



***SURA Finance & Audit Committee  
Report-out***

**April 8, 2008**

**Hampton University, VA**

# ***Committee's Activities, Discussions & Approvals***



- **Held a pre BOT meeting to review the 07 audit results with KPMG auditors**
  - ✓ **Clean opinion for SURA consolidated and stand alone JSA statements**
  - ✓ **No management letter comments**
  - ✓ **Audit completed on accelerated schedule as planned**
- **Reviewed final DOE IG SURA/Jlab contract audit report**
  - ✓ **Identical to earlier November draft report – \$14K in questioned costs accepted on a 4 year \$385 million cost base**
  - ✓ **Settlement & contract MOD closing out the SURA/Jlab contract (\$1.5 b) to be executed late April**

# ***Committee's Activities, Discussions & approvals (cont'd)***



- **Reviewed progress toward establishing an outsourced internal audit capability for SURA HQ**
  - ✓ **Three local/regional firms identified to submit proposals**
  - ✓ **Seeking non profit sector experience , strong risk assessment skills and solid financial, compliance and operational audit capabilities**
  - ✓ **Early May targeted for Committee review of 3 proposals and final vendor selection**
  
- **Reviewed SmithBarney 5 month performance report with our SmithBarney investment advisor, Bob Olson**
  - ✓ **SURA portfolio, like others has suffered a serious downturn driven by market fears over credit concerns and recession (-8.8%)**

# ***Committee's Activities, Discussions & Approvals (cont'd)***



- ✓ However, SURA's overall investment strategy and money manager performance has shown resilience by outpacing major market indices by 30 to 40%
- ✓ No changes to our longer strategy are recommended
- ✓ As per earlier action items from last BOT meeting SURA rebalanced it's portfolio by reducing its overall equity allocation from 78% to 73.5% to comply with the established 75% allocation ceiling
- ✓ Also modified, effective 12/07/07, our existing Investment policy as follows:
  - ***Increased allocation maximum for international equities from 10% to 20%***

## Committee's Activities, Discussions & Approvals (cont'd)



- Added following rebalancing policy language to paragraph 2 of asset Allocation Guidelines: *“It is the responsibility of the investment consultant to make recommendations to the Finance Committee regarding asset allocations. If the Fund’s allocation in any area exceeds the maximum or falls below the minimum guideline outlined in the investment policy statement , the fund should be rebalanced within ninety days to comply with established guidelines”*

# ***Committee's Activities, Discussions & Approvals (cont'd)***



- Reviewed recent updates to administrative & internal controls policies
  - ✓ Approved SURA procurement policy update to include CFO and Director of Sponsored Programs approval of President's travel reimbursements
  - ✓ Approval of revised Delegation of Authority which covers transactions requiring President's approval, as well as approval hierarchies for Administration, Human Resources, and Accounting & Payroll transaction approvals – includes requirement for CFO to review President's time sheets



# ***Committee's Activities, Discussions & Approvals (cont'd)***



- **Due diligence regarding new Program initiatives**
  - ✓ **Reviewed tax, business liability and organization structure assessments and merits of taking next steps to use the ILCAC program as SURA's first application for establishing an IRS group tax exemption.**
    - **No major business risk concerns noted given SURA's proposed organizational structure and business/tax model**
    - **Committee endorses moving ahead with preparation for filing the IRS exemption application**
  - ✓ **Reviewed SURA's recent Executive Committee proposal to explore Foundation funding**
    - **No financial or regulatory concerns noted**

## ***Committee's Activities, Discussions & Approvals (cont'd)***



- **But, caution is urged given the potential for political/competitive sensitivities within the SURA community**
- **Similarly, need to recognize resistance among foundations to paying overhead**

# ***Priorities & Action Items***



- **Move quickly on establishing an internal audit capability at SURA HQ**
- **Take the lead in finalizing recommendations regarding the following Ad Hoc QE committee recommendations;**
  - ✓ **Identify key variables and considerations that should enter into the determination of an optimum Longevity Quotient (LQ) multiplier and make recommendation on an initial multiplier**
  - ✓ **Develop criteria and process for identifying nominees for membership on the approved Investment Advisory Committee**
  - ✓ **Make recommendation for an appropriate portfolio reinvestment rate/growth rate**

***Operating Results Ahead of Prior Year, But  
Bottom Line Suffers From Negative ROI***



	<b>Actual FY08</b>	<b>Actual FY07</b>	<b>Variance</b>
<b>Revenues</b>	<b>1,886</b>	<b>1,724</b>	<b>162</b>
<b>Expenses</b>			
<b>Corporate G&amp;A</b>	<b>1,565</b>	<b>1,194</b>	
<b>Program</b>	<b>1,461</b>	<b>1,915</b>	
	<b>3,026</b>	<b>3,109</b>	<b>83</b>
<b>Operating Loss</b>	<b>(1,140)</b>	<b>(1,385)</b>	<b>245</b>
<b>Net ROI</b>	<b>(3,240)</b>	<b>2,073</b>	
<b>Net Interest</b>	<b>(116)</b>	<b>(144)</b>	
<b>Change in Net Assets</b>	<b>(\$4,496)</b>	<b>\$544</b>	<b>(\$5,040)</b>

(\$000's)

# February YTD Programmatic View Operating Results (Before ROI)



FY08 February YTD Programmatic View  
(\$000's)

	All Activities	PROGRAMS/ACTIVITIES					
		G&A	Infotech	JLab	ResFac	Coastal	Other / Bio
<b>Revenues</b>							
DOE	\$634			\$634			
Grants	\$767					\$767	
Services	\$201				\$201		
Mbr./Misc	\$284	\$92	\$14	\$178			
<b>Total revenues</b>	<b>\$1,886</b>	<b>\$92</b>	<b>\$14</b>	<b>\$812</b>	<b>\$201</b>	<b>\$767</b>	<b>\$0</b>
<b>Operating Costs</b>	<b>\$3,026</b>	<b>\$1,565</b>	<b>\$415</b>	<b>\$151</b>	<b>\$171</b>	<b>\$713</b>	<b>\$11</b>
<b>Net Operating Results</b>	<b>(\$1,140)</b>	<b>(\$1,473)</b>	<b>(\$401)</b>	<b>\$661</b>	<b>\$30</b>	<b>\$54</b>	<b>(\$11)</b>

**February FY 08 YTD Operating Loss Variance  
Due Mostly to timing Differences -- Volatile  
Market Continues to Depress ROI**



	<b>Actual FY08</b>	<b>Budget FY08</b>	<b>Variance</b>
<b>Revenues</b>	<b>1,886</b>	<b>2,101</b>	<b>(215)</b>
<b>Expenses</b>			
<b>Corporate G&amp;A</b>	<b>1,565</b>	<b>1,467</b>	
<b>Program</b>	<b>1,461</b>	<b>1,678</b>	
	<b>3,026</b>	<b>3,145</b>	<b>119</b>
<b>Operating Loss</b>	<b>(1,140)</b>	<b>(1,044)</b>	<b>(96)</b>
<b>Net ROI</b>	<b>(3,240)</b>	<b>667</b>	
<b>Net Interest</b>	<b>(116)</b>	<b>(114)</b>	
<b>Change in Net Assets</b>	<b>(\$4,496)</b>	<b>(\$491)</b>	<b>(\$4,005)</b>

(\$000's)

# Conservative Asset Allocation Strategy and Solid Money Manager Performance Helps Cushion Market Volatility



Asset Class	9/30/07 Market Value			YTD Performance			
	Opening Balance	Restated for FY 08 Liq/Trsf	Weighted Average	Market Value 02/29/08	Change from 9/30/07	Benchmark	Indices
Large Cap	\$22,908	\$22,708	\$22,868	\$19,920	-12.19%	-11.35%	Rus. 3000/1000 Value/Growth
Mid Cap	\$7,375	\$7,375	\$7,375	\$6,664	-9.64%	-10.89%	Rus. Mid Cap Value/Growth
Bonds	\$6,294	\$6,294	\$6,294	\$6,566	4.31%	5.07%	1-3yr. Gov't/Corp
<b>Total</b>	<b>\$36,577</b>	<b>\$36,377</b>	<b>\$36,537 *</b>	<b>\$33,150 **</b>	<b>-8.83%</b>	<b>-8.43%</b>	<b>Composite</b>

A                      B                      C                      (C-A)/B

\* Weighted average based on daily outstanding investment balance for the five month period.

\*\* Average annual growth target (net of advisory fees) pegged at 9%

**S&P performance over same 5 month period                      -12.80%**

**NASDAQ performance over same 5 month period                      -15.90%**