

### **Comprehensive Standard 3.10.1 Financial Stability**

The institution's recent financial history demonstrates financial stability.

Compliance       Partial Compliance       Not in Compliance

### **SACSCOC COMPLIANCE ASSESSMENT**

The institution appears to have run operational deficits in FY 2015 (\$20.9 million) and FY 2016 (\$45.6 million), with the exclusion of depreciation expense not funded or budgeted as operational by the state. It appears the institution relied on Other Revenues-Contributions from foundations to support operational outcomes in approximate amounts of \$64.8 million FY 2015 and \$93.5 million FY 2016 for operational purposes. The institution needs to further explain the relationship with the foundation and the sustainability of these Other Revenues.

### **UNIVERSITY RESPONSE**

The University of Louisville (UofL) is in compliance with Comprehensive Standard 3.10.1. The University of Louisville submits the following information in response to SACSCOC compliance assessment for Standard 3.10.1:

1. University of Louisville Financial Summary—highlights the university's finances in recent years and includes a description and explanation of the deficits reported in the compliance assessment.

2. ULF Accounting Changes—explains the change in reported contributions from the University of Louisville Foundation.
3. Diminishing Reliance on ULF Contributions-- shows that the university’s reliance on ULF support is declining.
4. UofL Remains Financially Strong—highlights the University of Louisville’s financial strengths.
5. Ongoing Actions to Ensure Financial Stability—financial and policy actions employed by the university to ensure financial stability.
6. Positive Student Outcomes and Enrollment Outlook—shows continued improvement in UofL student outcomes and demand for postsecondary credentials from the University of Louisville.
7. Summary

In this report the university references five years of UofL Financial Statements.

UofL Audited Financial Statement FY 2011-12 [\[1\]](#)

UofL Audited Financial Statement FY 2012-13 [\[2\]](#)

UofL Audited Financial Statement FY 2013-14 [\[3\]](#)

UofL Audited Financial Statement FY 2014-15 [\[4\]](#)

UofL Audited Financial Statement FY 2015-16 [\[5\]](#)

The University of Louisville has a consistent trend of financial health and stability that supports the university mission and the scope of its programs and services. The SACSCOC letter of May 25, 2017, cited “operational deficits in FY 2015 (\$20.9 million) and FY 2016 (\$45.6 million).” It

appears that SACSOC's calculation included operating expenses but not revenues associated with gift and endowment activities. When those contributions are included, the university shows operating surpluses in those fiscal years.

The University of Louisville Foundation, Inc. (ULF), is a Kentucky nonprofit corporation whose purpose is to promote the interest and welfare of the university by providing the maximum level of sustainable financial support. Founded in 1970, the ULF exists separate and apart from the university and has its own Articles of Incorporation, Bylaws, and Board of Directors. The ULF has been recognized by the Internal Revenue Service as a tax-exempt charity under Section 501(c)(3) of the Internal Revenue Code.

## **1. University of Louisville Financial Summary**

UofL has a sound financial base, demonstrated fiscal stability, and adequate physical and human capital to support its mission. These factors have contributed to improved student outcome measures and stable enrollment demand (see Section 6 for more detail). Although the SACSCOC letter of May 25, 2017, cited operational deficits in FY 2015 (\$20.9 million) and FY 2016 (\$45.6 million), it appears that the calculation included operating expenses but not revenues associated with gift and endowment activities. When including those contributions from the University of Louisville Foundation, the university shows operating surpluses in the 2015 and 2016 fiscal years.

Table 1 shows the annual contributions provided by the University of Louisville Foundation (ULF) and demonstrates that UofL experienced operating surpluses in four of the last five fiscal years. ULF accounting changes related to these numbers are discussed in Section 2.

**Table 1: UofL Summary of Financial Data FY 2012 to FY 2016**

<i>\$ in Thousands</i>	FY12	FY13	FY14	FY15	FY16
Operating Revenues	\$ 572,988	\$ 577,156	\$ 632,413	\$ 668,340	\$ 709,569
Operating Expenses	829,514	857,007	873,683	964,363	1,010,665
Subtotal: Operating Loss	(256,526)	(279,851)	(241,270)	(296,023)	(301,096)
Net Nonoperating Revenues	212,007	219,475	212,729	221,736	204,209
Add: Depreciation and Amortization	62,724	55,311	56,333	53,339	51,295
Subtotal: Operational Deficits per SACSCOC Comment	18,205	(5,065)	27,792	(20,948)	(45,592)
Add: Contributions from ULF, Inc.	6,623	2,895	11,026	64,756	93,522
Operating Surplus (Deficit)	\$ 24,828	\$ (2,170)	\$ 38,818	\$ 43,808	\$ 47,930

Source: University of Louisville and Affiliated Corporations Auditor's Report and Financial Statements, Fiscal Years 2012 - 2016

## **2. ULF Accounting Changes**

Contributions from ULF to UofL, as reported in Table 1, increased from FY 2012 to FY 2016. Most of the increase was attributable to changes in accounting practice, not from an increase in the university's reliance on ULF funding. Most gift and endowment expenses prior to FY 2014 were recorded in the ULF financial statements. In FY 2015, UofL and ULF worked to more clearly define each entity by separating accounting functions and recording expenses to the benefiting entity. For example, UofL began recording program expenses while ULF retained development and other fund-raising administrative function expenses. Each month, UofL requested reimbursement from ULF for any expenses to be funded from gift or endowment funds. Consequently, the large increase in ULF contributions—from \$11 million in FY 2014 to \$94 million in FY 2016—occurred when gift and endowment expenses moved from ULF's

records to UofL’s. The next section presents a consolidated picture of ULF’s support for the university to support this assertion.

### 3. Diminishing Reliance on ULF Contributions

ULF provides financial support to UofL in two important ways. First, ULF allocates a portion of its endowment earnings to academic programs, university advancement, and administrative support for the institution. Second, ULF receives gifts that are generally immediately available to UofL.

Total financial support from the ULF’s financial statements to the university’s has actually declined in recent years. Table 2 shows that ULF support—whether posted to ULF or UofL—peaked in FY 2014 at \$107 million before declining to \$78 million by FY 2016. As a percent of the university’s operating expenses less depreciation and amortization, ULF’s support has dropped from almost 12 percent to about 8 percent over that period.

**Table 2: UofL Relying Less on ULF Support**

<i>\$ in Thousands</i>	FY12	FY13	FY14	FY15	FY16
Gift & Endowment-supported Expense Recorded on UofL Statements <sup>(1)</sup>	\$ 6,623	\$ 2,895	\$ 11,026	\$ 64,756	\$ 73,522
UofL Operating Expense Recorded on ULF Statements	67,071	77,938	96,392	24,720	4,522
Total ULF Operating Expense Support	\$ 73,694	\$ 80,833	\$107,418	\$ 89,476	\$ 78,044
ULF Support as % of UofL Operating Expense less Depr. & Amort.	8.8%	9.2%	11.8%	9.6%	8.1%

Source: University of Louisville and Affiliated Corporations Auditor's Report and Financial Statements, Fiscal Years 2012 - 2016; University of Louisville Foundation, Inc. and Affiliates Independent Auditor's Report and Consolidated Financial Statements, Fiscal Years 2012-2016; Internal reports

<sup>(1)</sup> Corresponds with Contributions from ULF line item in UofL audited financial statements FY12-FY15. In FY16, ULF “pre-funded” the Spending Policy contributions with two payments in July and January. Of the \$93.5 million contributions received and recorded as other revenue by UofL, \$20 million was not spent by the end of FY16. Therefore, only the \$73 million spent during the year appears on this line.

Table 3 shows the market value of endowments held by the ULF and the percentage of the endowment allocated to the university each year. Allocations to the university have declined every year since FY 2016. For FY 2018, total spending policy allocations from endowments are \$31 million. The decline from FY 2017 is due, in part, to the ULF board recalculating the endowment base from which the spending policy is calculated. The most notable change was the exclusion of carryover funds. The decline in spending policy from FY 2017 to FY 2018 was also due to a reduction in the total spending policy rate, from 7.48 percent to 5.51 percent. The lower rate represents, according to the ULF board, a sustainable allocation of resources.

**Table 3: Endowment Market Value and Allocations to the University, FY 2012 to FY 2018**

<i>\$ in Millions</i>	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Total Endowment Base <sup>(1)</sup>	\$ 669	\$ 668	\$ 682	\$ 703	\$ 731	\$ 715	\$ 698
Endowment Program Spending Allocation	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	4.09%
Advancement Spending Allocation	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.25%
President Initiative Spending Allocation	0.48%	0.48%	0.48%	0.48%	0.48%	0.48%	0.17%
Total Spend Policy Rate <sup>(2)</sup>	7.48%	7.48%	7.48%	7.48%	7.48%	7.48%	5.51%
Spend Policy Allocation <sup>(3)</sup>	\$ 49	\$ 48	\$ 46	\$ 52	\$ 53	\$ 44	\$ 31

<sup>(1)</sup> Calculated as the rolling 3 year average of endowment assets as of December 31 invested more than one year, less underwater endowments and funds with less than \$10k.

<sup>(2)</sup> As approved annually by the ULF Board of Directors.

<sup>(3)</sup> The Spend Policy allocation is typically slightly lower than the endowment base multiplied by the spend policy rate because some underwater endowments are included in the base but have a reduced spend policy rate.

#### **4. UofL Remains Financially Strong**

The University of Louisville is a metropolitan, research university with an annual operating budget of more than \$1.2 billion and a strong balance sheet. The following metrics highlight a few of these strengths.

### *Cash Balances*

- UofL has sufficient liquid resources to meet its near-term needs. As shown in Table 4, total cash and cash equivalents have increased from \$95.7 million in FY 2014 to \$151.8 million in FY 2016.

**Table 4: Total Cash Balances**

<i>\$ in Thousands</i>	FY12	FY13	FY14	FY15	FY16
Cash and Cash Equivalents	\$110,330	\$ 93,810	\$ 75,876	\$132,014	\$123,803
Restricted Cash and Cash Equivalents	66,131	54,243	19,804	17,028	28,046
Total Cash and Cash Equivalents	\$176,461	\$148,053	\$ 95,680	\$149,042	\$151,849

Source: UofL audited financial statements

### *Ratio of Assets to Liabilities*

- Table 5 shows the university's ability to satisfy short-term obligations with liquid assets.

**Table 5: Ratio of Assets to Liabilities**

<i>\$ in Thousands</i>	FY12	FY13	FY14	FY15	FY16
Current Assets	\$196,346	\$182,293	\$194,306	\$239,699	\$232,242
Current Liabilities	153,398	179,360	179,620	174,602	187,106
Current Ratio (C. Assets / C. Liabilities)	1.28x	1.02x	1.08x	1.37x	1.24x

Source: UofL audited financial statements

### *Debt Ratio*

- UofL has manageable total debt levels and annual obligations relative to the size of its operations. Moody's Investor Services calculates median debt to cashflow, a measure of the average number of years of operations required to repay all indebtedness, as 4.4 years

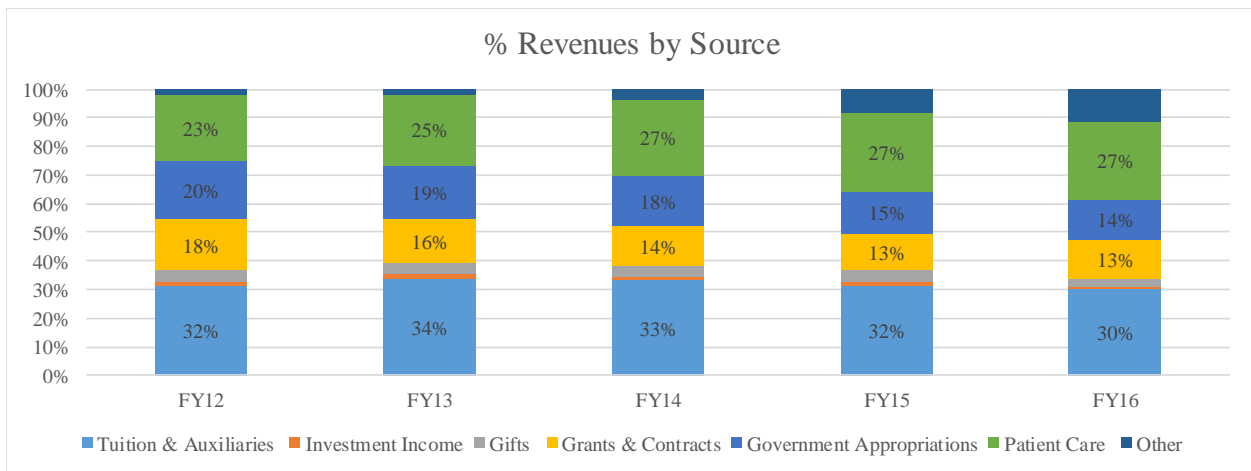
for comprehensive public universities as of June 30, 2016. Moody’s calculates UofL’s ratio as 4.2 years as of the same date. [6]

- Nearly two-thirds of the university’s outstanding debt balances on June 30, 2016, were specific to and serviced by auxiliaries or other revenue-producing departments.

*Diverse Sources of Funds*

- UofL benefits from diversified revenue streams. As Table 6 shows, no single source accounted for more than 34 percent of revenues from FY 2012 to FY 2016. According to Moody’s Investor Services, as of June 30, 2016, the median comprehensive research university derived 39 percent of all revenues from tuition and auxiliaries [7]. At UofL, 30 percent of revenues come from tuition and auxiliaries. Diversity in revenues provides financial insulation from unanticipated changes in any one source of funds.

**Table 6: Sources of Funds, University of Louisville**



Source: UofL’s audited financial statements



### *Bond Ratings*

- UofL is assigned A1 underlying and AA- investment grade ratings by Moody's and Standard & Poors, respectively. Moody's rating review was released on November 22, 2016 [8]. S&P's rating review was released on December 2, 2016 [9]. Both ratings indicate that debt issued by the university have relatively low levels of default risk.

### *Financial Independence of Athletics and Combined Auxiliary Operations*

- UofL's intercollegiate athletics program and combined auxiliary operations, in total, are self-supporting.
- Table 7 shows financial information for the University of Louisville Athletic Association (ULAA).
- Table 8 shows auxiliary information.

**Table 7: ULAA Financial Summary, FY 2012 to FY 2016**

<i>\$ in Thousands</i>	FY12	FY13	FY14	FY15	FY16
Operating Revenues	\$ 41,984	\$ 45,878	\$ 52,166	\$ 66,072	\$ 71,335
Gifts	27,971	30,306	29,043	28,567	28,928
Transfers	5,031	141	6,628	1,008	(902)
Non-Operating Revenues/(Expenses)	(1,938)	1,656	2,768	(2,001)	(4,574)
Operating Expenses	(67,530)	(76,158)	(82,462)	(88,504)	(94,792)
Operating Surplus (Deficit)	\$ 5,518	\$ 1,823	\$ 8,143	\$ 5,142	\$ (5)

Revenues and Expenses above exclude depreciation, interest on capital asset-related debt, and capital gifts  
Source: UofL audited financial statements.

**Table 8: Auxiliaries Financial Summary, FY 2012 to FY 2016**

<i>\$ in Thousands</i>	FY12	FY13	FY14	FY15	FY16
Operating Revenues net of discounts	\$ 12,179	\$ 13,384	\$ 13,007	\$ 12,618	\$ 10,946
Operating Expenses	8,363	8,045	7,860	8,588	7,912
Operating Surplus (Deficit)	\$ 3,816	\$ 5,339	\$ 5,147	\$ 4,030	\$ 3,034

Source: UofL audited financial statements.

## **5. Ongoing Actions to Ensure Financial Stability**

A review of the university's FY 2017 revenues and expenses (all funds) in January 2017 determined that revenues and expenditures were not aligned. The university immediately implemented steps to ensure a balanced year-end for FY 2017. Among other actions, academic and support unit budgets were reduced and a managed hiring process was implemented. In March 2017, the UofL Board of Trustees adopted a comprehensive financial reporting policy [10] to support financial decision-making.

Development of the FY 2018 budget preserved many of these changes. While the general fund budget includes a reserve of \$8.6 million for potential, unanticipated needs, the university has established a revenue growth and expenditure reduction plan to ensure continued financial stability.

Financial health is a strategic goal outlined in the university's strategic planning by way of the university's *21<sup>st</sup> Century Initiative* (2012) [11]. Strategies within this goal include promoting stewardship and accountability, fostering efficiency, and increasing resource management. For example, revenue growth in FY 2018 will include new tuition revenues from an additional

academic (winter) term as well as expanded online course offerings. On the expenditure side, the university implemented a plan to achieve organizational efficiencies via shared business centers and is capitalizing on economies of scale in its procurement purchases. UofL continues to improve its financial management policies and practices. Monthly departmental financial reporting and analyses have been enhanced for the purpose of assessing the university's financial standing in real time.

The FY 2017-18 Operating Budget for the University of Louisville, which was approved by the Board of Trustees on June 15, 2017 [12] [13], represents a structurally sound budget. Table 9 summarizes the university's 2017-18 operating budget by entity.

**Table 9: UofL FY17-18 Operating Budget by Entity**

<b>Budget by Entity</b>	<b>FY 2017 Budget</b>	<b>FY 2018 Budget</b>	<b>FY 17-18 Change *</b>
Total UofL General Funds Budget	\$548,339,500	\$504,858,900	(\$43,480,600)
University of Louisville Research Foundation, Inc.	482,780,500	539,027,600	56,247,100
University of Louisville Athletic Association, Inc. *	96,400,000	104,505,900	8,105,900
University of Louisville Foundation, Inc.	149,274,800	67,880,900	(81,393,900)
Quality and Charity Care Trust	2,500,000	0	(2,500,000)
<b>Total UofL Budget</b>	<b>\$1,279,294,800</b>	<b>\$1,216,273,300</b>	<b>(\$63,021,500)</b>

\* Only includes amounts anticipated to be transferred to the university.

## 6. Positive Student Outcomes and Enrollment Outlook

The university continues to provide a strong educational and student experience as signaled by the following metrics:

- Continued increases in entering freshmen class size, which shows continued demand by students for a degree from UofL as shown in Table 10.

**Table 10: First-time Student Profile for Fall 2010 through Fall 2016  
(full-time, baccalaureate degree-seeking students)**

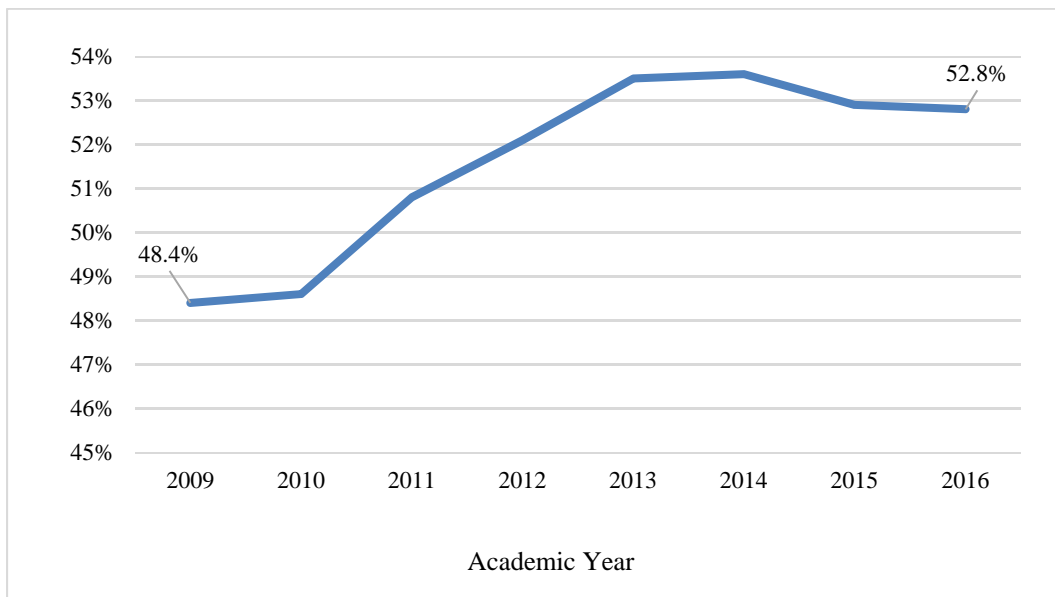
Year	Student Count	Average High School GPA	Average ACT	Jefferson County	Other Kentucky Counties
2010	2,512	3.5	24.4	39%	44%
2011	2,511	3.5	24.7	37%	47%
2012	2,654	3.5	25.0	40%	43%
2013	2,805	3.5	25.2	38%	46%
2014	2,830	3.6	25.3	41%	41%
2015	2,708	3.7	25.5	37%	45%
2016	2,744	3.6	25.5	37%	44%

Source: UofL Office of Institutional Research and Planning

- The university has produced more Fulbright Students than all other Kentucky public universities combined (109 from 2003-2017).
- The university graduated 5,152 students in FY16-17, of which more than 18 percent were minority students and 14.3 percent were first-generation college students.
- The university's six-year graduation rate has increased significantly since AY 2009, as shown in Figure A.

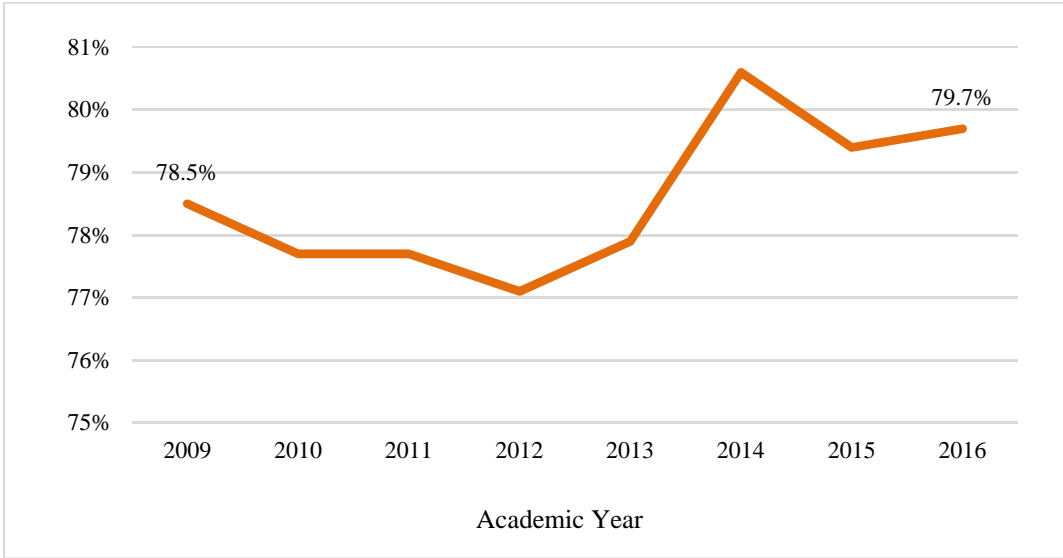
- The university's first-year student retention rates remain strong at 79.7 percent, as shown in Figure B.
- University resident student halls operate at full capacity. The university continues to develop private-public partnerships to handle increased student demand for housing on and near campus.
- In FY 2017, created the university's first vice provost for strategic enrollment management and student success position who is implementing a recruitment and retention plan that is expected to lead to an increase in enrollment by Fall 2018.

**Figure A: Six-year Graduation Rates**



Source: UofL Office of Institutional Research and Planning

**Figure B: First-year Retention Rates**



Source: UofL Office of Institutional Research and Planning

**7. Summary**

The University of Louisville has a consistent trend of financial health and stability that supports the university mission and the scope of its programs and services. UofL ended FY 2015 and FY 2016 with surpluses of \$43.8 million and \$47.9 million, respectively. The primary difference to the amounts included in the SACSCOC compliance assessment is the exclusion of contributions from the University of Louisville Foundation. Once those resources are included—which is consistent with the university’s audited financial statements—it becomes apparent that the University of Louisville maintains a strong financial position. The outlook for FY 2017 is also positive, but final audited financial statements will not be available until early October.

Contributions from ULF to UofL increased from FY 2012 to FY 2016 mainly due to changes in accounting practice and not from an increase in the university's reliance on ULF funding. The university's reliance on financial support from ULF has declined from 11.8 percent in FY 2014 to 8.1 percent in FY 2016. Instead of growing more dependent on the Foundation, the university continues to successfully develop alternative revenue streams and diversify its sources of funds.

The University of Louisville has also taken proactive steps that will ensure short- and long-term financial stability. In addition, an experienced team of financial and administrative professionals, led by a president and Board of Trustees committed to transparency and the accomplishment of the university's mission to be a premiere metropolitan research university, is working diligently to ensure that the university remains a strong and viable institution of learning, research, and community service.

As a university community, we remain optimistic about our future. Talented, motivated, and diverse students, faculty and staff continue to call the University of Louisville home. Enrollment is stable and will likely increase in the near-term as the university deploys more resources to its recruitment and student success operations. First-year retention rates remain near 80 percent and the six-year graduation rates continues to show improvement. The University of Louisville is home to thousands of great people whose innovation, inspiration, and vision positively affect their lives and the lives of the broader community.

- [1] UofL Audited Financial Statement 2011-12  
3\_10\_1\_fn01.pdf
- [2] UofL Audited Financial Statement 2012-13  
3\_10\_1\_fn02.pdf
- [3] UofL Audited Financial Statement 2013-14  
3\_10\_1\_fn03.pdf
- [4] UofL Audited Financial Statement 2014-15  
3\_10\_1\_fn04.pdf
- [5] UofL Audited Financial Statement 2015-16  
3\_10\_1\_fn05.pdf
- [6] Moody's Investor Service—Global Higher Education Scorecard (UofL)  
3\_10\_1\_fn06.pdf
- [7] Moody's Investor Service—Appendix C—Comprehensive Public Universities: Contribution Ratios  
3\_10\_1\_fn07.pdf
- [8] Moody's Investor Service—Credit Opinion (UofL)  
3\_10\_1\_fn08.pdf
- [9] S&P Rating Report, December 2016 (UofL)  
3\_10\_1\_fn09.pdf
- [10] UofL Financial Transaction Policy  
3\_10\_1\_fn10.pdf
- [11] UofL 21<sup>st</sup> Century Initiative, Financial Health  
3\_10\_1\_fn11.pdf
- [12] FY 2017-18 Operating Budget  
3\_10\_1\_fn12.pdf
- [13] Board of Trustees Minutes, June 15, 2017, Approval of FY 2017-18 Operating Budget  
3\_10\_1\_fn13.pdf