Additionally, of the eight partially implemented items, most are delayed pending completion of testing to ensure newly implemented processes work properly. Mr. Barnett stated that for those recommendations not yet fully completed, satisfactory explanations have been provided and new implementation dates have been assigned.

Discussion followed to ensure member satisfaction with the format and information provided in this document and Mr. Barnett provided information on the internal follow-up processes in place to acquire the information used to develop this document.

AF: I-1C Review of Audits: FAU Intercollegiate Athletics Program, Independent Accountant's Report on Agreed-upon Procedures for the Year Ended June 30, 2007.

Dr. Jessell reminded members that this report comes to them annually as it is required by the NCAA and also by the Board of Governors as part their continual review of SUS Athletics programs through the data request system. He advised the revenues and expenditures matched FAU figures with small variations caused by simple timing issues. He noted a minor deficit of \$33,344 which was discussed in October as part of the fourth quarter budget status review. This deficit was funded by available cash reserves of \$100,000 in the athletics accounts leaving a final year end total of \$77,000. Overall there were no significant findings or exceptions identified by the accountants.

AF: I-2. Review of the 2008 Work Plan for the BOT Audit and Finance Committee.

Dr. Jessell presented a committee work plan for calendar year 2008 identifying the various meetings scheduled, including the Athletics Workshop before the BOT meeting on March 19 at SeaTech. He remarked upon the numerous Audit and Finance Committee meetings scheduled to review standard issues such as the quarterly reports, budget amendments, and advance presentations to consider fee increase proposals, as well as the additional meetings scheduled in light of the uncertainties surrounding budget construction for the 2008-2009 fiscal year. He advised these meetings are scheduled should legislative processes and directives be received later than usual but that any unnecessary meetings would be canceled. Final fiscal year 2008-2009 budget review and approval is scheduled for June 25.

Chair Blosser called for any questions, comments or changes to the plan. None were received.

Dr. Jessell then took a moment to inform members that this quarterly report is the first to reflect reporting on an accrual basis rather than cash basis. He noted that with the implementation of the Banner Student Information System that went live in October, FAU can now include receivables and payables which is the more accurate approach to reporting financial operations. Recently, unaudited monthly financial statements have been developed and next year these unaudited quarterly financials will be included with the quarterly operating reports.

Another informational item provided was the ongoing conversations with State Auditors to complete FAU's 2007 financial statement audit. The exit conference was recently held and the information presented and the adjustments made were very clearly reported. It is believed the electronic audit report will be released tomorrow and will be included in the next committee meeting.

AF: I-3. Presentation of the Second Quarter Status of Florida Atlantic University's 2007-2008 Operating Budget, July 1 – December 31, 2007.

Educational and General. Dr. Jessell advised the major revenue components of this budget are General Revenue (tax collections), Education Enhancement Trust Fund (lottery) and the Student Fee Trust Fund (out-of-state matriculation fees). This budget was approved in June 2007 by the BOT and now reflects the adjustments to general revenues caused by the October 2007 Special Session permanent reduction of \$6.2 million and an increase of approximately \$741,000 to reflect the Spring semester tuition increase.

A review of actual figures commenced noting the \$131.2 million in revenues received does not include lottery funds as they have not been distributed although they are still projected to be received. The \$5 million in budget authority was mentioned with clarification of the definition(s) of 'budget authority' and 'reserve' provided, noting that this is not an available cash supply but rather reserve authority. Dr. Jessell then advised of a predicted shortfall in student fee collections of approximately 1.5 percent or \$1 million due to lower than projected enrollments. The target in student fees for the year was predicated on a growth rate of 3.4 percent in actual FTE enrollments over the prior year which is not expected to be achieved. The bulk of the shortfall is at the graduate level which is projected to reach only 95.58 percent of target. This shortfall will be covered by current year non-recurring funds held in reserve. The budget is on track as appropriate to date.

Dr. Jessell noted awareness by members of additional budget reductions anticipated and that this issue would be discussed under the final agenda item of this meeting. The legislature will be addressing additional cuts system-wide the first week of the session and as information becomes available this information will be shared with the Audit and Finance Committee and the university budget will be modified as appropriate.

Student Financial Aid. Members were reminded this is a flow-through account with monies received and distributed to students. Revenues and expenditures are anticipated to be very close to projections.

Grants and Contracts-Sponsored Research. This budget includes the Division of Research, the Henderson University School, and payroll and clearinghouse functions of the FAU Foundation, Inc.

Revenues and expenditures are slightly off with total revenues less than expenditures but current cash balances are available to support this. Members were reminded that revenues are not earned evenly during the year with cash balances covering financial need until the offsetting revenues are received. For this period, approximately \$2 million in unbilled receivables existed which were not reflected in the accrual component. Close monitoring of this budget will continue. With the current economic situation, competition to win federal awards gets tougher as less funding is

available. Strategies to combat this situation are in discussion with the Vice President for Research and the Provost.

Auxiliary Enterprises. Dr. Jessell used this budget component to illustrate differences between cash basis reporting and accrual basis reporting. Noting that normally during the first quarter report, student fees from Fall are received in abundance with expenditures low; the second quarter, revenues and expenditures basically matched; and, for the third quarter, revenues again surpass expenditures. With the accrual basis reporting, all receivables from students that have paid, as well as from student that have registered but not yet paid, are included to the end of the reporting period. Now by the third quarter, figures will mimic that which would be seen on cash basis reporting in the second quarter report. Both reporting structures end similarly, but the accrual is the better operational reporting tool.

This budget is in great shape and remains on target to projections.

Athletics Local. Dr. Jessell noted the figures provided here tie closely to the accountant's report on agreed-upon procedures report reviewed earlier in the meeting.

Again highlighted were the effects of accrual basis reporting. Before, the revenues would be low with expenditures higher, reflecting expenses associated with football. Now, the Athletics fees are reported as a receivable, so at the third quarter before summer, revenues will be lower in comparison to expenditures. Unlike with the Educational and General budget where collections end with the Spring semester and summer fees are considered deferred revenue and held for the next fiscal year, Athletics fees are collected through June 30 and are reflected in the current year operating budget.

Dr. Jessell noted that current development, corporate sales, and other revenues are below projections. Members were reminded that many revenue producing activities are delayed until the Spring semester such as the golf tournament and the silent auction. These activities should bring revenues closer to projections. Dr. Jessell noted the March 19 Athletics Workshop where more detail on these plans will be provided, including the proposed 2008-2009 budget. Close monitoring of the budget with the Athletics personnel continues.

Upon query, members were assured that the division has a plan in place to address reductions including position freezes.

Student Government-Student Activities. Dr. Jessell noted the large level of revenues reflected by accrual reporting. Expenditures to date are much lower than the prior year, reflecting the concerns associated with reductions. Leadership is aware that lower enrollments and state revenue issues will impact their budget.

Concessions. This budget is on track to projections. The differences between revenues and expenditures will be covered by current cash balances.

In concluding this report, Dr. Jessell noted the budget component summary comparisons provided for fiscal years 2007-2008 to 2006-2007.

Discussion followed on the effects of community college baccalaureate programs on FAU. Members were advised that at this point the programs involved are more prospective but they could have an effect on FAU enrollments in the long term and, therefore, this is an issue that needs to be addressed. These programs would require realignment of strategic planning associated with student access and mission driven campuses to eliminate redundancies. These issues are being reviewed.

Chair Blosser noted the importance retaining information provided today for discussions during the March 19 Athletics Budget Workshop. Upon query, assurance was provided that the Workshop would be webcast.

AF: I-4. Update on Budget Reductions for Fiscal Year 2007-2008.

Dr. Jessell addressed this item noting that as the 2007-2008 Operating Budget was built in alignment with the goals of the FAU Strategic Plan, any modifications will also be made to the plan and will require full Board approval.

He advised members that the Board of Governors' is considering an enrollment realignment plan which proposes a 5.8 percent net enrollment reduction to the funded plan. This plan assumes that in addition to the 3.6 percent budget reduction taken in the Fall, another 3.8 percent for Spring and 1.6 percent in 2008-2009 would occur.

The impact to FAU would be a reduction in funded FTE from 15,239 in 2007-2008 to 14,158 in 2008-2009 or 1,081 fewer FTE, which equates to approximately 2,000 fewer students. While the budget reduction to the General Revenue/Lottery component will be approximately \$10 million, when including the decreases in tuition and other student fees, i.e. the activities and services, financial aid or the athletics fees, the total budget reduction would equal approximately \$16.8 million.

Dr. Jessell advised that just to restore tuition reductions mentioned above one of two scenarios would apply:

1. A 7.5 percent tuition increase at all levels with no over-enrollment of students beyond the funded plan.
2. A five percent increase at all levels plus over-enrollment of approximately 371 FTE.

Dr. Jessell noted that any reductions to enrollment and budget will depend upon Legislative appropriations and a BOT approved budget plan.

Discussion followed on the following:

- Preliminary tuition increases of five percent to eight percent.
- Concern for a lack of program availability on partner campuses in light of four-year programs at community colleges.
- Keeping the 2+2 students at FAU.
- Effects of community college programming issues to be addressed by the BOT Strategic Planning Committee.

- Instructions to management that the BOT will directly approve changes in program flow and resources allocations.
- Consideration that FAU provide lower level science programs at the MacArthur campus in consideration of the Scripps Florida presence.
- Trickle down enrollment issues in consideration of caps at the University of Florida and/or Florida State University.

With no further discussions topics, Chair Blosser adjourned this meeting at 1:10 p.m.