



Item: AF: A-M

## AUDIT AND FINANCE COMMITTEE

Thursday, April 19, 2012

**SUBJECT: ROLL CALL AND APPROVAL OF MINUTES FOR THE MEETINGS ON:  
A. FEBRUARY 16, 2012 AND B. MARCH 15, 2012.**

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### 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 12, 2012 and March 15, 2012 Audit and Finance Committee Meetings.

#### COMMITTEE MEMBERS

Mr. Anthony Barbar, Chair	_____
Mr. Thomas Workman, Jr., Vice Chair	_____
Mr. David Feder	_____
Dr. Angela Graham-West	_____
Dr. William McDaniel	_____
Mr. Abdol Moabery	_____
Mr. Robert Rubin	_____
Mr. Robert Stilley (ex-officio)	_____
Mr. Paul Tanner	_____

#### BOT MEMBERS

Dr. Jeffrey Feingold	_____
Mr. Ayden Maher	_____
Mrs. Sherry Plymale	_____
Dr. Julius Teske	_____



**DRAFT MINUTES**  
**AUDIT AND FINANCE COMMITTEE**  
**Thursday, February 16, 2012**

**AF: A-M. Roll Call and Approval of Draft Minutes for the December 14, 2011 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 10:35 a.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, Dr. Angela Graham-West, Dr. William McDaniel, Mr. Robert Stilley (ex-officio), and Mr. Paul Tanner.

Other Trustees attending the meeting included: Dr. Jeffrey Feingold, Mr. Ayden Maher, Mrs. Sherry Plymale and Dr. Julius Teske.

The following University officials participated: Dr. Mary Jane Saunders, University President; Mr. Dennis Crudele, Senior Vice President for Financial 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 14, 2011 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.

It was explained that annually academic units must provide a list of the supplies/materials, their cost and expected course enrollment to calculate the per student share of the costs. The Provost's Office then conducts a thorough internal review to verify course needs and appropriate materials pricing.

A review of each academic area and their fee requests commenced with justifications and explanations provided on the increases and new fee.

Upon query members were assured that these fees are factored in student financial aid packages.

With no further questions, 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 to Repeal Regulation 1.004, Statutory References.**

**AF: A-3. Request for Approval to Repeal Regulation 1.006, Declaratory Statements.**

**AF: A-4. Request for Approval to Repeal Regulation 1.008, Forms Index.**

Mr. Kian advised that these regulations were promulgated during the governance period of the Board of Regents when the system was subject to the Florida Administrative Code (FAC). It has recently been recognized by the Joint Administrative Procedures Committee that with the advent of the BOG and the BOT governance the FAC is longer applicable rendering many FAU Regulations irrelevant.

In addition, to ensure compliance with Southern Association of Colleges and Schools accreditation processes, a project is underway to update FAU regulations; these regulations will be coming before the various committees seeking their repeal.

Upon verification that each regulation requires individual approval action, motions were made and seconded on each regulation that the Committee recommend that the BOT repeal the regulations. No questions or comments were put forth on any of the items. **The individual motions each passed unanimously.**

**AF: I-1a. Review of Audits: Report No. FAU 11/12-1, Animal & Human Subjects Research Compliance Audit, 1/1-12/31/10.**

Mr. Barnett noted this as the first audit performed on the Research Integrity unit responsible for the management and oversight of research compliance. After reviewing policies and procedures associated with research protocols, it was determined that the unit is in compliance with federal requirements and University policies. The audit resulted in no reportable findings or recommendations.

No questions or comments were put forth by the Committee.

**AF: I-1b. Review of Audits: Report No. FAU 11/12-2, Central Cashier's Office for the Period July 1 through September 30, 2011.**

Mr. Barnett advised that operations of the Central Cashier's Office were found to be well managed and just one recommendation was made relating to improving documentation of supervisory oversight of tuition and fees paid by credit card.

No questions or comments were put forth by the Committee.

**AF: I-2. Summary of Follow-up on Audit Recommendations to be Implemented during the period October 1, 2011 through December 31, 2011.**

Mr. Barnett noted the reduced number of outstanding audit recommendations. He advised that his office continues to work with management to ensure implementation of the two partially implemented recommendations is completed by April 1.

No questions or comments were put forth by the Committee.

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), for the fiscal year ended on June 30, 2011.

**AF: I-3a. Review of the Financial Statements of FAU DSO: Florida Atlantic University Foundation, Inc.**

After recognizing Ms. Pat McKay, Chair of the Florida Atlantic University Foundation, Inc. (FAUF) Audit Committee, Mr. Crudele advised that this financial statement was prepared by Keefe, McCullough & Company who issued an unqualified opinion with no management comments.

He then reported that the FAUF's total assets increased by \$27 million in 2011. This was attributed primarily to the investment portfolio which increased by \$24 million; a gain of 18.3 percent during the 2011 fiscal year. Total liabilities dropped by \$361,887. The liability to resource providers grew by almost \$600,000, but debt, including certificates of participation (Honors College Residence Hall) was paid down by over \$1 million. Expenses for the year remained level with the prior year at \$16.5 million.

Mr. Crudele explained that the notes to the financial statements disclose the financial relationship of the FAUF and the activities associated with the new football stadium. It was explained that the FAUF is not liable for the debt of the stadium, but is responsible for forwarding certain pledged monies to Regions Bank. For fiscal year 2011 the Foundation sent \$642,000 to Regions Bank.

Discussion followed on the FAUF Investment Committee meeting activities and recognizing increased investments and returns for the year.

**AF: I-3b. Review of the Financial Statements of FAU DSO: Florida Atlantic University Research Corporation (FAURC).**

Mr. Crudele advised that this audit was performed by Templeton & Co. The auditors issued an unqualified audit report with no management comments and no internal control deficiencies.

The FAURC's net assets increased in 2011 by approximately 8 percent or \$26,000 to \$350,623.

No questions or comments were put forth by the Committee.

**AF: I-3c. Review of the Financial Statements of FAU DSO: Harbor Branch Oceanographic Institute Foundation, Inc.**

Mr. Crudele acknowledged Ms. Janet Alford, the Executive Director of the Harbor Branch Oceanographic Institute Foundation, Inc. (HBOIF). He noted she was hired last year just as the 2010 financial statements were issued and has worked diligently since to address the weaknesses identified in that audit.

One of the biggest weaknesses was associated with Ocean Reefs and Aquariums (ORA). As of June 30, 2011, certain assets and liabilities of ORA were sold. As a result, operations ceased to exist and any remaining assets and liabilities were transferred to the HBOIF.

This audit was completed by Berger, Toombs, Elam, Gaines & Frank who issued an unqualified opinion. It was noted that net assets are at approximately \$60.9 million which is a gain of 44 percent from prior year. The HBOIF had \$1,857,356 on deposit, but about half was not insured by the Federal Deposit Insurance Corporation. This was a timing issue associated with a transfer of funds between accounts; this has been addressed and there was no loss of funds. Unrealized gain on investments for 2011 is \$7 million versus \$1 million in 2010.

No deficiencies in internal controls were found over financial reporting; a significant improvement over prior year. Weaknesses were identified in complying with the allowable cost requirements that are applicable to the State License Plate program; corrective action is underway.

Upon query, the Committee was assured that while some issues still exist, in comparison to prior year results tremendous work has been done to implement corrective actions and other improvements are in progress.

**AF: I-3d. Review of the Financial Statements of FAU DSO: FAU Finance Corporation Financial.**

Mr. Crudele reminded members the FAUFC was created in 2009 primarily to fund capital projects which include the Innovation Village Housing at approximately \$124.3 million and the Stadium at approximately \$44.5 million totaling \$168.8 million.

The auditing firm of McGladrey & Pullen, LLP gave an unqualified opinion with no management comments. Highlights during the fiscal year include assets increasing by \$31 million; net assets of \$19 million associated with housing which will turn around with future housing operation; and, additional debt for the stadium at \$44.5 million. Contributions from the FAUFC to FAU for construction were \$17 million.

No questions or comments were put forth by the Committee.

**AF: I-4. Review of FAU Athletics Department Independent Accountant's Report on Agreed-Upon Procedures, June 30, 2011.**

Mr. Crudele explained that this report is based upon the agreed-upon procedures as outlined by the National Collegiate Athletic Association (NCAA). The review was performed by Mayer Hoffman McCann P.C. and evaluates whether the accompanying unaudited statement of revenues and expenses is in compliance with NCAA Bylaw 6.2.3.1. No opinion is rendered just a report on the procedures performed.

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

Due diligence was performed within the Athletics Department to ensure enough monies were available to cover expenses and excess revenues amounted to approximately \$1.1 million as computed by the NCAA. A portion of these excess monies has been held in a reserve account to address stadium debt service.

Dr. Saunders advised the Committee that Mr. Crudele had been assigned secondary oversight of the Athletics Department business operations to ensure accuracy in reporting and budgeting requirements.

No questions or comments were put forth by the Committee.

**AF: I-5. Review of the Second Quarter Status of Florida Atlantic University's 2011-12 Operating Budget, July 1-December 31, 2011.**

Mr. Crudele began a review of the financial status of the seven components comprising FAU's Operating Budget for the first half of fiscal year 2011-12:

<b>Category</b>	<b>Fund Type</b>	<b>Adjusted Budget</b>	<b>Second Quarter Actual</b>	<b>% of Actual to Budget</b>
<b>REVENUE (\$ 000)</b>				
	Educational & General	\$241,532	\$166,500	68.9
	Auxiliary Enterprises	105,270	75,531	71.7
	Student Financial Aid	175,435	101,315	57.8
	Student Activities	8,233	7,250	88.1
	Athletics	15,707	10,548	67.2
	Stadium	6,390	712	11.1
	Sponsored Research/Grants	52,650	19,315	36.7
	FAUF, Inc.	5,405	2,317	42.9
	ADHUS	4,900	2,298	46.9
	Total	62,955	23,930	38.0
	Concessions	500	189	37.8
	<b>TOTAL REVENUE</b>	<b>\$616,022</b>	<b>\$385,975</b>	<b>62.7</b>
<b>EXPENDITURES (\$ 000)</b>				
	Educational & General	\$241,532	\$126,564	52.4
	Auxiliary Enterprises	102,609	42,306	41.2
	Student Financial Aid	174,484	87,855	50.4
	Student Activities	9,651	4,064	42.1
	Athletics	15,707	7,758	49.4
	Stadium	2,535	1,789	70.6
	Sponsored Research/Grants	51,954	18,012	34.9
	FAUF, Inc.	5,179	2,426	46.9
	ADHUS	5,095	2,630	51.6
	Total	61,868	23,069	37.3
	Concessions	500	188	37.5
	<b>TOTAL EXPENDITURES</b>	<b>\$608,886</b>	<b>\$293,594</b>	<b>29.0</b>

Noteworthy information provided per budgetary component included:

Educational and General. That while the Committee is aware of the continued reduction in General Revenue allotments from the state, analysis reveals that in 2007-08 funding ratios were around 50/50 student/state; the ratio currently stand at approximately 70/30 in student/state contributions.

Additionally, in the 2011-12 budget process appropriate estimates were made for growth and the monies needed for the Student Trust Fund but the Legislature failed to provide enough budget authority. Management wanted to request an approximately \$6.5 million increase in budget authority but the BOG instead recommended the use of carry forward funding to complete the fiscal year.

Auxiliary Enterprises. This budget is doing very well in meeting revenue projections having received 71.7 percent during the first half of the fiscal year with expenditures of only fifty (50) percent to date. Revenues are primarily due to enhanced enrollments and associated collections from food services, traffic and parking fees, etc.

Student Financial Aid. This budget is on target to projections and the need for additional budget authority is not anticipated this year. A query was posed on the FAU's student default rates and members were informed that the audit on financial disbursements was just complete with FAU having no Title IV comments and that the default rate is less than the national average. Mr. Crudele agreed to distribute the cohort default report to the Committee.

Student Activities. As has been standard practice, Student Government has been allowed to budget prior year unexpended balances which project higher expenditures than projected revenues. As of December 2011, 88 percent of projected revenues have been collected with only 42 percent in expenditures. But Mr. Crudele noted that by the third quarter expenditures should spike with the commencement of more robust student activities and programs.

Athletics. This budget finished the last three years in the black. Revenues are on target to projections with expenditures just slightly higher than revenues which is associated with the football season expenses. The budget is in good shape considering the many unknowns of operating a football stadium for the first time.

Commentary followed questioning the seemingly significant decrease in the Athletics budget between 2010-11 and 2011-12. Clarifications were provided on the increase in funding and the annual budget versus actual funding received up to December 2011 to include the separation provided between Athletics and the Stadium budgets to enable appropriate accountability and tracking capabilities.

Additional conversations were held on the status of renting the stadium facility; on efforts being expended to change the Campus Development Agreement to allow additional revenue generating events; and, uses of proceeds from rentals.

Sponsored Research/Grants. A \$52 million overall budget with approximately 37 percent of revenues received and approximately 35 percent in expended through December 2011.



Members were reminded that most grants are cost reimbursable awards with collections higher in the third and fourth quarters.

The FAU Foundation provides FAU monies to support academic programs, eminent scholars and various faculty salaries. Expenses are slightly over revenues as the result of a timing issues associated with an extra pay period in December.

The A.D. Henderson budget has expenditures over revenues as a result of forward funding a technology grant to be received from the Department of Education; this will balance out upon receipt of the grant.

Concessions. Revenues are slightly lower than anticipated at this point but expenditures have been kept low as well. With the improvements to and increases in food service venues, vending machine revenues have decreased.

Discussion followed on the functional operations of FAU's food services and members were informed that per contract Chartwells is FAU's food service provider, including the subcontracting to franchise vendors such as Dunkin Donuts; FAU receives 7-8 percent of gross sales.

Review of data on student credit hour production followed again showing the tremendous growth these past years; a critical factor equating directly to FAU operating revenue.

Conversations followed to analyze and explain the increase in credit hours to which increased enrollment, increased housing and a more traditional campus atmosphere were discussed.

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 11:38 a.m.**



**DRAFT MINUTES**  
**AUDIT AND FINANCE COMMITTEE**  
**Thursday, March 16, 2012**

**AF: A-M. Roll Call.**

Mr. Thomas Workman, Vice Chair of the Board of Trustees (BOT) Audit and Finance Committee (AFC), convened this meeting at 10:00 a.m. advising traffic constraints as delaying Mr. Barbar's arrival. Roll call commenced with the following Committee members, in addition to Mr. Workman, participating: Mr. Anthony Barbar, Mr. David Feder, Dr. Angela Graham-West, Dr. William McDaniel, Mr. Abdol Moabery, Mr. Robert Rubin, and Mr. Robert Stilley (ex-officio).

Other Trustees attending the meeting included: Dr. Jeffrey Feingold, Mr. Ayden Maher and Mrs. Sherry Plymale.

The following University officials participated: Dr. Mary Jane Saunders, University President; Mr. Dennis Crudele, Senior Vice President for Financial Affairs; and, Mr. David Kian, General Counsel.

**AF: A-1. Request for Approval of the Undergraduate Housing Project Financing Plan.**

Mr. Crudele advised that this is a request to approve the financing plan to construct a new undergraduate housing facility. It is intended to add 600 resident beds including 14 resident assistant units, computer labs, classroom and multi-purpose rooms. In addition, differing from the other undergraduate residence halls, food service and a retail component is being incorporated in the building.

Members were reminded that increasing freshman enrollment is part of the Strategic Plan and over 3,300 first-time-in-college students registered in Fall 2011 with only 1,800 beds dedicated to freshman. Overflow students were placed in the Innovation Village (IV) South facility which was intended for upper class students. With the addition of this facility bed capacity will increase from 3,664 to 4,278. Opening of the facility is planned for Fall 2013.

Mr. Crudele explained the financing plan as a request for the authority to issue approximately \$50 million tax-exempt bonds through the FAU Finance Corporation (FAUFC). The FAUFC approved the plan at their last meeting with financing consists of approximately \$31 million in construction cost, \$11 million in soft costs (permitting/inspections, surveys/testing, furniture and equipment, etc.) and a fully funded debt reserve fund of \$3.55 million. The estimated average annual debt service is \$3.2 million based on a percentage rate of 4.75; which meets the

minimum standard debt service test ratio of 1.25 and is under that required by the BOT's Debt Management Guidelines. No financial contribution is required of FAU.

The project meets established housing, food service and occupancy demands for students as outlined in the Brailsford & Dunlavey Housing Market Study. The study also indicates additional housing capacity but all FAU housing has been based on a 600-bed blueprint which works well for the FAU Housing and Residential Life management staff.

Mr. Crudele informed members that a new trust indentures is required. He explained that although the 2010 Indenture (which financed the IV project) allows for the issuance of additional senior and subordinate bonds because of a lack of IV operating history the parity and additional bonds tests cannot be met. Upon investigation with bond counsel, this option was determined to be one to enable the project to continue.

Discussion followed on topics including:

- Verification that news of an outside entity opening nearby off-campus student housing was incorporated within the Market Study which found any effects of that housing to be negligible to occupancy rates of on-campus housing.
- Explaining that the facility as presented is the best option as it addresses current undergraduate housing requirements, maintains physical continuity with existing housing and enables of housing staff to continue residential life components such as the Living Learning Communities.
- Providing information that the investment grades assigned by the ratings agencies of Moody's, Fitch and Standard & Poors for FAU housing and parking operations are A, A+ and AA; very strong and the new indenture should not affect these ratings.
- Confirmation that rental rates are comparable and competitive to local markets.
- Verifying a new parking lot is included in the infrastructure planning of this new facility and will be available before construction begins since the facility will eliminate an existing parking lot; a parking garage is planned for the near future.
- Justifying this expenditure in light of legislative budget reductions with the fact that planned budget cuts are to the state allocation of the General Revenue funding component of FAU's operating budget. Housing operations receive no state funding as they are part of the Auxiliary budget component which requires each entity to be financially self-sufficient; in this case revenue generated by rental fees.
- Explaining that just as the indenture with the Division of Bond Finance was closed upon initiation of the IV indentures, the IV indenture will be closed with this indenture.

Upon call, a motion was made and seconded to recommend Board of Trustee approval of the undergraduate housing project financing plan. **The motion passed unanimously.**

With no further additional questions or discussion topics put forth, a motion was made and seconded to adjourn this meeting. **The motion passed unanimously. The meeting was adjourned at 10:30 a.m.**