The meeting of the Finance and Audit Workgroup was called to order by Chair Rhea Law at 10:30am. The following members were present: Rhea Law, John Ramil, Lee Arnold, Sherrill Tomasino, Judy Genshaft, Stephanie Bryant, Richard Gitlin, and Brian Keenan.

Chair Law welcomed back faculty liaison Dr. Stephanie Bryant and introduced new faculty liaison Richard Gitlin, Distinguished Professor, Electrical Engineering. Chair Law also noted the Workgroup’s other new faculty liaison, Christopher Davis, Assistant Professor, Business Administration, USF St. Petersburg, who was not in attendance.

Chair Law introduced Greg Morgan, former Student Body President and Trustee. Chair Law presented Mr. Morgan with a plaque in appreciation of his service on the Board.

Chair Law commented that the Health Sciences & Research Workgroup met this morning and that there are many issues with financial implications. The Finance & Audit Workgroup plays a role in support of these efforts.

**Action Items:**

I. **Real Property Policy**  
**Action:** Approval

Jim Hyatt introduced the real property policy. The policy has been under development for a year and has been reviewed by the Finance Management Council. Trustee Arnold has also been involved in the development process. Fell Stubbs explained that the policy was requested by the Trustees and the President to clarify the role of the Trustees in these transactions.

Mr. Stubbs stated that a suggested revision has been made by one of the Trustees to section 7.2.f. on page 5. The last sentence of section 7.2.f. currently reads as follows:

> During this preliminary phase, obtain documentation for the property provided by the seller, a title survey, soil and other surveys and tests, and verification of legal access.

The requested clarification would read as (changes/additions are highlighted):

> During this preliminary phase, obtain documentation for the property provided by the seller, **including but not limited to** a title survey, **land survey**, soil and other surveys and tests, and verification of legal access.

Mr. Stubbs noted this policy would be recommended to the boards of directors of the DSOs. Trustee Arnold stated that this is not a recommendation, this is the policy. Steve Prevaux explained this will be the policy for the USF System, which includes the DSOs/CUs. Trustee Arnold clarified that the DSOs cannot opt out of the policy. Mr. Prevaux indicated this is correct.

**Trustee Ramil made a motion to approve the real property policy with the stated revision. Trustee Tomasino seconded the motion. The motion passed.**
II. DSO/CU 2010 Financial Plans and Strategy Statements

Action: Approve DSO/CU 2009-10 Financial Plans

Chair Law announced the following DSOs will be reviewed today: University Medical Services Assoc. Inc., USF Medical Services Support Corp., USF Health Professions Conferencing Corp, and USF Financing Corp. & Property Corp. Consideration of the following DSO/CU 2009-10 Financial Plans and Strategy Statements are deferred to the October 15, 2009 USF Board of Trustees Finance & Audit Workgroup meeting: USF Foundation, Inc., USF Alumni Association, Inc., USF Research Foundation, Inc., and Sun Dome, Inc.

Fell Stubbs introduced the agenda item and noted that the financial plans for 2009-10 include overviews of business strategies as well. Mr. Stubbs then asked the representatives from the DSOs/CUs to present their plans.

a) University Medical Services Assoc. Inc. – Karen Burdash
UMSA's focus is on capital management. During this past fiscal year, UMSA opened the Faculty Office Building and Morsani Center. The Ambulatory Surgery Center got a late start due to credentialing issues from Medicare, but is now fully operational. Currently, the ASC is within 18% of break even. UMSA is managing its costs with expenditure reductions and program/operational efficiencies. UMSA’s 2010 operating profit is projected to equal $5,693,000.

Chair Law asked if UMSA’s Morsani Center will achieve break even with the changes in Medicare alone or if they will need to do other things. Rick Green responded that they will achieve break even with enhancements to managed care contracts, building volume in the ambulatory surgery center, and working with the VA. Stephen Klasko explained that UMSA was not initially set up as a multi-specialty practice, but is now doing this – building a multi specialty practice around a primary care strategy.

Trustee Ramil asked for clarification – will UMSA end FY 2009 with positive cash flow. Dr. Klasko responded yes, ending cash should be up a few hundred thousand dollars to $15.7 million but it has not solved the systemic issues of the practice plan – we’re still working on the hospital strategy.

Trustee Ramil made a motion to approve the UMSA 2009/10 Financial Plan. Trustee Arnold seconded the motion. The motion passed.

b) USF Medical Services Support Corp. – Karen Burdash
MSSC serves as a clinical support organization to the USF Faculty Practice Plan, which is tied directly to UMSA. As MSSC is primarily structured to be a break-even organization, all payroll and operating expenses are funded by UMSA in the form of service revenue. The forecasted net operating loss for 2009 is due to change in fair value of swaps (non-cash). MSSC’s 2010 operating profit is projected to equal $(363,000), but will be positive on a cash basis. UMSA/MSSC restructured their investment portfolios to increase liquidity in 2009.

Trustee Tomasino made a motion to approve the MSSC 2009/10 Financial Plan. Trustee Arnold seconded the motion. The motion passed.

c) USF Health Professions Conferencing Corp. – Greg Vannette
HPCC was spun off from MSSC in 2007. Its core mission is to partner with USF Health Departments to provide continuing medical education. The Simulation Center at TGH has recently opened and HPCC has also recently partnered with Intuitive Surgical on a daVinci surgical robotics system which opened earlier this month. HPCC generates fees for its programs and returns some profit back to the departments and uses the remaining profit to develop additional programs. Dr. Sutherland, Executive Director, noted that HPCC assumes the risks of the ventures
(entrepreneurial activities of the USF Health departments), thus clinical funds are not at risk. Profit from one year is used as seed money in the next year. HPCC’s 2010 operating profit is projected to equal $650,000.

Trustee Arnold commented this is not much profit for seed money for new programs. This is the right thing to do, but we need to mitigate risks.

**Trustee Arnold made a motion to approve the HPCC 2009/10 Financial Plan. Trustee Tomasino seconded the motion. The motion passed.**

**d) USF Financing Corp. & Property Corp. – Fell Stubbs**
The Financing Corporation operates in tandem with the Property Corporation and is the University’s financing arm, expected to provide attractive long-term financing for the University’s major capital projects. The Financing Corp is a conduit financing entity which pledges revenues or lease payments from the University's business units to pay debt service on their capital projects. The Corporation advises University business units on capital market conditions for future projects. The Financing Corp also manages relationships with the credit rating agencies.

**Trustee Arnold made a motion to approve the Financing Corp & Property Corp 2009/10 Financial Plan. Trustee Tomasino seconded the motion. The motion passed.**

**III. University Audit & Compliance – 2009/10 Work Plan**

**Action:** Approval

Debra Gula presented the 2009/10 work plan for University Audit and Compliance. The Workgroup should consider whether the Work Plan is aligned with the USF system’s strategic plans, objectives, and enterprise risk. It should consider whether this plan optimizes the use of UAC resources and the value added by the UAC activity in the following areas: results of operations, programs, or projects including accomplishment of objectives and effective use of resources; reliability and integrity of financial and operating information; compliance with policies, laws, regulations, and ethical standards; the means to safeguard assets, loss prevention, and fraud detection; and process improvement. The work plan includes the executive director and eight auditors; it does not include the compliance officer or the support staff. UAC has one vacancy which they anticipate hiring soon. The model for the work plan is a 60/40 split of direct/indirect support hours. The plan is a 56/44 split.

Trustee Ramil made the following observations:
- Previously had cash items at the top of the work plan – have put a lot of controls in place
- Added consulting services (requested by management) – this is healthy and shows the organization is maturing
- Healthy improvements in the organization.

Trustee Arnold asked do we need to add resources for investigations and allocate less to consulting services in order to minimize risk. Trustee Ramil responded we have the minimum resources we need to manage our risk – though we can always use more resources.

Dr. Gitlin asked about IT security. Ms. Gula noted UAC has an IT auditor on staff and the university has an IT security group.

Trustee Arnold asked why financial aid activity (about $300M) is not on the work plan. Provost Wilcox responded that this issue was addressed in the recent federal audit. Nick Trivunovich added that state auditors perform the federal audit and look at financial aid. All audit findings are presented to this workgroup. The federal audit was just finished and the exit conference is next week (both A133 audit and operational audit).
Trustee Tomasino made a motion to approve the 2009/10 work plan. Trustee Arnold seconded the motion. The motion passed.

IV. Property Regulations & Policy
   Action: Approval

Steve Prevaux introduced the agenda item. Business and Finance reviewed all of their regulations. Trudie Frecker stated the two drivers for this process were the BOG regulation changes and SACS review and governance language changes. These have been reviewed by various campus entities (i.e. Finance Management Council). Fourteen regulations have been put into one policy.

Trustee Tomasino made a motion to authorize repeal of the property Regulations listed and consolidate critical sections in amended USF Policy 5-014 (USF System Asset/Property Management). Trustee Arnold seconded the motion. The motion passed.

V. Leasing Regulations
   Action: Approval

This action is the combination of ten regulations into one regulation.

Trustee Arnold asked if we need to tie leasing regulations back to the real property policy. Mr. Stubbs noted the real property policy requires compliance with regulations.

Trustee Arnold made a motion to authorize the amendments to Regulation USF4.012, Leasing Regulation and to authorize the repeal of regulations: USF 4.01201; 4.01203; 4.01205; 4.01207; 4.01209; 4.01211; 4.01212; 4.01213; 4.01215; 4.01217. Trustee Tomasino seconded the motion. The motion passed.

VI. Purchasing Regulations
   Action: Approval

This action has four substantive changes which are noted on the summary chart.

Trustee Ramil made a motion to authorize amendments to the Purchasing Regulations listed and to adopt new Regulation, USF4.02090, Notice of a Decision and Protest Procedures. Trustee Arnold seconded the motion. The motion passed.

Information Items:

President Genshaft announced the Bill and Melinda Gates Foundation signed a memorandum of understanding (MOU) for $100M in teacher reforms with the Hillsborough County School District. The Anchin Center, College of Education at USF is actively involved in this program which is great for USF.

VII. Center for Advanced Medical Learning & Simulation – Status

Dr. Klasko gave a status report on the Center for Advanced Medical Learning & Simulation (CAMLs). We are leaders in the area of assessing technical competence for physicians (bio-tech disciplines). We are planning a simulation center (56,000 square foot center located near Stetson Law School in Tampa) with surgical skills labs. This would be available for new procedures and to assess problems in the operating room. The center also fosters medical device development, testing, and training. Another program is Workforce Tampa which provides skills training for other health care workers/professions.
Trustee Law noted an article in today’s NY Times on the subject.

VIII. 03/31/09 USF and DSO Financial Statements and 2009 Forecast

Fell Stubbs presented the 03/31/09 USF and DSO Financial Statements and 2009 Forecast.

IX. Annual Investment /Debt Management/Derivatives Policy Reports

Fell Stubbs presented the annual financial policy reports.

1) Investment policy report. Mr. Stubbs noted the following investment management issues: investment governance consists of informed/demanding investment committees; portfolio structures contain increased provision for affiliate liquidity; University investments hedge liquidity issues associated with DSO variable rate debt and operations; 97% of $900 million in combined investment portfolios is comprised of listed securities (potential access to liquidity if needed). Mr. Stubbs also noted the following changes in investment portfolio balances: the total USF portfolio declined $135 million to $885 million; Foundation’s Endowment portfolio declined $132 million to $252 million (did recover in the final quarter ended June 30, 2009); University’s portfolio increased $35 million to $460 million (despite a net $60 million drawdown for construction activity). Mr. Stubbs also noted that only 21% of the combined portfolio is invested in equity-type securities.

Trustee Arnold asked whether we within parameters on alternative investments. Mr. Stubbs reported that all investment portfolios are in compliance with the USF investment policy parameters.

2) Annual debt management policy report. Mr. Stubbs noted the following debt management issues: USF is carefully rationing debt capacity – due to slowing revenue growth and past increase in debt; USF faces challenges due to downgrades in financial partner credit quality; USF’s long-term interest cost of debt is 3.75%, well below current long-term market rates. Assessment of our balance sheet shows moderate leverage for the scale of existing operations, and financial resources and cash flows provide appropriate coverage of debt. Assessment of our operating performance indicates that the University’s operating profit was positive in 2008-09 (an achievement in a challenging year), USF’s revenues are well diversified, and the State’s AAA GO rating provides strong support for the University. Assessment of our debt capacity shows moderate leverage and average liquidity. Mr. Stubbs also noted the following variable rate debt issues: variable rate debt level is assessed periodically; variable rate debt is 65% of total debt; and variable rate debt is now capped for USF. These are considered appropriate debt strategies.

3) Annual Derivatives Policy Report. Mr. Stubbs noted the following derivatives management issues: USF’s $276M of swaps provide an effective hedge against interest rate risk; quarterly monitoring of changes in fair value of swaps; and 7 of 9 swaps have no collateral posting requirement – due to a municipal swap insurer downgrade, 2 swaps have a collateral posting requirement.

X. Overview of Capital Markets

Mr. Stubbs gave an overview of capital markets noting USF is challenged by its financial partners’ credit quality, the investment markets are volatile and USF is maintaining substantial liquidity, and the debt markets remain costly and access available only to high rated institutions.
XI. RFP for Residence Hall and Aquatic Center – USF Polytechnic

Marshall Goodman stated that USF Polytechnic wants to build a wellness center on its new campus site with an aquatic center which will also include a student residence facility. They are asking for best ideas/creative solutions in the posted RFP. USF Polytechnic currently has $5M in seed money for this project and is hoping to eventually get a Courtelis match as well as raise an additional $10M.

Dr. Alice Murray gave an overview of USF Polytechnic and the project. She stated an RFP was issued for funding for this project including the possibility of naming rights. They are looking for investment and developer interest.

Chair Law noted that in her presentation, Dr. Murray referred to USF Polytechnic’s “statewide mandate for Florida Polytechnic” and that its service area extends beyond the region, that it is statewide. Chair Law asked how this service area differs from our other campuses. She asked General Counsel Steve Prevaux if he could advise. GC Prevaux referenced the statute and concurred with the Chair. USF Polytechnic was asked to clarify their comments in the future.

Trustee Ramil asked about the student enrollment/FTE at USF Polytechnic. Kevin Calkins responded that 913 total FTE (1,316 headcount) are now enrolled at USF Polytechnic. Trustee Ramil also asked USF St. Petersburg their enrollment numbers (3,697 headcount) and residence hall capacity (350).

Dr. Murray explained that Phase I of the project will consist of at least 250 beds. The project will be phased such that add-ons will be possible with up to 500-1000.

Trustee Arnold asked when USF Polytechnic would reach their current goal of 16,000 students. Dr. Goodman responded that the original goal was 2015. However, now with no PECO funding, that date will be moved out.

Dr. Goodman also stated that in building an aquatic center. He noted they have been talking to Doug Woolard as to what type of facilities would be needed. It is their hope to build the pool so that if USF athletics would expand, a swim team at USF Polytechnic would be an option.

Trustee Arnold stated that USF Polytechnic should have presented this discussion about the proposed facilities at ACE (BOT Academic and Campus Environment Workgroup) prior to the RFP going out. The RFP does not seem to be in line with what USF Polytechnic provided last year in its strategic plan to the Trustees.

In addition the headcount numbers presented at ACE do not come close to the headcount described in the RFP. He asked USF Polytechnic how they arrived at these numbers. He asked USF Polytechnic to revisit the Polytechnic strategic plan – if the plan and mission has changed as the RFP differs from the mission previously approved. Trustees must know and approve the new mission/plan. He also asked about the development of the property in the surrounding area, from his recollection there is planned apartments, condos, and single family homes and services. He asked if the development plans have changed. Dr. Goodman referenced the economy and that he thinks it has been scaled back.

Chair Law asked about USF Polytechnic’s management of the RFP. Community issues will be arising as people are expecting this to be built soon. USF Polytechnic will get responses from the RFP - what is the next step?
Dr. Goodman stated he will present the strategic plan and lay out the programs they will be offering USF Polytechnic at a later meeting of the ACE workgroup.

**Other**

Chair Law asked if there was any other business.

Having no further business, Chair Law adjourned the Finance and Audit Workgroup meeting at 1:02pm.