

Western Illinois University
Board of Trustees
Finance Committee Meeting

June 2, 2006

Committee Members Present: Trustee Carolyn J. Ehlert (Chair), Trustee William L. Epperly, Trustee Steven L. Nelson, Board Treasurer and Vice President for Administrative Services Jacqueline K. Thompson, Vice President for Advancement and Public Services Daniel L. Hendricks

Also Present: Trustee Robert J. Cook, Trustee Donald W. "Bill" Griffin, President Alvin Goldfarb (*Ex-Officio*), Trustee J. Michael Houston (*Ex-Officio*), Trustee Christopher M. Thomas, Legal Counsel Bruce J. Biagini and Administrative Assistant to the Board Kerry L. Yadgar

Guest Speakers: Julie DeWees (Budget Director), Al Harris (Associate Vice President for Student Services), W. Garry Johnson (Vice President for Student Services), Joe Rives (Assistant to President for Planning and Budget), Ron Ward (Director of Business Services)

Trustee Carolyn Ehlert, Committee Chair, called the meeting of the Finance Committee to order at 8:45 A.M. in Conference Rooms A, B & C of Western Illinois University – Quad Cities. She welcomed everyone to the meeting.

Approval of March 10, 2006 Finance Committee Meeting Minutes

The March 10, 2006 Finance Committee Meeting minutes were approved as presented.

Purchases of \$500,000 or More

Vice President Jackie Thompson spoke regarding the purchase request before the Board. She noted that there were two items included and that information had been provided ahead of time to trustees. We are asking for approval for contracts for waste removal and recycling and for engineering/architectural services for the residence halls sprinkler project.

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Purchases of \$500,000 or More (Continued)

Trustee Houston asked in terms of the waste management, was the bidding national?

Vice President Thompson noted that it was national and that we only have one company locally for waste removal. We used to have other companies but they all sold out to Waste Management, Inc. and they also are the owners of the landfill site.

Trustee Ehlert asked about the bid process for the architectural/engineering contract. Were there other bids? Vice President Thompson responded that we use the QBS process to select architects and engineers. We ask for companies to come in and provide specifications and then those are reviewed by several people. The final companies come in and make a presentation and then we make a recommendation. For the Performing Arts Center we have 35-40 who initially expressed an interest. QBS is a state law.

Trustee Epperly asked if the waste management bid was compared with costs of other providers or does this company have a monopoly?

Vice President Thompson stated that if someone's bid would come in too far out of line, we would be able to pick another company. We can provide to you what the other bids were but we did not bring that information today. In response to another question, Jackie noted this bid is only for services on the Macomb campus.

The members of the Finance Committee agreed to support passage of the purchases when brought before the full Board for action.

Purchases of \$100,000-\$500,000 Receiving Presidential Approval

Vice President Thompson noted there are several items that range from master planning to elevators in the residence halls. There is also included an item for an upgrade to the heating plant baghouse and that should provide a reprieve for us on some breakdowns at the heating plant.

Trustee Nelson asked about the life expectancy of the electronic medical records systems.

Vice President Johnson stated that it is upgradeable as they come up with new versions.

Trustee Ehlert asked if that purchase would be charged to the health insurance budget so when we look at how we are doing with our self insurance program we will see this software charge.

Vice President Johnson replied that the charge of the system will be on next year's budget and will be taken out of what we put into reserve this year.

FY2006 Authority to Spend

Assistant to the President for Planning and Budget Joe Rives stated that each year the Board approves an All Funds Budget for the institution. You will see that we provide to you this morning an item, FY2007 Preliminary Spending Plan, and then we come back with an All Funds Budget. Once you approve the All Funds Budget for the revenue categories for a given fiscal year, we can't spend beyond what you have approved unless we come back with a request.

FY2006 Authority to Spend

The good news is that we are here to ask to spend more money. The other good news is that in Revenue Bond area higher retention rates at the University and in the residence halls have resulted in an increase in income. We have some high priorities in the Auxiliary Facilities System (AFS) area where we badly need these funds. Vice President Johnson and Associate Vice President Al Harris will speak to you about what we would like to do.

Al Harris said that the slightly higher retention rate from fall to summer and being able to get students into single occupancy rooms faster has allowed us to generate more revenue and increases in interest income also has been a big help to us. We would like to be able to put that income into the R&R reserves to help us address some of our elevator issues at a more rapid pace.

In response to a question about retention rates, Mr. Harris noted it normally runs around 85-88 percent and this year we were closer to 92 percent retention in the halls. This was a big jump for us.

Vice President Johnson added that we think our First Year Experience program and other things we do in the residence halls are helping with retention. It is a good problem to have, of course.

Mr. Harris noted that as the costs to live off campus go up, our cost guarantee program looks better to students and their parents and that helps us as well.

Trustee Nelson asked if we in any way promote the fact that it is cheaper for junior and senior students to live in our facilities than to live off campus.

Mr. Harris replied that we have been careful over the years not to step on any toes so we don't put up billboards or do radio ads. We mostly promote that within the halls and on campus. We did get a little more aggressive this year and made some announcements and we might need to do more of that in the future.

Vice President Johnson added that another thing that helps is that we offer one-semester leases and students can't get that in an off-campus apartment. We are more flexible in that way when a student finds themselves only needing a one-semester lease due to an internship or a December graduation date. That is nearly impossible off campus. Vice President Johnson in response to another question talked about housing for Spoon River College students. We provide housing for approximately 70-80 Spoon River College students.

Trustee Epperly stated that the additional money allows us to move at a faster pace on our elevator replacements. Is that correct?

Mr. Harris replied that the additional funding will allow us to do a couple more buildings. And, we are doing the planning and will do the work next summer when the students are gone. But by getting out there faster with our bidding, we will be able to lock in a contractor's schedule early on before they get committed to other jobs.

The members of the Finance Committee agreed to support passage of the item when brought before the full Board for action.

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FY2007 Preliminary Spending Plan

Dr. Rives said that this item is planning work in terms of next year's budget. Illinois State Statutes require us to provide the Board at this time with a preliminary spending plan for the next fiscal year. In September we will bring to you an All Funds Budget request representing all sources of funds for your approval.

Some questions that were asked last year is how we form an All Funds Budget for the institution. First our spending categories that you see in this item are based on spending patterns from last year. The budget and financial data that we will discuss later this morning and that we have discussed already shows that we are allocating our resources to our strategic plan, *Higher Values in Higher Education*. This budget plan shows you that we are a labor intensive organization with over three fifths of our budgeted resources going to the personal services line.

Another question that comes up is if this is incremental budgeting that we are doing at WIU. I am proud to say that we do not do incremental budgeting. As you look at this you will see that last year we internally reallocated over \$5.7 million to the University's highest priorities in *Higher Values in Higher Education*.

Also, the All Funds Budget that you will receive in September is going to be slightly different. What we are presenting to you today is our estimated spending. We close the books on July 20, and you are welcome to come to a "close the books party" on July 20, and then we will form our budget based on actual expenditures. Also, what is reported to you today did not include the Governor's increase—that is not reflected in this budget but will be in September.

Later today you will hear from the Faculty Council and they have asked for graphic displays and financial ratios. I think we have done a tremendous job working as a team on the All Funds Budget, and, as we continue to evolve and improve our reporting to you, it is appropriate that we look for ratios, benchmarking and graphic displays. We will continue to work at updating the quality of materials provided to you.

President Goldfarb added that the Governor's budget was just approved and signed last week and included an additional \$822,000 that is to be used for personal services. Those will be used and allocated against personal services and we are in the midst of working out what that amount buys us. We believe it will be about a 4.5 percent pay raise, or an additional one percent beyond what we had indicated to our employees.

Trustee Ehlert acknowledged that the reporting has become more user friendly with the use of graphs and charts. It is very helpful to us as trustees.

Trustee Nelson indicated that from the standpoint of reporting it would be helpful if you could indicate the meaning of acronyms in the various items.

The members of the Finance Committee agreed to support passage of the item when brought before the full Board for action.

New or Changed Capital Reserves for Non-Indentured Entities

Vice President Thompson said that the Legislative Audit Commission (LAC) provides guidelines that we follow that are established by the state. They allow for local accounts to reserve money

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New or Changed Capital Reserves for Non-Indentured Entities (Continued)

to replace equipment. The guidelines provide a calculation which is 20 percent of the equipment asset balance and/or the highest month's expenditure for equipment in that account.

We ask you to lift that level to whatever the guidelines allows us to lift it. That does not mean that those accounts, those entities, will reserve that amount of money. It is just that they will be allowed to reserve based on the guidelines.

Trustee Houston said that this is always confusing, but basically when you report the "changed" amount, you are approving that they can have a higher limit. But the "funded" amount is the amount that is actually funded for these reserves. So when you look at the University Services item, for example, which currently has \$70,000 and you are requesting a \$30,000 change to make a total of \$100,000, there is actually no reserve...there has been no money put aside by the department. This page is beginning to be less confusing, after nearly ten years I know how to read it.

Vice President Thompson said that when we have departments who can reserve funds for equipment, this is a very, very valuable management tool, especially when you have a department that has very expensive equipment such as large copiers or presses. This is a great tool so they can begin to reserve money for replacement.

The members of the Finance Committee agreed to support passage of the item when brought before the full Board for action.

Request for New Depository

Vice President Thompson said this is a request for approval for an additional depository for the institution. One of the reasons for the request is that we call for CD rates and this local bank has been giving good rates.

Director of Business Services Ron Ward said that this institution has been reluctant to become a depository for the University and the reason is that they are more interested in bidding longer term CD rates. We are becoming more interested in moving out on the yield curve now and their one- to two-year bids are extremely good right now.

The members of the Finance Committee agreed to support passage of the item when brought before the full Board for action.

Revision to *Regulations* II.C.7.c. Employee Benefits – First Reading

Trustee Ehlert tabled the First Reading of the proposed change to *Regulations* pending Board discussion in Executive Session.

Budget and Financial Data for the Period Ended March 31, 2006

Vice President Thompson said that it seems March 31 was a long time ago as we are now quickly approaching the year end. We do approach spending very conservatively and our departments have done a great job all year of managing their money. This report reflects that fact.

Budget and Financial Data for the Period Ended March 31, 2006 (Continued)

Dr. Rives said this status report is looking at three-year comparison and year-to-date totals. In appropriated funds, we have a \$31.5 million positive fund balance. As you compare that to the two previous fiscal years, you will note that it is significantly higher. As Vice President Thompson just indicated, we very much have engaged in conservative fiscal spending. As Mr. Harris indicated, within the University and within the residence hall structure our retention rate has improved. Fall to spring retention rate went from 89 percent to 89.7 percent which is about a one percent increase.

As you look at year-to-date on appropriated funds, you will note that the positive fund balance is significantly higher than what we reported to you last time. The reason is that we have spring assessed tuition on this report.

The story is very much the same in the revenue bonds areas as well. In revenue bond and appropriated our biggest challenge is utilities cost and we continue to look for alternative sources of energy, creative financing, partnering with other Illinois public universities—everything we can to help curb those costs.

Finally, as you look at year-to-date expenditures you will note that in the library, technology and permanent improvement spending we have not spent a lot of our money. As Vice President Johnson indicated, there is about a three-month window when students are gone that we can go in and do the necessary improvements to academic buildings. We try to do that with minimal disruption as possible. The deans do their curricular needs for library technology at the completion of the academic year. Between March 31 and the end of the year we will see those academic expenditures as well as improvements for facilities reflected in our spending.

In response to a question about salary expenditures, Dr. Rives replied that we use appropriated funds for salaries first so that we can hold the local money and accrue interest on those funds.

President Goldfarb thanked Dr. Rives, the Budget Office and those in Student Services for working closely together in pulling together all of the budget information across all budget areas. We now are able to show the institution as a seamless one-budget process. It would not have occurred without everyone working diligently together.

Repair Maintenance of Official Residence

Vice President Thompson stated that last year we anticipated beginning window replacements at the residence. However, the residence had a problem with pinhole leaks in the copper pipes—a problem that many houses have had in Macomb over the last few years. It was starting to do some damage to the basement ceiling and other areas. Instead of concentrating on windows in FY2006, we made a lot of plumbing repairs to the residence as well as replacing ceiling tile and repainting. The good news is, we have been able to order two Pella windows for the residence—two large bay windows that we plan to install this year. We have already had someone come in and look at the cost of replacing the remaining windows and sliding doors.

President Goldfarb added that the Board has made the charge to Vice President Thompson to work on the residence. In terms of windows, you can see a hole that has rotted all the way through on one of them. It clearly is a high need and thanks go to Chair Houston for charging Vice President Thompson to make sure the repairs happen. As many of you know, there are some serious issues at the house. The plumbing issue is one that is confronting all of Macomb

Repair Maintenance of Official Residence (Continued)

residents. We have come home twice from trips to find water problems in the basement.

In response to a question about the problem with copper water pipes in Macomb, Mr. Biagini added that it appears that sometime in the '70s, the copper tubing was either problematic or there was something in the water system that dissolved copper. No one knows for certain. Trustee Houston provided for new trustees some background information in terms of the backlog of maintenance at the residence

Report on Investment Activities

Mr. Ron Ward reported on the quarterly investment activities of the institution. The current portfolio is \$89 million with an average rate of 3.68 percent which tracks with our benchmark of 4.38 percent. This total is up from this same point last year due to some of the reasons we have already discussed and we have had a couple of bond revenue issuances since last year as well that is reflected in this larger number. We plan to ride along with the continued increase in interest rates and try to capture higher yields as this interest rate increase by the Federal Reserve Board plays out.

Trustee Nelson asked if it would be possible to show in the report investments by type for the year prior, a comparison so the Board would know what this same period last year was—September of 2005 with September of 2006, for example.

Report on Income Producing Grants and Contracts for the Third Quarter

Vice President Thompson noted the income producing grants and contracts are listed and she would be happy to answer any questions about the report.

Provost Rallo noted that many of the grants are on-going activities—the funding for the Entrepreneurship Center that allows us to give out competitive grants, for instance. The one from the Illinois Department of Agriculture is based on strengths that we have at the institution and on the faculties' interest in cultivating those relationships and pursuing those grants. Many are on-going and expected for an institution of our size and caliber.

Annual Audit Report

Ron Ward stated that Carole Carter had asked him to sit in for her on the presentation of the audit information. Business Services works very closely with her in preparing the year-end audit.

The Illinois Auditing Act requires the University to be audited annually with a two part process—a compliance audit and a financial audit. Both of those reports are being distributed to you.

Please turn to page 14 in the large book. The rest of the report is a lot of numbers and schedules that the Auditor General requires the external auditors to review here at the institution. We produce all of that information for the auditors. Pages 14, 15 and 16 summarize the findings that we had this year which are very minimal. The auditors have issued an “unqualified” opinion which is the highest opinion they can issue. There are no weaknesses in internal controls noted. We had one reportable condition with a federal regulation but it is immaterial in its effect. We

Annual Audit Report (Continued)

are a low-risk auditee. By the nature of our business we are low risk. Universities are low risk to start with and Western over the years has had an excellent audit record. Auditors look at the financial systems that are producing the financial reports and then they look at the internal control systems—the checks and balances in place. We have had an excellent computerized accounting system and have developed audit trails that the auditors have confidence in. When they have confidence in the systems that produce the numbers, then they have confidence in the financial reports that are produced. We have continually over the years looked at and improved our internal controls and are cognizant about what can go wrong and deal with that positively.

We have had few findings over the years. Having a finding is not problematic as long as they are with reporting issues. The small findings that we've had, we have dealt with positively. The one that is still open has to do with positive time keeping and we are working with that to their satisfaction.

Trustee Ehlert stated that this audit report follows several years of fine audit reports. Carole Carter and her team have done an excellent job over the years in making certain that everything is done properly.

Mr. Ward stated the second booklet is the customary balance sheet, or income statement, cash flow statement. The cash flow statement is the most valuable. It has only come about in the last few years due to the Governmental Accounting Board who required all the bodies to revamp their financial statement forms. Up until a few years ago, governmental bodies did not include a cash flow statement—businesses like John Deere, for example, have always included a cash flow statement in their audits. You can see what we started with, what came in, what went out, assets we have purchased, and what is remaining.

In response to a question about the auditing firm, Mr. Ward replied that we are with BKD for the third year of a six-year cycle. These auditors are hired as contract auditors through the Auditor General's Office. We pay a substantial fee for the audit—nearly \$80,000 a year out of our funds. When you consider that we fall under the Illinois State Auditing Act that requires us to produce these reports, and then there is also the Internal Auditing Act that requires state agencies to have internal auditing staffs, to us this seems like an excessive charge.

Trustee Houston said that he has attended several Legislative Audit Commission meetings and those were non-events for us but for some of the others it was grueling. They were impressed with how clean our audits were and the fact that we didn't have repeat findings. Some of the places do a terrible job and have the same audit findings year after year. The representatives and senators who sit on the committee remember the places year after year. They were very complimentary to WIU.

Vice President Thompson added that other universities have come to campus to see how they can reduce their audit findings. It is not that easy as it depends on your internal processes. It has to do with the integrity of your systems.

Report on Contributions

Vice President Dan Hendricks reported on gift income by source and type for period ending May 11, 2006. He noted that our gift income is tracking for a very strong year. Our largest source group is our alumni with corporations, businesses and friends of the university also making up an

Report on Contributions (Continued)

impressive percentage of our total gift income. Vice President Hendricks also reviewed the FY2002-FY2006 comparison chart supplied to trustees. This year will not be as good as our record year when we received the gift of the John Deere property, but it will be close.

In response to a question about our last campaign, Vice President Hendricks noted it ended in 2002—there has been an interlude. Our staff this year has done an outstanding job in cultivating our donors and closing some of these deferred gifts. We have also had several estate gifts that came due from very loyal donors. The economic environment also has been positive this last year and people are very generous.

We have noted one cause for concern, and we are concerned about it, and it does appear to be following a national trend, there has been a slight progressive decline in the number of gifts that we have received. We see this with the annual fund giving. We are not getting as many, but the average of that gift is significantly higher than it was last year and has compensated for the fewer number of donors. It appears to be a national trend. One of the significant ways we have reached donors in the past is by telephone and people are not as responsive to the telephone. They are blocking those calls. You do not know who is calling at times. We are exploring new ways of reaching out to people. One of them is Amy's initiative for using the internet. We have seen more activity in terms of young people sending in their gifts via the web.

The 18% Solution chart is a projection using the number of donors over the last few years. In order for us to move from 12 percent of our alum base to about 18 percent in 2013, we will have to more than double the number of current donors. That is a severe challenge...but we are going to work on it and do everything possible to make it happen. It is my view that without a significant increase in the number of donors we cannot make the kind of ambitious goals that we have for fund raising in the next five to seven years.

Finally, I have supplied a comparison of the annual fund production by initiative and a comparison of the phonathon. The average gift is up slightly and we are pleased with that. It is interesting to note that the College of Fine Arts and Communication received the largest percentage of our income for the annual fund with the College of Business and Technology the next highest. We want to get the College of Arts and Sciences up and Dean Levi is working with us to make certain we reach more of their alums. With the new initiatives in the Quad Cities, President Goldfarb has charged us with increasing the giving from the Quad Cities as well.

Vice President Hendricks reported that we are still working in terms of staffing. We are at full staff in the Foundation Office, but have only hired two of the five development officers for the colleges. Dean Levi is in the final stages of her search and the new Dean of the College of Business and Technology has just arrived and the new Dean of the Library has not yet arrived. We are hoping to finish the process this summer. Ulysses Tucker, our new annual fund director, has just arrived. We'll report back on the five development officers.

In response to a question about the new computer system upgrade, Vice President Hendricks said that he has been working with the IT staff and we have a new, more user friendly format. It is a beautiful thing. It is very attractive and works well with a set of interactive folders that you can open for various aspects of donor tracking. We anticipate that it will be done and in use by July 1. Later this summer we will begin tracking electronically much more carefully the contacts that are made, visits that are made, and we will be able to record those in the system and they will

Report on Contributions (Continued)

be transparent to other development personnel. There will be transparency, accessibility and greater efficiency. We are developing that in-house with the aid of Jackie's staff.

Vice President Hendricks said that in terms of the redesign to the web site, it has taken us about twice as long as we originally anticipated. We are about seven months behind on the completion of that project. The staff feels it will be completed in about a month. The holdup has been content. The design is beautiful. You can actually see it now by contacting Assistant Vice President John Maguire. The content has taken more time than we anticipated. We're hoping it will be finished by July 1. It will be a very fine upgrade.

Trustee Epperly noted that they had asked for an update on the baseball stadium on how much of the funding came from donated sources, etc. That information has not been received. Vice President Johnson said he would supply that information to trustees.

Trustee Epperly also asked about our marketing efforts. Vice President Hendricks noted that Kristin Dunstan will be attending an upcoming conference—in fact taking a delegation of six people. This will be the first time in the history of the institution that all of the marketing personnel from the various colleges have attended together. She is very excited that everyone will be on the same page in terms of integrating marketing efforts.

Trustee Thomas asked about the on-line network for alumni. Vice President Hendricks said that to date we have over 700 signed up and hope that it will continue growing. By the fall, we hope to have several thousand. Amy and Amanda continue to work on this initiative.

General Comments by Vice Presidents

Vice President Hendricks introduced Amy Spelman the new Director of Alumni Programs. We conducted a national search. We are delighted to have Amy who has already been busy planning and attending a number of alumni events. She is still serving as the interim director until July 1 when she becomes the Director. She is already running the show and doing an excellent job.

Amy is beginning a strategic planning process for the alumni association. After the distinguished career of Gordy Taylor, twenty-five years is a great time to pause, take a look at the program, benchmark it to some best practices. Amy is putting that together. We plan to keep the things that are really great, improve the things that need improving and adopt and innovate in other areas. We think in one year's time we will have an even stronger alumni program.

We are involved in the early stages of leadership development for the Quad Cities in reference to the WIU Foundation. With the initiatives that are occurring here, the construction projects, we are trying to expand our partnerships with leaders in this community. We think people are really excited about this effort. Trustee Epperly and Trustee Nelson and three new members from the Quad Cities to the Foundation Board are working together to think of ways to develop new leadership in the Quad Cities area and to engage more people as our partners. The President has been working on that and hopefully by this time next year we'll have an expanded presence in the Quad Cities in terms of both affluent and influential leadership. The support shown last night was overwhelming. I think it is a great time for us to ask for their help. People are very receptive.

General Comments by Vice Presidents (Continued)

Vice President Thompson updated trustees on the status of repairs to Stipes Hall. A panel fell off the building and it has been a real challenge to find ways to reattach all the panels above and below the windows on the 4th floor of the building. It is almost totally completed and people are now able to use all the entrance and exit doors to the building. It actually cost less than what we had anticipated. It is a true compliment to our Physical Plant staff and we feel very comfortable that we have the problem solved.

The Document and Publication Services building (DPS) is actually under construction. That was the result of reorganization within the University that was located in four different academic buildings and moving them all to a new building in the service area of campus.

It is exciting for me and for the folks that are going to move there. We are also locating our property distribution center there so we can better manage our property.

We have also received a couple of grants in Administrative Services—a lighting grant to replace the lights in Morgan Hall. We also replaced the lights in Stipes Hall last year. It is very rewarding when I get comments about the new lighting. This is something that the Physical Plant has worked on and Trustee Epperly also has been very involved.

We also received a grant from Homeland Security to replace in-car computers in our police vehicles. When we receive grant funding for those projects, it frees up resources that we can put to other areas of the University.

Trustee Thomas asked about the access for copying services when the copy center is moved from the University Union.

Vice President Thompson assured him that students will have access to copying services. You can drive to the new building and there will be customer parking available. Also, we are working to see if there is a need for a small copier in the Union. We also will have a courier service that will pick up and return copy jobs to the building. We are making a commitment that there will be services to the students.

Motion to Adjourn

There being no further business to come before the Finance Committee, a motion was made and duly processed to adjourn the meeting at 10:05 A.M.

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