



Item: A-M

AUDIT AND FINANCE COMMITTEE

Wednesday, February 21, 2007

SUBJECT: ROLL CALL AND APPROVAL OF MINUTES FOR THE OCTOBER 17, 2006 AUDIT AND FINANCE COMMITTEE MEETING.

PROPOSED BOARD RECOMMENDATION

Initiate roll call to document member participation and ensure appropriate quorum numbers are achieved as well as approve the October 17, 2006 meeting minutes.

BACKGROUND INFORMATION

Ms. Nancy Blosser, Chair	_____
Dr. William Bryant, Vice Chair	_____
Mr. David Feder	_____
Dr. Rajendra Gupta	_____
Mr. Austin Shaw	_____
Mr. Bob Stilley	_____
Dr. George Zoley	_____
Mr. Norman Tripp (ex-officio)	_____
Dr. Frederick Hoffman (ex-officio)	_____

FAU

BOARD OF TRUSTEES
Florida Atlantic University

Draft Minutes
October 17, 2006 Audit and Finance Committee Meeting

Mr. Norman Tripp, Chair of the Audit and Finance Committee, convened this meeting at 10:03 a.m. with the following Committee members participating:

Ms. Nancy Blosser, Mr. David Feder, Ms. Lalita Janke, Mr. Kirk Murray and Dr. Fred Hoffman (ex-officio).

Absent: Dr. William Bryant and Mr. George Zoley.

The following Board of Trustees members participated:

Ms. Sherry Plymale, Mr. Arnold Grossman, Dr. Roy Levow, and Mr. Bob Stilley.

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.

AF: A-M. Roll Call and Approval of Minutes.

Roll call commenced documenting member participation and quorum requirements. Chairman Tripp then called for comments or questions on the minutes and with none forthcoming, called for a motion to approve the minutes without change or modification. A motion was made and seconded. The motion passed unanimously.

Trustee Tripp inquired if, as noted in the Diversity Report presentation of June 14, 2006, a Diversity Advisory Committee had been established. President Brogan provided affirmation and agreed to provide Board members the names of the individuals serving on the Committee.

AF: A-2. Establishing Investment Accounts with the Florida State Board of Administration.

Dr. Jessell advised members of the existing practice of investing funds in excess of current needs in the Special Purpose Investment Account (SPIA) of the Florida State Treasury. In an effort to provide more diversity and possible access to higher yield long-term rates, the University

would like to invest some of these excess funds with another governmental agency, the State Board of Administration (SBA). In order to do so, the SBA requires a formal resolution from the Board of Trustees. Dr. Jessell noted that both mediums are very safe and provide immediate liquidity.

An overview of current investment practices was provided, noting that since devolution and the establishment of Boards of Trustees, all of the state universities have invested funds in the SPIA accounts as the yields have been very attractive. All decisions regarding the distribution of funds and investment timing have been made internally by the FAU Controller and Treasurer.

It is now recommended that an investment committee be created to address these functions and oversight duties in the event of greater variations in short- and long-term rate issues. Members discussed this concept and provided approval to create an investment sub-committee to the BOT Audit and Finance Committee. Chairman Tripp requested Dr. Jessell send letters of participation inquiry to all Board members.

Chairman Tripp called for a motion to recommend BOT approval of a resolution establishing investment accounts with the State Board of Administration. A motion was made and seconded. The motion passed unanimously.

AF: A-3. Debt Management Guidelines.

Dr Jessell reminded the Committee that during the last Legislative session the issuance of substantial amounts of debt by universities and direct support organizations (DSO) was a concern and an initiative was considered to create statutory requirements to govern this area. He noted that past procedures required Board of Regents approval on all debt issuance, but upon devolution this process was not continued. In response to legislative concerns and to remove possible statutory restrictions, the BOG established Debt Management Guidelines in accordance with Section 1010.62 Florida Statutes to direct universities and DSOs to observe sound debt management practices. Each institution is required to adopt policies consistent with these Guidelines. It is recommended that rather than create a separate document, FAU adopt the BOG Debt Management Guidelines as its own. In doing so, any future revisions to the BOG Guidelines will automatically apply to FAU and will eliminate the need for additional BOT review and approval.

A summary review of the Guidelines followed, including compliance with master planning, the purposes for which debt may be issued, credit rating needs, and revenues which may secure debt. Dr. Jessell noted the only significant change to revenues able to support debt was the ability, for the first time, to utilize up to five percent of both the Activity and Service and Athletics fees to secure debt.

Chairman Tripp requested a motion to recommend approval of the BOT to adopt the BOG Debt Management Guidelines as the FAU Debt Management Guidelines for issuance of debt. A motion was made and seconded to approve this recommendation. The motion passed unanimously.

AF: I-1. Review of the Office of the Inspector General's Report of Annual Activities for Fiscal Year Ended June 30, 2006.

AF: I-2. Review of the Office of the Inspector General's Fiscal Year 2006-2007 Work Plan.

Mr. Barnett addressed each of these items noting the Annual Activities report as a summary of items address by his office during the 2005-2006 fiscal year.

He then reviewed the 2006-2007 Work Plan and the processes utilized in its development. Discussion commenced analyzing the varying perspectives provided by respondents to the risk assessment survey. Chairman Tripp requested future survey results be brought before the Committee for discussion to ensure Member understanding of the functionality of this tool and to ensure proper audit coverage of university areas.

Other comments focused on the impending implementation of the Banner Student Information System and applicable security measures. It was noted that in coordination with IRM, an outside firm had been engaged to review these issues. It was believed that continuing oversight and reporting could be accomplished. Mr. Barnett was advised to follow-up on this issue.

AF: I-3 A. FAU 05/06-4, Audit of Revenue Generating Contracts for the Period July 1 – December 31, 2005.

Mr. Barnett reviewed this item, noting the purpose was to ensure contract provisions and internal controls were in place to ensure revenue receipt and commission calculations were correct. Two recommendations were made on administrative issues involving contractual document needs and monitoring commission trends and variances. It was noted that no major problems exist and that follow-up of the implementation of these recommendations is in progress.

AF: I-3 B. FAU 05/06-5, Audit of Central Cashier's Office for the Period January 1 – March 2006.

Mr. Barnett noted the Central Cashier's Office is located on the Boca Raton Campus with satellite offices on other campuses. Audit objectives were to ensure that money collected was properly accounted for, reconciled and accurately recorded, among other appropriate accounting practices.

Five recommendations addressing transaction accountability, segregation of duties and security issues were made. It was noted that some of these were continuing issues from past audits but Mr. Barnett advised that action has been and is being made for improvement. He also confirmed that no finding was overwhelmingly deficient.

One area of concern addressed the access of cashier's to the financial system, but Mr. Barnett advised that in discussions with management this risk was deemed acceptable in consideration of the checks and balances procedures in place. Dr. Jessell concurred. Also noteworthy was the

belief that with the implementation of the cashiering system within the Student Information System, some of these issues will be eliminated.

AF: I-4. FAU Athletics Department Independent Accountant's Report on Agreed-upon Procedures, June 30, 2005.

Dr. Jessell addressed this issue advising that these agreed-procedures are part of the NCAA requirements. Independent auditors were engaged to review revenues and expenditures and the appropriateness of same while noting any deviations therein.

For the period ending June 30, 2005, the report was very clean. While some variations were noted, they were reasonable and justifiable. The report found the Athletics Department in balance this year and noted the intrafund loan of \$1.89 million from FAU Auxiliary Funding initiated to accomplish this.

Trustee Tripp noted that the annual repayment amount associated with this intrafund loan is the decision of the BOT, and as such, this issue needs to be brought before the Audit and Finance Committee for discussion. Dr. Jessell agreed to bring this to the next Athletics Workshop.

AF: I-5. FAU Foundation, Inc. Financial Statements and Additional Information, June 30, 2006 and 2005.

Dr. Jessell noted this as a very clean audit with no reportable conditions.

Discussion followed relating to the University Commons Lease Agreement and whether requirements exist in that agreement to allocate lease revenues to financial aid. Collective memory reflected a belief that that the agreement language was not that specific. Trustee Tripp requested that Mr. Kian research this issue and clarify the language and authorities provided in the Agreement at the next AFC meeting.

AF: I-6. First Quarter Status of Florida Atlantic University's 2006-2007 Operating Budget, July 1 – September 30, 2006.

Dr. Jessell began the PowerPoint presentation to review this item by component:

Educational and General. As the largest component, the approved Educational and General consists of Student Fees, Lottery and General Revenue totaling \$241.9 million. While noting no lottery funding has yet been received, revenues collected are greater than expenditures by approximately \$20 million.

Dr. Jessell then reviewed adjustments to the initial budgeted revenues and expenses advising that in accordance with BOG directives both categories have been reduced by \$1.998 million as part of a transfer to the FAU Foundation, Inc. for the Challenge Grant Program. A second adjustment, a reduction of \$2 million, was completed in anticipation of a funding shortfall due to weak enrollment figures. He advised members that during budget construction, funding had

been based on projected enrollment growth of approximately three percent. Neither summer nor fall enrollments have reached this target thereby warranting this adjustment; upon future assessments further revision could be forthcoming. This issue has been discussed by the Executive Committee to prepare internally a financial plan to deal with this possibility.

Discussion followed noting approval of advance financial planning but questioning the status of recruitment efforts. Dr. Pritchett addressed the query, reminding members of the August Enrollment Management Workshop where efforts in this area were reviewed. While recruiting remains an on-going initiative, the softness of area-wide community college graduation rates remains problematic. Trustee Plymale requested the annual number of area-wide community college graduates so an over-view of recruitment in that area could be reviewed. Dr. Pritchett agreed to provide this information in the future.

Further discussed ensued on current efforts and identifying other target areas to address this issue including:

- Utilizing the President in media notices reminding surrounding communities of FAU's presence;
- The current development, as part of the Strategic Plan, of a communications marketing plan to mitigate many of these visibility issues;
- Increasing Distance Education enrollment to boost spring figures; and,
- Setting goals per Community College to monitor and assess results.

Trustee Plymale noted a further concern on how the enrollment issue will affect the 2007-2008 Legislative Budget Request (LBR). Dr. Jessell acknowledged this concern, advising that this LBR reflects a projected 503 FTE. A concerted effort to produce data that provides support and justification for FAU to keep the projected enrollment/FTE will be necessary; data that shows changes in processes and procedures that will result in the increased spring enrollments will be needed to maintain 2007-2008 enrollment projections. This is not a system-wide problem as analysis of first day fall enrollments show an overall increase average of approximately three percent. He further acknowledged the risk for reduction of 2007-2008 General Revenue associated with enrollment growth should the funded enrollment plan not be achieved or justification for underperformance be unacceptable.

Dr. Jessell completed review of this budget component noting that while Students Fees are of concern, General Revenue is on target.

Student Financial Aid. This component is a flow-through account with scholarship and loan funding being received and disbursed to students. First quarter revenues and expenditures are in line with projections and no problems are anticipated with this budget.

Grants and Contracts. Revenues and expenditures this quarter are at approximately \$12 million and \$10 million respectively. These figures are just under the 25 percent plan, but this type funding is not received uniformly. Funding is consistent with prior year within a couple of percent and we expect this budget to remain on target.

Auxiliary Enterprises. First quarter budget is on track and is expected to remain on target with projected revenues and expenditures.

Athletics. A summary review of the current budget figures was given noting that student fee collections and ticket revenues are on target although the first home game wasn't until October 12. For this quarter, corporate sales/sponsorships are below projections. Dr. Jessell also advised that a new national corporate sponsorship company is working with the department to improve this area. This budget continues to be closely monitored.

Dr. Jessell advised the Committee that as in prior years, the Athletics Department has requested an increase of up to \$250,000 in budgeted revenues and expenditures. This adjustment is necessary to cover unbudgeted expenses that will be paid by guaranteed sponsored revenues i.e., televised games and advertising. With Committee approval, this adjustment will be reflected in the Second Quarter Budget Status report and at that time the specific dollar amount will be provided.

Chairman Tripp enquired if members had any questions or comments on this budget amendment request. With none forthcoming, a motion was made and seconded to approve this adjustment to the Athletics Budget. The motion passed unanimously.

Student Government / Student Activities. This year as part of the budget process, a slight increase of expenditures over current revenues was authorized. Members were advised that with careful monitoring of expenditures, cash has been allowed to accumulate in this budget in anticipation of funding the Recreation and Wellness Center project. The project is now close to reality and these funds will be expended on the new Center. This budget is on track and is anticipated to be in line with initial projections.

Concessions. This budget of \$575,000 is right on track with projections.

Dr. Jessell then noted the next pages of the presentation provide financial comparison information of current budget to prior fiscal year. This information enables tracking of variations in expenditure and the ability to analyze and explain these issues.

Fourth Quarter Status of Florida Atlantic University's 2005-2006 Operating Budget, July 1, 2005 – June 30, 2006. As no meeting of the Audit and Finance Committee is held immediately after the fiscal year end, this update is now provided as part of the First Quarter presentation and available cash balances are able to support these minor variations to finalize the prior year operating budget reporting. The revenues and expenditures ended up in line as anticipated for all categories. Student Financial Aid, Grants and Contracts and Student Government had slightly higher expenditures versus revenue but these budgets fluctuate per timing of the receipt and disbursement of funds.

In response to a question from Trustee Tripp, Dr. Jessell advised that in the state system, Auxiliaries Enterprises, including Athletics, may not operate in the red; auxiliary budgets are required to operate on a break-even or better basis. It was noted that the University can make

an auxiliary budget whole with appropriate internal transfers/loans but that no state funding can be utilized for such transactions.

With no other questions or comments, Trustee Tripp adjourned the meeting at 11:34 a.m.

**Responses to Information Requests Posed During this
October 17, 2006 Meeting of the Audit and Finance Committee**

1. Trustee Tripp inquired if, as noted in the Diversity Report presentation of June 14, 2006, a Diversity Advisory Committee had been established. President Brogan provided affirmation and agreed to provide Board members the names of the individuals serving on the Committee.

Diversity Advisory Committee membership list provided per Attachment A.

2. Discussion followed relating to the University Commons Lease Agreement and whether requirements exist in that agreement to allocate lease revenues to financial aid. Collective memory reflected a belief that that the agreement language was not that specific. Trustee Tripp requested that Mr. Kian research this issue and clarify the language and authorities provided in the Agreement at the next AFC meeting.

Mr. Kian's update on this issue is provided per Attachment B.

FAU DIVERSITY INITIATIVE COMMITTEE

REPRESENTATIVE	DEPARTMENT	EMAIL	PHONE
Abbas, Qaisar	Student Affairs	gabbas@fau.edu	297-3959
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O'Flannery, Jennifer	President's Office	joflanne@fau.edu	297-0745
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Shaw, Austin	Student Government	ashaw4@fau.edu	297- 8401
Singer, Patty	Ombudsman	patty@fau.edu	297-3693
Torres, Jared	Student Government	jtorre28@fau.edu	954-257-1780
Wright, Dianne	Education	dwright@fau.edu	6-1080

11/1/06

At its October 17, 2006 meeting, the FAU BOT Audit and Finance Committee requested that FAU General Counsel David Kian review all documentation relating to FAU's lease with the FAU Foundation, Inc. ("FAUF") for the development of the University Commons property. The Committee sought clarification as to whether there are any requirements that revenues from the development be used exclusively for student financial aid.

Mr. Kian has completed the requested review and determined that there are no requirements concerning the allocation of revenue for student financial aid.

The University Commons property is subject to three leases:

- (1) A January 22, 1974 lease from the State of Florida's Board of Trustees of the Internal Improvement Trust Fund ("TIITF") to the Board of Regents of the State University System of the State of Florida ("BOR"), the statutory predecessor in interest to the BOT;
- (2) A May 26, 2000 sublease from the BOR to FAUF; and
- (3) A June 1, 2000 sublease from FAUF to Uncommon, Ltd., the developer of the University Commons.

The 1974 lease is the State's lease to the BOR for most of the land that comprises FAU's Boca Raton campus. It requires the BOR (and now the BOT) to operate the premises for "public purposes." Beyond this general requirement of use for a "public purpose," there are no provisions in the lease relating to the uses of revenue that may be derived from the property.

The 2000 leases are both subject to Florida Statutes Section 243.151 (renumbered in 2002 as Florida Statutes Section 1013.171), which authorizes state universities to lease land under their jurisdiction for purposes of erecting facilities "necessary and desirable to serve the needs and purposes of the university." Beyond this general requirement of use that is "necessary and desirable to serve the needs and purposes of the university," there are no provisions in either lease relating to the uses of revenue that may be derived from the property.

In seeking approval for the 2000 subleases, the FAU administration represented to the BOR and the TIITF that revenue from the University Commons project would be used to further the instructional and research mission of the University. No written representations were made concerning the use of revenue specifically for financial aid purposes.

Supporting Documentation:

- (1) March 31, 2000 letter from FAU President Anthony Catanese to BOR Chancellor Adam Herbert concerning use of revenue from the University Commons project.
- (2) Excerpted page from backup material presented to the TIITF in May 2000 concerning requested approval of sublease for the University Commons project.



FLORIDA ATLANTIC UNIVERSITY

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OFFICE OF THE PRESIDENT
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March 31, 2000

Dr. Adam W. Herbert
Chancellor
State University System
325 West Gaines Street
Tallahassee, FL 32399

RE: Florida Atlantic University's Request for Approval of Sublease with
Florida Atlantic University Foundation, Inc.

Dear Dr. Herbert:

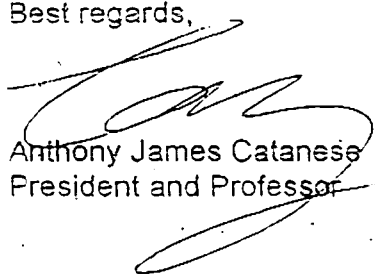
On March 7, 2000, I wrote to you requesting that submission for approval of a proposed sublease to the Board of Regents be expedited. My staff and I appreciate the cooperation and efforts being made by your staff to prepare this agenda item on an expedited basis. It is my understanding that two questions have been raised during the preparation of this agenda item:

- 1) How will the revenue from the sublease be used? and
- 2) Whether there will be any competition or conflict with any retail services being provided on our campus?

At this time I would like to emphasize that the revenue generated from this sublease will be used to support the instructional and research mission of the University. No funds will be used to support inter-collegiate athletics. In addition, there will not be any competition, nor conflict with any retail services being provided on our campus, nor with any contracts now in existence, or in the future.

I hope this answers the questions raised by your staff. If you should need additional information please do not hesitate to contact me or my staff.

Best regards,


Anthony James Catanese
President and Professor

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Florida Atlantic University Foundation

- Consideration of a request for:
1. Approval of a 73 year sublease between the Board of Regents On behalf of the Florida Atlantic University Foundation, Inc.,
 2. Approval of a 30 year ground lease between Florida Atlantic University Foundation and Uncommon, Ltd., containing 22 acres more or less.

The Board of Regents through the Foundation is proposing to lease 22 acres to a private developer for the construction and operation of a retail commercial center designed to serve the needs of the University Community. The 22 acre parcel had been previously used for married student housing, however, in September of 1997, the University's Campus Master Plan was modified by the Board of Regents to accommodate commercial support facilities. The Foundation solicited for proposals through a request for proposal process and the evaluation team selected Uncommon Ltd. The Board of Regents approved the ground lease on April 14, 2000. Pursuant to section 243.151(1) F.S., the Board of Trustees upon request of the University shall lease any such property to the University for sublease.

Issues

Appraisal - Diane E. Jenkins, MSA completed the appraisal. Mr. William Reichel of Reichel Realty was also consulted regarding the market value of the ground rent associated with the property. Both parties felt that the appropriate return on the land is ten (10) percent of the indicated unit value. In this case, it would be \$0.60 per square foot. Multiplying this amount by the subject's size (961,820 square feet), the base ground rent that should be charged, as of the date of the appraisal was \$576,820.

Consideration - Uncommon Ltd., will pay a base rent as follows:

\$ 848,000 per annum for years	1 - 10
\$ 898,000 per annum for years	11 - 20
\$ 952,823 per annum for years	21 - 30

At the end of 30 years, Uncommon, Ltd., has the option to renew the ground lease for Two five year terms as follows:

\$1,009,982 per annum for years 31 - 40

Funds Will Be Deposited: Revenues received as a result of the ground lease will be deposited in the Florida Atlantic University Foundation, Inc., Account. The Florida Atlantic University Foundation is a direct support organization created pursuant to section 240.299 F.S. (Note: subsection (1)(a)(2) of that statute states that such an organization is organized and operated exclusively to receive, hold, invest and administer property and make expenditures to or for the benefit of a state university. These funds will be used to further the University's academic and research mission. The Honors College will benefit from the revenue to the Foundation as well.. The Foundation's goal is to have 500 students enrolled by the time that all classes have been admitted. The Board of Regents will annually review the Foundation's expenditure plan.

Review by BOA of the
Foundation's expenditure plan.