The meeting of Finance and Audit Workgroup was called to order by Chair Rhea Law at 10:34 a.m. The following members were present: Rhea Law, John Ramil, Lee Arnold, Sherrill Tomasino, Jan Smith (phone), Judy Genshaft, Roger Peters, Stephanie Bryant, and Gary Paterson.

President Genshaft announced that the Executive Vice President, Carl Carlucci, has taken a new position as of May 1, 2008. Steve Porch, consultant, recommended individuals to come in and look at the finance enterprise. Two consultants will come in on May 5, 2008 and leave on May 7, 2008. Jay Morley, out of Washington, was Executive Director of NACUBO, and had been at Cornell. Weldon Ihrig, retired from University of Washington, Seattle. University of Washington has a cancer center, regional campuses, medical school, and is an AAU Institution. He was also at Oregon and Ohio State.

III. Legislative Budget Update (information item)

Agenda item III, Legislative Budget Update, was presented first. Mark Walsh, reporting from Tallahassee by phone, gave a budget update. Both chambers have passed their budgets. There is a budget conference next week. Chambers have drastically different budgets. Higher Ed/University spending is close in both chambers (difference of about $20M). In 2005, higher education spending was about $75B; in 2008-09, $65-66B. Bigger hits to healthcare and K-12. 3.7% base reduction for SUS in General revenue. Tuition increase of 6% (both chambers recommend this). New lottery revenue into higher education to offset reduction. Proposed 4% reduction for USF Health and $1.25M add back to offset reduction (this may increase). House did not fund Centers of Excellence or matching grants (Cortellis). Senate has higher cuts to education - $1.1B reduction in education, most to K-12. $185M reduction for higher ed which will be offset with new lottery money. Could be looking at a 5.1% base general revenue reduction and a 1% lottery reduction. No increase in medical school money for anyone in Senate budget. The Senate has funded capital projects to stimulate the economy. Senate has no new funding for Centers of Excellence. Proposing to sweep unallocated funds this year and allocate. USF would get $8.5M for energy consortium. The House may do something similar or adopt this proposal - but not in House budget yet.

Mr. Walsh also gave a substantive review:

- Trustee Law and Trustee Engel have been confirmed.
- Senate has passed, almost unanimously, the BOG joint resolution. This sunsets current BOG, and established a new BOG with seven members who derive power from legislature. This would be an amendment on the ballot in November and would need 60% to pass. University BOTs will remain intact if this passes.
- Byrd Center – allocate governance/oversight to USF. Should not cost USF anything. Passed in the Senate 34 to 1, one abstained. House has postponed.
- USF Lakeland to have its own board and separate accreditation - in good position to pass.
- Professional tuition - BOT would have full authority to set this tuition.
- Distance Learning Fee - to recover cost of services provided.

Provost Ralph Wilcox asked for an update on CITF. Mr. Walsh reported the House swept CITF into general revenue to use for operations. The Senate funded CITF list.

Trustee Law announced that she will have to leave early.
**Action Items:**

I. **Revised UAC Work Plan**
   
   Action: Approve

   Debra Gula presented a revised work plan for the current year for University Audit and Compliance (UAC). Ms. Gula noted this is a normal occurrence - continually have to make adjustments, usually each year. Added Sarasota and Lakeland to cash collection site audits. Will be dropping cell phones, grants final reports & monitoring. Rollover audits (in process and will continue next year) include P-Card expenditures (non travel) and research centers and institutes. Postponed to next year - Tampa cashiers office (due to a timing issue), Engineering, EBS intermodule systems (student), travel expenditures (module implementation postponed), and transfers (due to/due from).

   Trustee Arnold made a motion for approval of the revised UAC work plan. Trustee Tomasino seconded the motion. The motion passed.

   Trustee Ramil commented that he and Debra Gula meet every quarter. A lot of focus on cash collection sites - 26 have been closed. Trustee Ramil, Debra Gula and President Genshaft will have an additional meeting each quarter to review open items.

**Information Items:**

II. **USF Quarter 2 Financial Reports**

   Eric Walden introduced the DSO reports which have been reviewed by Finance Council.

   Dr. Klasko presented information on USF Health DSOs:
   - **UMSA** - expects to be at $644K profit at year end. Have implemented revenue enhancements and expenditure reductions. Challenges for next year include: operation of UMSA in a non-DIO revenue environment; rebalancing College of Medicine financial subsidies; opening of Morsani Center; and state and federal reductions on hospital partners.

   Trustee Arnold asked how do you keep the practice plan from going bankrupt, depleting cash revenues. Vice President Klasko indicated that the practice has about $12M in cash reserve. The practice will be going to a pay for performance model. Joann Strobbe stated the policy is always to have two months reserve. The practice is operating at breakeven and will be in the black at year end.

   - **MSSC** - Ms. Strobbe estimated an $8.6m deficit at year end for due to non-cash items. This includes a $4.8 negative change due to interest rate swaps.
   - **HPCC** - expenses are booked prior to conference revenues. Will be balanced at year end.

   Nick Trivunovich reported on USF Financials. Mr. Trivunovich noted a decrease in operating profit from last year to this year. Last year’s surplus was the highest ever. Had an operating loss the year before. Breakeven over the past 10-20 years. Projecting a slight surplus of $8M this year. Reductions in revenue are being offset by reduction in expenditures. Expenditures in Quarter 1 and Quarter 2 were greater than last year’s Quarter 1 and Quarter 2 expenditures. We are taking steps to reduce expenditures in Quarter 3 and Quarter 4.

   Mr. Walden continued his report on the remaining DSOs:
   - **USF Foundation**
   - **Alumni Association** - estimates a modest operating profit of $7,000. Trustee Arnold noted that salaries go up dramatically this year, and revenues are less than last year.
   - **Financing Corporation** - two new debt programs - Magnolia Housing Project and Medical Office Building. Operating as expected.
   - **Research Foundation** - estimates a year end loss due to interest rate swap.
• **Sun Dome** – first half of the year shows a deficit, second half is more profitable due to the Big East events, cheerleading events, and high school graduations. Project a $6,000 operating profit (conservative). Brett Huebner explained that last year included the Without Walls event and a $200K grant for generator for emergency shelter.

• **Charter School** - operating profit down from last year due to an ending grant. Enrollment is up 34%.

### IV. Debt Report

Fell Stubbs gave the University Debt Report. Total debt equals $467M consisting of fixed rate ($176M, 4.42%); fixed with swaps ($278M, 3.57%); and variable rate ($12M, 1.75%). Will want to limit the amount of variable rate debt going forward. Mr. Stubbs reviewed University ratings. The financial strength of a University is highly correlated with the University’s ranking. USF converted 100% of its auction rate debt within 61 days; currently repricing at 1.75%

### V. Investment Services

Mr. Stubbs also gave the University Investment Report. USF has 11 investment portfolios - $1.0B total. USF has a common investment policy and 11 investment committees. Most investment structures are dissimilar, but appropriate for the DSO. Improved investment governance has occurred through the following: new USF Investment Committee (Dick Beard, chair); reviewing portfolio structures and investment management; and reporting to Trustees. Greater expectations for investment managers, consultants and committees. The University has a large portfolio - $410M, currently restructuring.

### Other

Vice Chair Ramil asked if there was any other business.

Having no further business, Vice Chair Ramil adjourned the Finance and Audit Workgroup meeting at 1:34pm.