BOARD OF TRUSTEES
Florida Atlantic University

Item: AF: A-M

AUDIT AND FINANCE COMMITTEE

Wednesday, April 21, 2010

SUBJECT: ROLL CALL AND APPROVAL OF MINUTES OF THE FEBRUARY 17, 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 17, 2010 Audit and Finance Committee meeting.

COMMITTEE MEMBERS

Mr. Robert Stilley, Chair ____

Mr. Thomas Workman, Jr., Vice Chair ____

Ms. Nancy Blosser (ex-officio) ____

Dr. William Bryant ____

Mr. David Feder ____

Mr. Armand Grossman ____

Dr. Tim Lenz ____

Mr. Robert Rubin ____

Ms. Tiffany Weimar ____

BOT MEMBERS

Mr. Anthony Barbar ____

Dr. Jeffrey Feingold ____

Dr. Rajendra Gupta ____

Ms. Sherry Plymale ____

FAU
BOARD OF TRUSTEES
Florida Atlantic University

DRAFT MINUTES
AUDIT AND FINANCE COMMITTEE
Wednesday, February 17, 2010

AF: A-M. Roll Call and Approval of Minutes of the December 16, 2009 Board of Trustees Audit and Finance/Strategic Planning Joint Committee meeting.

Mr. Bob Stilley, Chair of the Audit and Finance Committee (AFC), convened this meeting at 10:12 a.m. Roll call commenced with the following Committee members participating: Mr. Thomas Workman, Jr., Mrs. Nancy Blosser, Dr. William Bryant (via teleconference), Mr. David Feder (via teleconference), Mr. Armand Grossman, Mrs. Lalita Janke, and, Dr. Timothy Lenz.

Other Trustees attending the meeting included: Mr. Anthony Barbar, Dr. Rajendra Gupta and Mrs. Sherry Plymale.

The following University officials participated: Dr. John Pritchett, Interim President; Mr. Dennis Crudele, Interim Senior Vice President for Financial Affairs; Dr. Norman Kaufman, Associate Provost; Mr. Morley Barnett, Inspector General; Ms. Sharon Brown, Director of Finance/FAU Foundation, Inc.; Dr. Edwin Bemmel, Director of Contracts and Grants/Division of Research; Mr. Craig Angelos, Director-Intercollegiate Athletics; Mr. Edward Hayward, Associate Director-Intercollegiate Athletics; and, Mr. David Kian, Senior Vice President for Strategic Relations and General Counsel.

Upon call for approval of the December 16, 2009 Audit and Finance/Strategic Planning Joint Committee meeting, a motion was made and seconded to approve the minutes without change or correction. No discussion or further 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).

Dr. Kaufman reminded members that Florida Statute authorizes the Board of Trustees to set material and supplies fees for particular courses requiring specialized materials. These fees help offset the expense to the University and are subject to rigorous internal review to verify course need and appropriate pricing.

Upon query, it was explained that the doubling of fees requested by College of Architecture, Urban and Public Affairs is justified since prior year approved fees had been inadequate in covering the material costs. This year the fees are being adjusted appropriately higher.

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: A-2. Request for Approval of the BOT Audit and Finance Committee Charter.

During the December 16, 2009 AFC meeting a request was made of members to review the charter and provide comments and/or changes to the document to ensure clarity of intent and efficiencies of content. Mr. Crudele advised that the responses resulted in minor language changes and the elimination of the directive to present audits to the full BOT. Additionally, overall satisfaction with the Charter and Committee effectiveness was expressed.

Conversation followed directing this issue to be added appropriately to the annual AFC Work Plan ensuring assessment compliance per the Charter. Mr. Crudele confirmed that assessment of the Charter would be added to the Plan.

A motion was made and seconded to recommend approval of the amended BOT Audit and Finance Committee Charter to the Board of Trustees. **The motion passed unanimously.**

AF: A-3. Request for Approval of a Resolution Restricting the Issuance of Future Debt Secured by Existing Housing Revenues and Designating the FAU Finance Corporation as the Agent of the University for the Development and Construction of the Innovation Village Phase I Housing Facilities.

Mr. Kian began this presentation updating members on the status of the Innovation Village Housing (IVH) project and noting the release of the Preliminary Offering Statement which is now being reviewed by financial institutions. A preliminary pricing conference call was held last week with the final pricing call scheduled next week. It appears the proposal is being receiving positively and remains on schedule to close on March 3.

Pertaining to this agenda item, Mr. Kian explained that the resolution contains two substantive parts both of which are consistent with the previously BOT approved plan. The first part is closing, or restricting, lien rights. The second is designating the Florida Atlantic University Finance Corporation (FAUFC) as the agent of the University for the IVH project.

A history on the debt issuance followed noting that the Board of Regents, the State University System governing body at the time, by resolution authorized to the Division of Bond Finance (DBF) the task of setting guidelines and approving debt issuance on all institutional projects. In 1992, the DBF adopted a resolution authorizing the issuance of Housing System Debt. As a result, since 1992 each institution has been required to provide a plan showing student demand, proving competitive pricing with the local market and providing a financing plan on how the housing would cover its individual costs, etc. With the exception of the MacArthur housing which was financed utilizing FAU Foundation, Inc. issued Certificate of Participation, all FAU housing has been built on these premises.

Another effect of the Housing System Debt was a housing system lien practice This lien provides that should any one housing component not meet its revenue projections the balance of the housing system revenues would cover that obligation. This process enabled the receipt of the best ratings possible on debt issuance.

The FAUFC IVH project is working along the same premises as the excess net revenue of all existing housing has been pledged to this project to get the 'A' ratings it received. A stipulation of the ratings companies is that the University not issue additional debt for as long as the FAUFC IVH debt remains outstanding. And the reasoning is that pursuant to the 1992 DBF Resolution, new FAU issued housing revenue bonds would receive priority remuneration before the FAUFC issued IVH revenue bonds. This BOT resolution will commit the BOT and FAU to refraining from issuing additional housing bonds under the DBF Resolution thereby security to the FAUFC bonds investors.

Mr. Kian assured member that this action/restriction does not prohibit building freshman housing in the future should the University desire to do so. The exact same processes would be initiated: documentation showing student demand, competitive pricing with the local market and financing structure on how the housing would cover its costs, etc. would be provided for DBF and BOG approvals. At that time a new DBF Resolution would need to be issued acknowledging the closure of the lien issue associated with the 1992 Resolution and articulating that the new housing project revenues alone would be required to finance the housing itself and its bond financers and not rely on any existing housing revenues. Additionally, the University could pledge surplus revenues from the FAUFC IVH housing system if it so chose.

Regarding the second part, this asks the BOT to formally designate FAUFC to manage the development and construction of the IVH project. This organization has registered and been recognized by the State as a non-for-profit organization. Additionally, registration has been filed with the Internal Revenue Service to be a 501(c)3 corporation for purposes of federal taxes. The certification letter has not yet been received from the IRS as it takes many months. As a formal agent of the University, this direct support organization can enjoy the tax exempt status the University enjoys. It will enable the FAUFC to participate in the state's purchasing program to realize significant tax savings on the purchase of construction material and equipment.

Mr. Kian reiterated the most important effects of this resolution:

- Closing the DBR Resolution lien provision protects the IVH project by ensuring investors receive priority repayment consideration;
- It does not prohibit for implementation of IVH Phase II to be marketed to upper division students when the University is ready to proceed;
- It does not prohibit consideration of issuing additional housing bonds. It does prohibit any expectation of utilizing existing housing surplus revenues to secure those bonds;
- The designation of the FAUFC as the University's agent for the construction of the Housing Project is anticipated to produce significant tax savings.

Discussion followed providing additional explanations to the issues previously discussed. Additional commentary centered on risks associated with any proposal of new housing being financed solely on revenues being generated by that new project and the possible detriment to securing good bond ratings caused by that situation. Members were reminded that the current housing reserve fund is not pledged to IVH project; it remains solely for University use. Any excess revenues from the IVH project will stay within the Division of Student Affairs for housing needs and other student related functions only. Also relative to this issue, is the BOT is required to approve the Housing Departments annual budget so if a need arises to access surplus finding the process would be transparent to the Board.

Mr. Kian proceeded to provide the composition of the FAUFC followed identifying the three members of the Board of Directors as Trustee Adams, Mr. Crudele and Mr. LoBello. The Committee was advised that all actions and approvals required of this entity have been accomplished to issue this debt. This entity will work closely with the construction manager and developer to facilitate the construction process. The authorization of the FAUFC as an agent it enables them to make tax exempt purchases and is a requirement of the IRS. It removes obligations from FAU to the FAUFC.

Additional history was provided noting the IVH ITN awarded the project to the Crocker Partners, LLE which formed a consortium including, but not limited to, PGAL/Architect, Balfour Beatty Construction/General Contractor, Balfour Beatty Capital as the financier of the subordinate debt portion of the revenue bonds, and Capstone On-campus Management as the property manager upon opening. Members were advised that the formation of a consortium is a standard procedure for projects and FAU was aware that Crocker intended to do so. The consortium was to be named B-C Development, LLC, a Delaware limited liability company, but it was recently discover the name was already taken in Delaware. It is believed the name will change to be a Florida LLC, but the corporate composition remains unchanged.

A motion was made and seconded to recommend to the BOT approval of the Resolution Restricting the Issuance of Future Debt Secured by Existing Housing Revenues and Designating the FAU Finance Corporation as the Agent of the University for the Development and Construction of the Innovation Village Phase I Housing Facilities, as presented. **The motion passed unanimously**

AF: I-1. Review of the 2010 Work Plan for the Audit and Finance Committee.

Mr. Crudele addressed this item explaining that each year a work plan is developed providing a chronology of items to be reviewed and approved during the calendar year. An update to the plan incorporating tenants of the AFC Charter will be presented at the next meeting. This plan adds an additional Committee meeting prior to the regularly scheduled Board meeting on May 26, 2010. This addition is necessary to satisfy the requirement that the BOT approve the 2010-11 Differential Tuition prior to submitting the request to the BOG on May 27, 2010.

AF: I-2. Review of Summary of Follow-up Audit Recommendations Scheduled to be Implemented During the Period of July 1, 2009 - December 31, 2009.

Mr. Barnett reviewed this routine report noting that four recommendations had been implemented, three were partially implemented and one not implemented effectively. Additionally, four recommendations are being designated as no longer applicable.

These four findings designated as no longer applicable were originally recommendations in the Florida Auditor General's (AG) 2008 Operational and Federal Awards audits. The recently released preliminary and tentative findings to the 2009 Operational and Federal Awards audits indicate a recurrence of these findings. To avoid duplication, follow-up is being discontinued pending release of the 2009 AG audits which will include updated status responses from the administration.

Discussion followed expressing concern on the repetitive nature of these findings. Mr. Crudele took the floor to advise members that management is taking additional steps to implement tighter measures on university procedures related to these findings. Upon query if the committee should be concerned, Mr. Crudele noted that, in some cases, management had previously decided that implementation of recommendations was more costly that the risk associated with the findings. The auditors stand by their finding regardless. In other cases, strengthening procedures may be necessary.

Noting the fiduciary responsibilities of this Committee, concern was expressed by Chair Stilley on ensuring the Committee is being fully appraised on why findings are not being implemented or are only partially implemented.

Addressing recurring audit issues within the Research Division, Mr. Bemmel advised that Banner system Time and Effort Banner module is currently in testing mode with the expectation of going 'live' in April 2010. This module will address a number of continuing recommendations associated with OMB Circular A-21 requirements.

Regarding the partially and not implemented recommendations, Mr. Angelos and Mr. Heyward addressed members explaining that to date these items have been implemented with the creations of tracking procedures and the creation of spreadsheets for documentation of electability issues. Additionally a manual has been updated to conform to current athletic protocol and laws.

Discussion followed on corrective action not being completed in a timely manner.

AF: I-3. Review of the FAU Foundation, Inc. (FAUF) Financial Statements and Additional Information, June 30, 2009 and 2008.

Ms. Brown, noting continuing economic decline, advised members that the Foundation's assets decreased from $247.9 million to $192.7 million, or 22 percent, in the fiscal year ending June 2009, with revenues declining by $36 million. These declines are primarily the result of decreases in pledges and market losses and are financial realities facing the entire university system.

Expenses included facility transfers to the University of the Alumni Center, the Digital Theatre Project, the College of Engineering and other small projects which totaled $3.5 million this fiscal year, an increase of $2.48 million over prior year.

Additionally, the Foundation paid $570,000 for project work on the Stadium which was capitalized at June 30, 2009 but moved to the University this fiscal year.

One major change to these financial statements, as compared to prior year, is the adoption of new Financial Account Standards pronouncements that require enhanced descriptions of the liquidation of investments, and descriptions endowments and any deficiencies. As of June 30, 2009, it was noted that 45 percent of FAUF endowments were deficient by approximately $5.9 million. Currently, the percentage is at 17 percent so the market is improving.

Discussion topics centered on the audit title which was explain as providing comparative data from the two fiscal years, the forgiveness of $613,000 in unearned advancement associated with an affinity agreement, and fundraising efforts.

AF: I-4. Review of the Florida Atlantic University Research Corporation, Report of Audit of Financial Statements for the Year Ended June 30, 2009.

Mr. Bemmel began presenting highlights of this financial statement noting first that the Florida Atlantic University Research Corporation (FAURC) was established in 1990 as a not for profit organization for the development, protection and commercialization of the University's intellectual property.

For the second year the audit firm of Templeton & Co. was used and their auditors issued an unqualified audit report for the year ending June 30, 2009.

Mr. Bemmel advised members that for the audited year the operational assets and liabilities of the Memory and Wellness Center were included in the FAURC financials, but that effective July 1, 2009 it will become an auxiliary function of the University.

Additionally noteworthy is a new IRS requirement that all FAURC Board members will be required to review and approve the 990 prior to its filing with the IRS and the State Attorney's office.

AF: I-5. Review of FAU Athletics Department Independent Accountant's Report on Agreed-Upon Procedures, June 30, 2009.

Mr. Angelos and Ms. Boele noted this report as an annual mandate of the NCAA bylaw. It provides an accounting of revenues and expenses, both direct and indirect. He noted that while minor variations exist, overall there were no issues identified by the accountants.

AF: I-6. Review of the Second Quarter Status of Florida Atlantic University's 2009-10 Operating Budget, July 1 – December 31, 2009.

Mr. Crudele first provided an update on the State's economic status as reported during the Revenue Estimating Conference held on December 4. Revenue collections have been revised upward to approximately $338 million and this represents good news that no mid-year budget reductions will be necessary. Additionally, increased enrollments at FAU have enhanced the Educational and General budget with trickle down assistance to the Auxiliary budget with associated fees.

The financial situation remains distressed with increases still insufficient to cover projected deficits in 2010-11. The Legislative session begins soon with the multitudes of budget reducing mechanisms to be reviewed. The 2010-11 university-system budgets remain flat. Federal stimulus funding will be received but the challenge remains in addressing the void caused by the non-recurring status of that funding.

Review of the Second Quarter Status of Florida Atlantic University's 2009-10 Operating Budget began:

Educational and General. Mr. Crudele referenced the funding components of this budget with special mention of the federal stimulus package contained in the Federal Grants. Tracking is required of the stimulus and the goal has been ensuring adequate course offerings to keep enrollment steady. Additionally, this funding must be spent by June 30 each or the balance must be returned; FAU will spend the funds.

As of December 31, revenue collection is at approximately $140.2 million, or 56 percent, with expenditures are at approximately $114.1 million, or 48 percent, of projections. This budget is on track. Expenditures are being closely controlled.

Student Financial Aid. Revenues are at approximately $78.3 million, 65 percent, with expenditures at approximately $66.5 million, 55 percent. With increased enrollment and more student eligibility to available financial aid, it is believed an increase in budge authority will be needed closer to year end,

Grants and Contracts. This budget consists of funding from federal and state agencies, foundations and includes expenditures for Sponsored Research and Henderson University and FAU Foundation payroll functions.

Revenues are at approximately $23.3 million, or 31 percent, and expenditures are at approximately 23.4 million, or 31 percent, of the projected budget.

Upon query, members were informed that federal stimulus goes directly to the Educational and General and Student Financial Aid budgets but the Research Division is actively pursuing any available grant/stimulus funding.

Auxiliary Enterprises. This budget includes self-supporting entities such as food services, housing, traffic and parking, etc. Revenues are considerably higher at this point in time than in the past with revenues at approximately $62.6 million, or 71 percent of the projected budget. This increase can be attributed to HBOI activities, acquisition of Memory and Wellness Center from the FAU Research Corporation, and success of FAU Executive Programs.

Expenditures are at $34.9 million, or 40 percent, of projections. Still outstanding is a payment to Broward College for costs associated with a parking garage. This budget remains on track.

Athletics Local. Mr. Crudele noted the increase this fiscal year to the student athletics fee from $10 to $14.30 per credit hour. This funding has been dedicated to the increased student-athlete tuition increases but still is unable cover the entire amount. Revenues are at approximately $9 million with expenditures at approximately $7.2 million.

On a cautionary note, Mr. Crudele advised that while there appear to no real issues with game guarantees and ticket sales projections, concern remains with corporate sales and fundraising issues. It is critical that projections those two categories be met. Close monitoring with Athletics management is on-going and expenditure reduction planning is in progress to achieve a balanced budget at year end.

Mr. Angelos advised members that fundraising continues on two fronts. The first to balance the budget and the other for stadium financing. He admitted that every year is a race to ensure monies owed are collected and expenses are minimized to budget targets.

Student Government/Student Activities. Mr. Crudele noted the successes achieved by Student Affairs and Student Government in managing their new facilities. Revenues are currently at approximately $5.7 million and expenditures are at approximately $2.3 million. This budget remains healthy and on track even though expenditures have been budgeted higher that revenues because available supporting cash balances.

Discussions have begun on building a capital reserve in anticipation of future Student Union renovation or remodeling. This funding added to CITF funds will keep the Union a vibrant entity.

Concessions. This funding comes from vending operations. The revenues and expenses through December 31, 2009, are at approximately $192,000 and $203,000, respectively. Both categories are believed on target.

A review of the current year budget in comparison to prior year followed including revenues, expenditures and cash balances. And a review of student credit hours was also provided noting the increase in enrollment.

A motion was made and seconded to adjourn this meeting. **The motion passed unanimously.** The meeting was adjourned at 11:50 a.m.