The meeting of the Finance and Audit Workgroup was called to order by Chair Rhea Law at 10:55am. The following members were present: Rhea Law, John Ramil, Lee Arnold, Sherrill Tomasino, Jan Smith, Judy Genshaft, Stephanie Bryant, Gary Patterson, Roger Peters.

Action Items:

(Note agenda item I was an Executive Committee item and separate meeting notes have been submitted.)

II. DSO/CU Annual Budgets

Action: Approve DSO/CU 2008-09 Annual Budgets

Fell Stubbs introduced the agenda item and noted that the annual budget reports include key business issues for 2008-09. Mr. Stubbs then asked the representatives from the DSOs to make any comments on their budgets.

a) USF Foundation, Inc. – Jeff Robison, Rob Fischman

Mr. Fischman highlighted the $600M capital campaign goal (5 year goal), currently at $270M. Last year the Foundation suffered a 6% loss. The Foundation is receiving $3M a year support from the University for the capital campaign expenses. Mr. Fischman explained that on the budget sheet, Gifts & Other Revenue is for funding operations; Investment/Interest Income is for spending for schools/colleges. Cash and Operating Investments as of 06/30/08 were $61M.

Trustee Arnold asked how the USF Foundation expense compares to peer groups. Mr. Robison responded that for USF Foundation, 2% spending off the endowment is administration – this is 2.5% at FSU and 1% at UF. UF also imposes a gift tax of 1.5% on all gifts. We compare to other SUS institutions; we are higher than other national institutions as we get less state funding.

b) USF Alumni Association, Inc. – John Harper, Rob Fischman

Mr. Fischman noted that the revenue driver for the Alumni Association is memberships. USFAA is projecting a 17% increase in license plates on the road and a total member increase (life and annual) of 14%. There are 15,000 members and 14,000 USF license plates. USFAA is addressing the challenge of the expiration of the credit card contract in 2012. The Affinity credit card agreement currently accounts for about one quarter of total revenue. Trustee Ramil asked about the effect of the national trend to end credit card solicitations to students. Mr. Fischman responded that the impact on revenue from this is small/minimal as student credit cards typically have small balances. Credit card revenue is largely from alumni credit cards and other financial products. We get $585K per year; $4.1M total over life of the contract. We are discussing a revised agreement with Bank of America.

On the budget sheet, Gifts and Other Revenue is support from the Foundation. Salary expenditures increase in 2008/09 as USFAA has to absorb some salaries that were paid by the university but no longer due to budget cuts. 2007/08 ended with an operating surplus of $7K.
c) **USF Financing Corp. & Property Corp. – Fell Stubbs**

The Financing Corp (USFFC) operates as a pass thru or conduit entity. Over the next 12 months, USFFC will place in service the Marshall Center student union, the Morsani Center for Advanced Healthcare and the Medical Office Building. Lease payments from the University and the USF Practice Group for these new facilities are reflected in the increased revenues; associated debt service costs are included in the increased expenditures. USFFC had assets of $350M on 06/30/08.

d) **University Medical Services Assoc. Inc. – Joann Strobbe**

This entity is the physicians group – 350 medical professionals. The physicians in the Department of Interdisciplinary Oncology (DIO) ($40M of corporate business) separated from USF in January 2008 and became employees of Moffitt Cancer Center. UMSA’s patient service revenue budget for 2008-2009 reflects the full year impact of the reduction in revenues relating to that change. Budgeted revenues and expenditures reflect a full year of operation for both the South Tampa Center for Advanced Healthcare (which opened in August 2007) and the Morsani Center for Advanced Healthcare (which opened in July 2008). New operations for Morsani assume predictable lags between the timing of expenditures incurred and revenue recognized from clinical activities.

UMSA is the guarantor for $3.5M of lease payments to be made by USF Medical Services Support Corporation on the South Tampa Center for Advanced Healthcare, the Morsani Center for Advanced Healthcare, and the Medical Office Building. Pass through costs associated with those lease payments (principal, interest and other fees) are reflected in the rental space, equipment and facilities line item for FY 2008-2009. In January 2009, the medical office building will open and UMSA will no longer pay rent to UPC ($1M per year).

In the annual budget, the revenue labeled “Other Grants & Donations” is from affiliated hospitals and clinical trials. The reduction in “Other Sales & Services” is the $40M transfer to Moffitt. Expenditures will be less in 2008/09 due to cut backs on infrastructure due to the DIO Moffitt transfer. Net income for 2008/09 is projected to be $808K. This represents a 1% profit margin – we are looking for a 3% profit margin. Cash & Investments as of 06/30/08 is $45M; $35M of this is invested - $10M moved to Foundation and $25M invested in Trustco. Remaining $10M is liquid assets.

e) **USF Medical Services Support Corp. – Joann Strobbe**

MSSC is a sister corporation to UMSA to house clinical professionals (nurses, PAs, etc.). All of UMSA’s leases and equipment purchases pass through MSSC. UMSA transfers funds to MSSC. MSSC has no revenue of its own – all comes from the practice plan. Physicians continuing medical education spun off to HPCC last year. The bottom line for MSSC is breakeven. The $4M in Interest/Depreciation/Amortization is a non-cash item (capital components) and accounts for the $4M year end loss for 2008/09 – this is a non-cash deficit. MSSC is looking at treating these non-cash items differently in the financial statements. Trustee Arnold asked how much of the $4M is interest. Ms. Strobbe responded about $1M. Trustee Arnold commented that this is a cash item.

f) **USF Health Professions Conferencing Corp – Joann Strobbe**

Transferred out of MSSC. Most of HPCC’s revenue and expense is generated by the Office of Continuing Professional Development (OCPD). OCPD operations were conducted through MSSC for ten years prior to being spun off into a separate DSO. The recurring steady book of business generated by CPD will continue in the 2008-2009 year. All medical professionals need continuing medical education for licensing, credentialing, memberships in specialty societies. Over the next twelve months USF HPCC will continue its efforts to develop CAMLS (Center for Advanced Medical Learning and Simulation). USF HPCC has contracted with SimSuite to implement a simulation training program which will be located at Tampa General Hospital under a five year license.
Trustee Arnold stated the BOT needs to have oversight as we enter into third party agreements/deals. We need to understand the risk as we go away from the educational model and go entrepreneurial. He is concerned about contractual agreements and stated there should be a threshold.

g) USF Research Foundation - Allison Madden

Over the next 12 months, the USF Research Foundation (USFRF) will place into service 5,600 square feet for MSDC and 20,000 square feet for Draper Laboratory in the USF CONNECT building increasing occupancy to 85%. Lease payments for these new facilities are reflected in the increased revenues; USFRF and Hillsborough County will be providing rent subsidy to Draper Laboratory. USFRF is assuming a modest investment return on its $15M investment portfolio. USFRF is assuming no change in fair value over the next 12 months on its $43M of interest rate swaps. The $2M loss for 2007/08 is due to non-cash transactions.

h) Sun Dome, Inc. – Luther Lee, Scott Glaser

Sun Dome, Inc. has contracted with Billy Casper Golf, Inc. to manage the USF Golf Course and Restaurant. Billy Casper Golf, Inc. is the 2nd largest golf course management company in the U.S. – manages over 90 courses. Challenges facing Sun Dome, Inc. are: 1) the Sun Dome Arena competes with newer venues such as the Ford Amphitheatre and the St. Pete Times Forum for the larger, more profitable concerts and events; and 2) the scheduling requirements of the Big East Conference have limited the ability of Sun Dome, Inc. to book concerts and events far in advance. In 2008/09, Sun Dome, Inc. will increase rental rates and reduce expenditures. Arena operations are the largest revenue source for Sun Dome, Inc. Second are auxiliary operations – management of sports fields and Athletics building. Largest expenditures are salaries and repair and upkeep of the arena and sports fields. The 2007/08 loss for Sun Dome, Inc. was due to $375K in depreciation for video boards. Cash & Investments as of 06/30/08 were $510K. This is 15% of total budget.

Sun Dome, Inc. has contracted with HOK to study how it can better utilize the arena for our sports teams. Sun Dome will then do a marketing/feasibility study as to the different models. New basketball practice facility will free up the arena for other revenue generating events.

Trustee Tomasino made a motion to approve the DSO/CU 2008/09 annual budgets. Trustee Arnold seconded the motion. The motion passed.

III. University Audit & Compliance – 2008/09 Work Plan

*Action: Approval*

Debra Gula presented the 2008/09 work plan for University Audit and Compliance – continuing model from previous year. Audits, continuous assurance, and consulting (at request of management) make up 60% of the work plan.

Trustee Ramil made the observation that 20% of the work plan is dedicated to research and this is consistent with the strategic plan.

Dr. Roger Peters asked to what extent is UAC understaffed. Ms. Gula responded that UAC is a couple of internal auditors short of our peer institutions.

Trustee Smith made a motion to approve the work plan. Trustee Tomasino seconded the motion. The motion passed.

**Information Items:**

IV. Update on State Revenue Projections

Trudie Frecker gave an update on state revenue projections. The 08/15/08 special revenue conference was not good news. The additional 4% reduction the university took will come to pass – it is just a matter of how much more. Chair Law stated that we must focus on our mission and
our strategic plan. Ms. Frecker added that we have to be smarter about how we do business as we are serving more students with less funding.

V. Audit Findings Status Report

Fell Stubbs presented the audit findings status report. All but four findings have been completed as of 06/30/08. Mr. Stubbs gave an update on the incomplete items:

1) 2007 Operational Audit, Finding 3: Auxiliary Food Service, Vending, and Bookstore Contracts
   - amended contract signed and implemented in July
   - now complete

2) 2007 Operational Audit, Finding 5: Student Fees
   - Delayed to Fall 2008 implementation of system – everything is in place
   - Complete

3) 2007 Operational Audit, Finding 7: Termination Pay
   - New procedure communicated to employees this week
   - Complete

   - Nick Trivunovich explained that we are waiting for a response from our federal sponsors. We feel we will get a response that the expenditures are allowable.

VI. University Audit Report

Debra Gula gave the University Audit Report for the period April – June 2008. Trustee Ramil reported that he met with Ms. Gula and there was nothing out of the ordinary for an organization like this. He and Ms. Gula also met with President Genshaft to help reduce the organization’s response time to internal findings.

VII. CAMLS Project Status

Fell Stubbs reported on the status of the CAMLS project. Trustee Arnold noted that we are guaranteeing a lease agreement here - this is what he was talking about earlier. DSO is obligating itself and if it doesn’t work the university is on the hook. $500K exposure if the deal goes belly up. Trustee Arnold stated that the BOT should approve long term obligations of DSOs when it incurs direct liability over a certain amount ($500K or $1M). Mr. Stubbs stated that we will not enter into such an agreement without coming to the BOT. Trustee Smith asked if we have done a risk assessment of predicted income. Mr. Stubbs responded that this would all be included when we present the project to the BOT. Trustee Arnold asked what does the statement "USF Does Not Guaranty HPCC Lease Agreement" in the power point presentation means. Mr. Stubbs explained that the University cannot loan or guaranty the HPCC Lease Agreement and will carefully manage CAMLS involvement in the project.

VIII. Annual Financial Performance Reports

Fell Stubbs asked the workgroup members to review the details in the handout. Mr. Stubbs gave a brief presentation of the following Annual Financial Performance Reports:

a) Investment Report
   - There are growing partnerships within USF on managing portfolios. Affiliates are placing long-term funds in the Endowment and are participating in University investment programs.

b) Debt Management Report
   - USF is near its limit on debt capacity. This is due to slowing revenue and resource growth and large 2-year increase in debt. USF will want to maintain debt capacity.

c) Derivatives Report
   - Monitoring swaps, counterparties and remaining swap terms quarterly.

d) Variable Rate Exposure Report
   - Limit on variable rate debt.
IX. LBR 2009-10 per BOG

Bertha Alexander gave an update on the 2009-10 Legislative Budget Request (LBR). In May 2008, BOG Staff approved the 2009-10 guidelines which did not include that language that allows the universities to request issues that total 8% of the recurring budget (general revenue + lottery). We were notified that due to the revenue outlook, the BOG would submit a budget based on the critical needs of the system. The BOG 09/10 budget included $350M on behalf of the universities for the following: 1) student success to meet needs of the state; 2) shared system resources; and 3) campus infrastructure resources. The $350M represents about a 9% increase over the prior year budget.

Provost Wilcox commented that the budget request included $65M for faculty retention to address the “brain drain” that is occurring.

Other

Chair Law asked if there was any other business.

Having no further business, Chair Law adjourned the Finance and Audit Workgroup meeting at 12:30pm.