



**The University of
Louisville Foundation:
New Reforms Pave Way
for a Sustainable Future**

November 1, 2017
Faculty Senate



UNIVERSITY *of* LOUISVILLE
FOUNDATION

Introduction



Keith Sherman

*Interim Executive Director &
Chief Operating Officer
UofL Foundation*

Career

- Thorntons Inc
- American Red Cross
- Entrepreneur
- Kindred Healthcare
- Boston University School of Law
- University of Massachusetts Amherst

University of Louisville Foundation

The UofL Foundation is a not-for-profit organization whose work is exclusively for the charitable and educational purposes of the University of Louisville.

**Separate institution, separate board, and
separate governance from UofL.**

University of Louisville Foundation Mission:

To advance academics at the University by providing financial support.

- The ULF ensures a reliable source of funds for current & future use.
- The endowment has two additional missions:
 1. The purchasing power of the endowment's assets must be maintained in perpetuity; and
 2. The endowment must achieve investment returns sufficient to sustain reasonable spending necessary to support ongoing University operations.

884 Days of Intense Scrutiny

- The Board of Trustees requested a state audit and forensic investigation of the Foundation after questionable financial practices and lack of transparency.
- **The State Audit:** Final report issued in December 2016 identifying 7 key governance issues and 14 recommendations.
- **The Forensic Investigation:** In June 2017, Alvarez & Marsal identified 5 key financial issues and 13 recommendations.

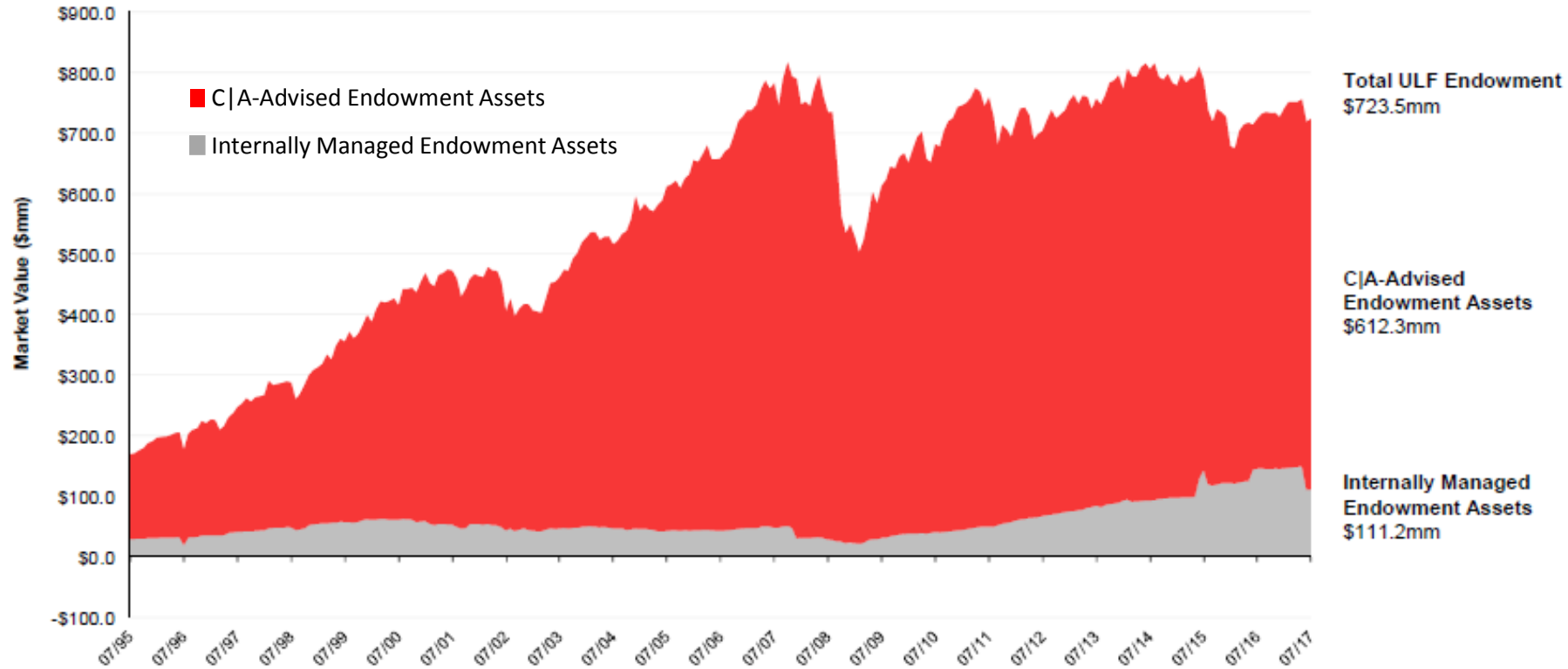
RESULTS: As of this moment, the Foundation has addressed all but one issue identified by the State Auditor and the Forensic Investigators.

Lessons From the Red Cross

“I have an almost complete disregard of precedent, and a faith in the possibility of something better. It irritates me to be told how things have always been done. I defy the tyranny of precedent. I go for anything new that might improve the past.”

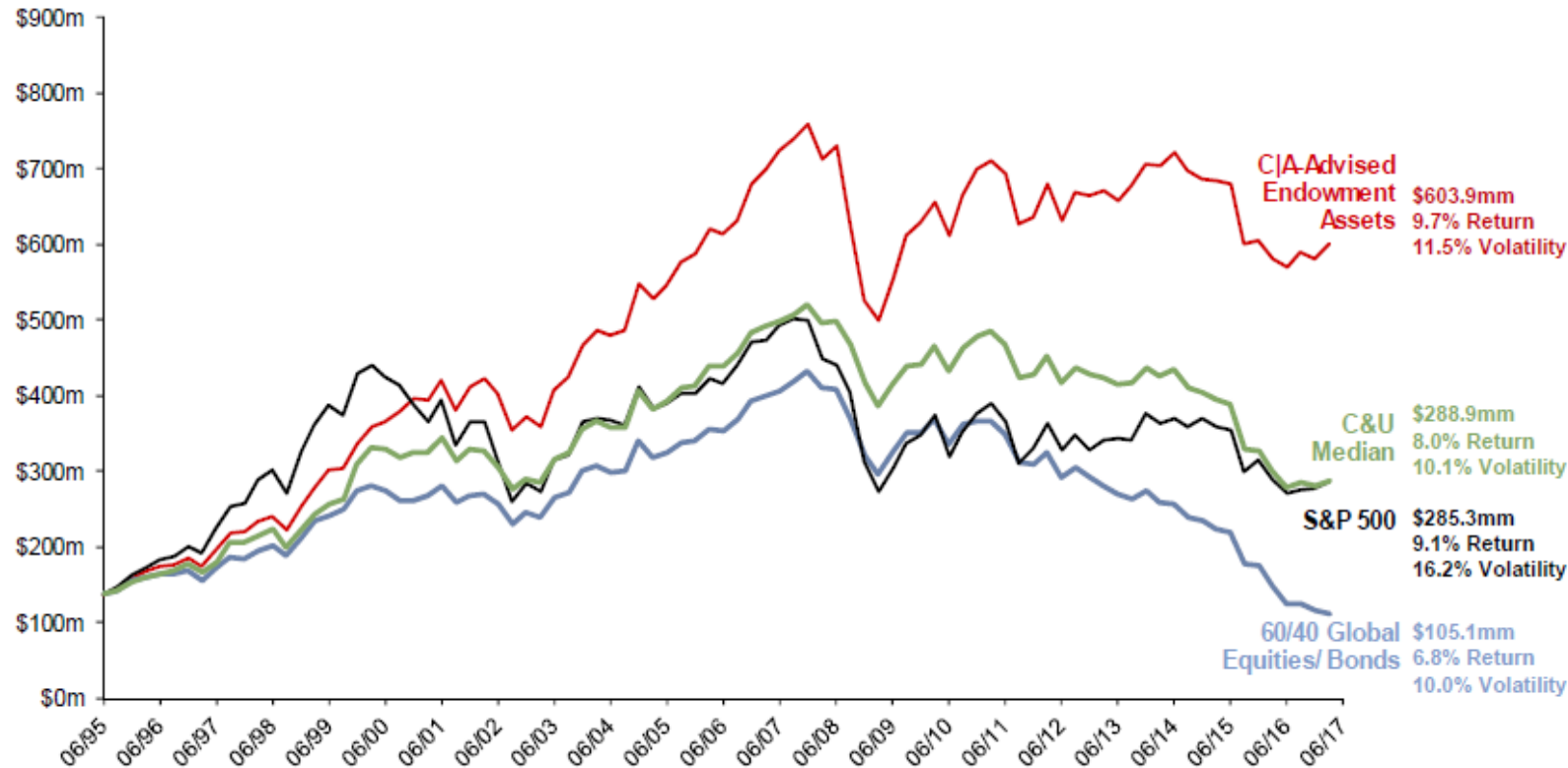
— *Clara Barton, The Story Of My Childhood*

ULF Total Endowment (\$mm) - July 31, 2017



Notes: As of July 31, 2017. Values may not match performance report due to updated return data. "Internally Managed Endowment Assets" include Community Park Investments \$13.6mm, Individual Investments \$1.5mm, Louisville Trust \$24.1mm, Mohr Endowment \$0.2mm, PNC Schoen \$2.5mm, UHI Line of Credit \$11.1mm, ULREF \$23.2mm, Osher Fund \$1.1mm, Jean Frazier Fund \$2.2mm, and Funds Held in Trust By Others \$31.7mm. In 2015, at the request of the Foundation, the following items were added to "Internally Managed Endowment Assets" with "Total ULF Endowment Assets". Date added below the line (i.e. included in Total ULF Endowment Assets composite) and starting market value shown in (): Osher Fund (6/30/2015, \$0.9mm), Funds Held in Trust By Others (6/30/2015, \$30.4mm), Community Park Investments (7/31/2015, \$13.4mm), Jean Frazier Fund (11/1/2015, \$2.0mm), and ULREF (1/31/2016, \$8.1mm). PNC Schoen was previously included in the C|A-Advised Endowment Assets composite, but moved below the line into "Internally Managed Endowment Assets" as of August 31, 2015 (\$2.3mm).

Since 1995 record vs. S&P 500: +\$319mm, through June 30, 2017



Analysis compares the C|A-Advised Endowment Assets' ending market value as of June 30, 2017 versus where it would be had it invested in the S&P 500 (black, -\$319mm), a simple 60%global equities/40% bonds portfolio (blue, -\$499mm), and as the C|A college & university median (green, -\$315mm) with the same spending, gifts, and other cash flows.

Notes: Calculations based on quarterly data as of June 30, 2017. 'C&U Median' through June 30, 2017 shown here is representative of all colleges and universities reporting quarterly data from 6/30/1995 through 6/30/2017. 'C&U Median' return stream is proxied with the return stream of the institution with the median AACR over the full time period. Return stream is then applied to ULF starting market value as of 6/30/1995, incorporating ULF spending, gifts, and other cash flows going forward. 60/40 Global Equities/Bonds is representative of 60% MSCI ACWI/40%Bloomberg Barclays Aggregate Bond Index.

New Board, New Ways

- The Foundation has implemented best practices & reforms to restore donor and stakeholder confidence.
- New board and committee governance:
 - The Foundation
 - The Real Estate Foundation
 - University of Louisville (Board of Trustees)
 - Special Committee to address the A&M report and potential litigation

RESULTS: New leadership from top to bottom has put fresh eyes and innovative solutions at the forefront for the University of Louisville Foundation.

Transformative Reforms: Governance

- Entirely New Foundation Board with Clear, Formal Orientation
- Revised Bylaws
- UofL President cannot be President of Foundation
- Comply with open records in timely manner (transparency)
- New Independent Executive
- Specific Board Resolutions

Transformative Reforms: Governance, cont.

- Established compliance process to ensure funding to University is consistent with donor intent.
- More robust conflict of interest policy.
- Changed auditors and law firms.

Results: Professionalized Foundation operations means greater transparency, financial, and institutional controls.

Transformative Reforms: Financial

- Stopped unsustainable spending
- The Foundation no longer compensates UofL employees
- Ended deferred compensation plan
- No more “tax gross up” payments to staff
- Developed first ever line-item budget
- Tightened policies on potential investing in start-up companies
- Review all real estate holdings, determine value; some will be sold

Transformative Reforms: Financial, cont.

- Set spending limits with authorization protocols
- Endowment pool simplified; better annual funding prediction
- Transactions must be fully documented, vetted and Board authorized
- Future transactions with Athletics Department now “arms length”

RESULTS: We now have full transparency into all money in, all money out, and accurate look at total endowment value. We no longer overspend. All financial decisions are based on full information.

Key Transformative Reforms: Management

- Moved from quarterly to monthly board meetings
- New board members undergo extensive orientation
- Updating ULF website to share public information, 990s, etc.
- Establish Memorandum of Understanding with University
- Board members must disclose investments/interests in ULF start-up companies

RESULTS: The Foundation has turned the corner in operations, instilling greater confidence in donors and community stakeholders.

KEY ISSUE:

Memorandum of Understanding

Purpose: To memorialize the roles and responsibilities of and between the University of Louisville and ULF.

- We now have a renewed constructive, symbiotic relationship between the institutions.
- Reporting and communications requirements established.
- Effective framework to ensure that past problems are not repeated.
- New compliance reporting process to ensure money is only spent consistent with donor intent.

New Day, New Direction at UL Foundation

The Foundation has taken actions to address, through policy, MOU and practice, every issue raised by the State Audit and A&M investigation (except creating an internal audit function).

It has also instituted reforms that go beyond those reports which are consistent with current University Foundation best practices.

The Foundation is unrecognizable from previous practices, and that is a good thing. These robust reforms will lead to a sustainable future for the Foundation and the advancement of University of Louisville academics.

Spending Policy 2017-2018

- 4.09% to academic units
- Funded from available carryover
- Underwater exception for this year
- Carryover exceptions this year

QUESTIONS?
