The meeting of the Finance and Audit Workgroup was called to order by Chair Rhea Law at
10:42am. The following members were present: Rhea Law, John Ramil, Lee Arnold, Sherrill
Tomasino, Judy Genshaft, Stephanie Bryant, Gary Patterson, Roger Peters.

Chair Law introduced Margaret Sullivan, Interim Regional Chancellor USF St. Petersburg, and Jim
Hyatt, Senior Vice President for Business and Finance and CFO.

**Information Items:**

I. **Capital Markets**

Mr. Hyatt reported the market is highly unstable. November was a bad month for the
market and has had an impact on investment income and financial and credit markets.

Fell Stubbs noted USF has a sizeable balance sheet ($2.4B), portions of which are exposed
to the capital markets: many investment portfolios and our variable rate debt.
Approximately 30% of USF’s combined $1B investment portfolio is comprised of equity-
type investments – and we do have some realized losses. The 70% balance of the
investment portfolio is invested in fixed income and cash equivalent vehicles with lower
exposure. USF has managerial issues associated with its variable rate debt. We have
interest rate swaps in place to fix our long-term borrowing rates on the variable rate debt
at an attractive 3½% rate - current interest rates are almost twice this rate. Changes in
the market yield curve cause non-cash charges to our income statements for the changes
in the fair values of the interest rate swaps. We are monitoring the credit strength of our
banks and our swap counterparties. In terms of the financial market exposure, the
University is aggressively managing its balance sheet.

Trustee Arnold requested Mr. Stubbs’ report/notes in writing and emailed to the Trustees.

Trustee Arnold stated we should set investment policy based on what we expect the
capital markets will do, not wait until capital markets have already changed.

II. **Budget Update**

Mr. Hyatt reported the $2.8B budget cut is more than the projected deficit. $1.89B is
through reversions and reserves. 4.0% E&G reduction for USF. Tampa reduction is
$12.2M and includes USF Health and Polytechnic. USF St. Petersburg reduction is
$1.094M. USF Sarasota-Manatee reduction is $583K. This reduction makes the 1% per
quarter holdback permanent.

The Economic Stimulus Package out of Washington is now expected to be more. USF is
preparing for this; the Legislature is preparing for this.

President Genshaft announced that she received word yesterday that PECO funding has
been cut in half.

Trustee Arnold asked about work in progress and will we have to reallocate. Mr. Hyatt
explained that we will have to do some realignment but we will cover all projects that have
current commitments. Trudie Frecker commented that this will delay contracts, but the state will catch us up at the end of the three year period.

Chair Law asked if we could get some help from our legislators.

Trustee Arnold stated that we don’t want to have to go back to stopped projects and redo work already done before the delay. He suggested we look at Tampa Bay Partnership – they could help us with getting buildings built.

III. DSO/USF 1st Quarter Financials

Mr. Hyatt began the discussion by stating that quarter 1 is not all that meaningful; quarter 2 is more meaningful. Will see the impact of the market in quarter 1 – changing capital markets and decrease in state revenues.

Fell Stubbs stated that representatives from the DSOs will present their 1st quarter financials. Due to scheduling conflict, Dr. Klasko will present the USF Health DSOs first.

**USF Medical Services Support Corp. – Dr. Klasko**

Dr. Klasko noted the following when comparing MSSC’s balance sheet in Q1 with Q1 of the prior year: cash and cash equivalents declined $3.8M due to the spinoff of the Health Professions Conferencing Corp; long term debt increased $20M due to bond debt associated with the 3 new medical buildings.

On MSSC’s income statement, the increase in revenues is due to funding for the Morsani Center and decrease in expenses is due to lower salaries and benefits from the departure of the DIO to Moffitt. The projected current year deficit is due to interest rate swap charges. This is a non-cash/non-operating issue.

Dr. Klasko noted this is a strange year to compare due to the spinoff of DIO, and it is difficult to compare from quarter to quarter.

**University Medical Services Assoc. Inc. – Dr. Klasko**

On the balance sheet, the increase in cash and cash equivalents is due to $5.8M in FICA refunds (doctors receive 2 payroll checks and there 2 FICA contributions) and a $2M transfer from USF for IT projects. The decrease in investments reflects money moved into cash/operating funds and market investment issues. On the income statement, the decrease in revenue is due to the departure of DIO and the decrease in expenses reflects the decrease in DIO salaries and benefits. DIO looked better because it was collecting $1M from Moffitt – we do not get this from our other hospital partners. The projected year end deficit is due to losses on the investment portfolio – will try to offset this by growth at Morsani.

Dr. Klasko explained the challenges going forward: the DSO is fine with its bond payments; has bold action plans (AMIS asset management); wants state funding to be where it should be for medical student funding; and is disadvantaged by not having a hospital.

Trustee Arnold stated that the investment losses are significant - Health has lost 12-14%. This goes back to who is managing the DSO investments.

Joann Strobbe responded that Health is looking to partner investment portfolio decisions with the USF investment committee (via a new MOU). She also noted that Health invested $10M with the Foundation before things went bad.

Trustee Arnold asked who makes the asset allocation calls. Ms. Strobbe responded that the practice plan has a money manager who operates within university
investment policy parameters/guidelines. Dr. Klasko also noted that the practice plan has an investment committee. He would like to move all investments into the foundation – he has suggested this to the practice plan’s investment committee. Trustee Arnold remarked this was the suggestion a few years ago – this way no one DSO is disadvantaged because of lack of information, plus gain economies of scale.

Dr. Klasko stated they will solve the practice plan deficit this year.

Mr. Stubbs noted the DSO forecast numbers include market values through October and November.

University of South Florida – Nick Trivunovich
Nick Trivunovich reviewed the University’s 1st quarter financials. On the balance sheet, the increase in cash and investments is due to holding $50M in construction funds, most for Financing Corp. Some of these funds are auxiliary which are restricted for a specific purpose. On the income statement, quarter 1 is misleading as there are significant timing issues with the receipt of tuition and expenses associated with 9-month faculty do not start until August/September. “Other” revenue is financial aid and the increase is offset by an increase in financial aid expenditures. The decrease in salaries and benefits reflects the transition of DIO and anticipation/preparation for budget reductions. Projected year-end appropriations of $318M is a conservative estimate – we will continue to monitor. We are anticipating a small year-end operating deficit. We are and will continue to adjust for pending budget reductions. The projected year-end deficit includes a non-cash swap liability item.

Trustee Arnold asked when a swap becomes a cash issue. Mr. Trivunovich responded it never really does – always an accounting issue like mark to market. Mr. Stubbs noted the possibility of posting collateral to a swap counterparty under certain conditions. When yield curves are down, the custodian holds our cash. When yield curves rise, cash returns to us. 2 of USF’s 9 swaps have collateral posting requirements - the peak amount we posted was $20M. Now $15-16M. We requested and our counterparty agreed to accept a standby letter instead of cash.

Trustee Arnold stated this is a liquidity issue. We cannot get cash back that is being held as collateral. If it is needed, may need a letter of credit. It is a contingent liability.

Trustee Arnold asked how did our investment income drop 50%. Mr. Stubbs explained this was due to a drop in the yields on our bond and money market funds; importantly income is still positive.

USF Foundation, Inc. – Rob Grabowski, Rob Fischman
Rob Grabowski, interim VP for Advancement, reported this economy has had an effect on the Foundation’s fundraising revenue. People are not ready to make big gifts this year due to losses in assets. The donor count hasn’t changed much, but new commitments of assets have declined. Commitments funded by operations are still coming in.

Rob Fischman presented the Foundation’s balance sheet. Current assets increased over the prior year. Current assets include funds held for Courtelis match and other short term investments. Restricted investments decreased from the prior year and will go down more in quarter 2 due to the impact of October/November market activity. Current liabilities increased over the prior year also due to Courtelis match. Other noncurrent liabilities include Alumni, Research Foundation, and UMSA investments.
Currently, funds eligible for Courtelis match are held at the Foundation until match is received. Funds are then released to the university.

Chair Law asked if it would be helpful to get the legislature to allow funds to be released and used before the match is received. Mr. Fischman responded it would help the university.

Trustee Arnold asked what is the impact of alternative investments and what are we doing defensively in light of October. Mr. Fischman responded this is the most illiquid type of investment – cannot get money out. Fortunately, we have no exposure to hedge funds and we did not suffer any hedge losses. We are decreasing our spending rate to keep funds invested. The Foundation is also taking some things out of play.

Trustee Arnold stated the Finance & Audit Workgroup should look at the Foundation more than just quarterly. We need to figure out how we can help the Foundation – do we go to more cash. Mr. Hyatt responded it depends on what the market does.

Mr. Fischman explained we have a long term strategy and therefore we have to look long term. We look at our peers and we work with consultants. We employ fundamentals of asset allocation. We’ve enjoyed an 11% return over the past few years. We knew we could not sustain it forever – just didn’t expect to give it back so soon.

Trustee Tomasino wants more timely information. It would have been helpful to have information for this meeting thru 12/31/08, even if still an estimate.

Dr. Peters asked how we compare to other institutions with respect to equity investments. Mr. Fischman responded we have more in equities (40% domestic equities, 20% international equities, total 60% equities), but less exposure. We are more conservative than others based on our fixed income posture.

Mr. Fischman presented the Foundation’s income statement. Courtelis match does not appear on the income statement. Gifts/contributions are down. Investment income is negative. Other revenues is funding received from the university for the campaign. The increase in salaries and benefits is due to an increase in campaign staff and colleges using donor funds for salaries. The increase in other expenses is the liability loss associated with the swap. The operating loss is unrealized. We are projecting negative investment income at year end, however it will not be as bad as the current projection.

USF Alumni Association – Rob Fischman

Mr. Fischman announced the Alumni Association has hit the 16,000 membership milestone. Memberships seem to correlate with gas prices – as gas prices fall, memberships increase.

Cash and cash equivalents and investments are with the Foundation. Deferred revenue includes life memberships which are amortized over 20 years. Salaries and benefits expenses have increased due to cut in E&G funding (now assuming that payroll). Projecting an operating loss at year end due to the unrealized investment loss. Currently have a freeze on travel and are reducing conference expenditures. The DSO operates to a breakeven level – will decrease expenditures if revenues decrease.
Trustee Arnold wants a summary for what is operating profit, as losses on the income statement include unrealized losses. Mr. Trivunovich explained that accountants have to present the statements this way due to mark to market accounting.

Trustee Ramil noted if you want to look at operating results, just look at top half of the statement of cash flows.

Dr. Bryant stated that the industry has been looking over the past year to move away from mark to market accounting – but it is not going to happen.

Mr. Trivunovich will revise the reporting format and break out the numbers.

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**Financing Corp – Fell Stubbs**
The financial reports for the Financing Corp reflect bond financed construction projects. Investments decline soon after the bonds are issued and construction costs begin. Due from primary unit and other component units is a receivable from the university for PECO funds. Other current assets reflects construction in progress. Depreciables are capitalized/completed projects. Long term debt is the outstanding bonds.

**Research Foundation – Allison Madden**
On the balance sheet, investments are university construction funds. On the income statement, investment income is negative (half of the portfolio is invested with foundation). Projected loss of $5M at year end due to swap agreement and investment loss, without which operating profit would be $500K.

**Sun Dome, Inc. – Brett Huebner**
The Sun Dome has no investment losses as it has no investments. The golf course has been outsourced to Billy Casper Golf. Course is in good condition. $80K of exposure - $30K depreciation of equipment, $50K into course. Arena/facility needs renovations/repairs. Low event activity in quarter 1 – not a strong indicator of year end. Projecting a smaller loss at year end than last year, but still working to eliminate any loss.

Trustee Arnold asked if there is any exposure at the research park due to vacancies. Are they supporting their bond payments or is the university carrying it. He would like this information for next meeting.

Mr. Trivunovich reviewed the USF cash flow statement on page 5 of the handout. Beginning cash is constant despite operating profit on income statement. This is due (1) to an increase in accounts receivable and a decrease in accounts payable, and (2) income statement doesn’t show construction but is reflected in cash flow statement. The negative variance for ending cash is due to the expenditure of construction funds.

Trustee Ramil asked how much of the $400M in cash can we use for operations. Mr. Trivunovich responded about $160M is available for operations but we are adhering to BOT requirement of 5% reserve and there are some liabilities. As for a 1-2 month reserve, we are not quite there yet.

Trustee Arnold noted burn is higher than anticipated.

Mr. Hyatt stated we will work on preparing a report on what is committed vs. uncommitted and what cash is available for operations.
IV. DSO Financial Statement Audit Findings

Fell Stubbs presented the DSO financial statement audit findings. These are external auditor financial statement findings. All DSOs reported clean audits.

Trustee Ramil made the following comments: aside from Foundation and Practice Plan, no internal audit process for the DSOs – should we have them; and accounting policies/procedures are not consistent with the university DSOs – they should be.

Ms. Gula indicated that UAC is performing the internal audit function for Sun Dome and Research Foundation.

Chair Law wants the Audit Findings Report to include deadline dates on partially completed items.

V. Internal Audit Update

Debra Gula gave an internal audit update.

- Normally, University Audit and Compliance (UAC) recommends a revision to their workplan at this time of year – no request at this time as they are on target to meet their workplan.
- Investigatory issues are light.
- Issues to report on fraud and misconduct: three instances of personal use of pcard; two instances of theft of cash less than $1,000 (some reported by managers – this is a good sign). All still being investigated.
- Tampa Cashier’s Office report is out.
- Due out are FAST and research non-payroll expenditure transfers.

Trustee Ramil distributed the revised audit committee roles and responsibilities document, asking for comments by next meeting. This will be an action item for our next meeting.

Trustee Ramil also distributed the following additional documents on best practices for dealing with unknown risk:

- Article Title: “The New 3Rs: Risk, Risk, Risk”
  Author: David Corrado
  Journal: Treasury & Risk, December/January 2009
- Article Title: “Getting Serious about Board-level Scrutiny”
  Publication: Tone at the Top (Issue 41, November 2008)
  Published by: Institute of Internal Auditors

Other

Chair Law asked if there was any other business.

Trustee Arnold suggested we try to better schedule the Finance and Audit workgroup meetings as they are running past their allotted time. He suggested we start the meetings earlier. Chair Law explained that this was not possible as the Health Sciences and Research Workgroup typically meets before this workgroup. She stated we will schedule these meetings to go longer.

Having no further business, Chair Law adjourned the Finance and Audit Workgroup meeting at 1:13pm.