

MINUTES OF THE MEETING OF THE
FINANCE COMMITTEE OF THE
BOARD OF TRUSTEES OF THE UNIVERSITY OF LOUISVILLE

September 23, 2022

In Open Session

Members of the Finance Committee of the University of Louisville Board of Trustees met on September 23, 2022, in the Jefferson Room, Grawemeyer Hall, Belknap Campus, at 3:01 p.m. with members present and absent as follows:

Present: Ms. Diane Medley, Chair
Dr. Raymond Burse
Mr. Scott Brinkman
Mr. Dorian Brown
Dr. Eugene Mueller

Other Trustees

Present: Mr. Jerry Abramson
Dr. Larry Benz
Mr. Al Cornish
Ms. Mary Nixon
Ms. Diane Porter
Mr. Jim Rogers
Mr. John Smith
Ms. Sherrill Zimmerman

From the

University: Dr. Lori Gonzalez, Interim President
Dr. Gerry Bradley, Interim Provost
Dr. Kevin Gardner, Executive Vice President for Research and Innovation
Mr. Dan Durbin, Executive Vice President for Finance and Administration
Dr. Gail DePuy, Interim Senior Vice Provost
Ms. Angela Curry, General Counsel and Vice President for Legal Affairs
Ms. Sandy Russell, Vice President for Risk, Audit, and Compliance
Ms. Mary Elizabeth Miles, Vice President for Human Resources
Ms. Mariana Barzun, Co-Interim Vice President for University Advancement
Ms. Julie Dials, Co-Interim Vice President for University Advancement
Dr. Michael Mardis, Vice President for Student Affairs, Dean of Students
Mr. John Drees, Sr. Assoc. Vice President for Communications & Marketing
Ms. Shannon Rickett, Assoc. Vice President for Government Relations
Mr. Rick Graycarek, Assistant Vice President for Budget and Finance
Dr. Cherie Dawson-Edwards, Vice Provost for Faculty Affairs
Dr. Paul DeMarco, Vice Provost for Graduate Affairs
Ms. Melanie Jacobs, Dean, Brandeis School of Law

Dr. Margaret Hill, Interim Dean, School of Dentistry
Mr. John Karman, Executive Director of Communications
Mr. Jeff Spoelker, Associate Athletic Director of Finance
Ms. Beverly Santamouris, Treasurer
Ms. Sarah Lopez, Deputy Chief of Staff, Provost's Office
Mr. Chris Wooton, Director of Internal Communications
Ms. Kim Adams, Chief Information Security Officer
Ms. Jennifer Mudd, Director of Integrity and Compliance
Ms. Stacie McCutcheon, Privacy Officer
Ms. Melissa Brown, Youth Protection Officer
Mr. Jerry Johnson, Chief of Staff, HSC Finance & Administration
Ms. Leslie Harper, Program Approval and Review Coordinator
Lt. Col. Jessica Murnock, Deputy Chief of Staff
Mr. Jake Beamer, Dir. of Governance & Strategic Initiatives & Asst. Secretary

I. Call to Order

Ms. Medley called the roll. Having determined a quorum present, she called the meeting to order at 3:01 p.m.

Approval of Minutes, 6-23-2022

Mr. Brown made a motion, which Mr. Brinkman seconded, to approve the minutes of the June 23, 2022, meeting.

The motion passed.

II. Action Item: Approval of Schneider Hall HVAC Replacement

Executive VP Durbin briefed the committee on a recommendation to replace the HVAC system and begin remediation procedures at Schneider Hall. He explained that an issue was discovered in the basement involving the air quality and the HVAC system. Preventative measures were initiated to temporarily handle the humidity and air quality issues in the building. The HVAC system was evaluated, and it was determined that the system is past its expected life and needs replacement. Replacement of the HVAC system will remedy the current humidity issues, but the HVAC system will need to be ordered as soon as possible because of market constraints on materials.

Mr. Brinkman made a motion, which Dr. Burse seconded to approve the

President's recommendation that the Board of Trustees approve the replacement of the HVAC system and the implementation of remediation procedures in Schneider Hall at a cost of \$1.65M and funded by the Asset Preservation budget provided by the 2022 General Assembly in House Bill 1.

The motion passed.

III. Report of the Executive Vice President for Finance & Administration

CFO Durbin shared the university's FY2022 draft financial results, using the **attached** presentation. It included the financial statement audit that is underway; a summary of revenues, expenses, and changes in net position; revenue and expense extraordinary items; statement of net position; days of cash on hand; and investment summaries.

He then fielded questions from the committee. The chair thanked Mr. Durbin for his update.

IV. Adjournment

Having no other business to come before the committee, Dr. Mueller made a motion, which Mr. Brinkman seconded, to adjourn.

The motion passed and the meeting adjourned at 3:21 p.m.

Approved by:


Signature on file _____
Assistant Secretary

RECOMMENDATION TO THE
UNIVERSITY OF LOUISVILLE BOARD OF TRUSTEES
REGARDING THE SCHNEIDER HALL HVAC REPLACEMENT

Finance Committee – September 23, 2022
Executive & Compensation Committee – September 23, 2022

RECOMMENDATION:

The president recommends that the Board of Trustees approve the replacement of the HVAC system and the implementation of remediation procedures in Schneider Hall at a cost of \$1.65M and funded by the Asset Preservation budget provided by the 2022 General Assembly in House Bill 1.

BACKGROUND:

Schneider Hall is located at 2300 S. First Street Walk on Belknap Campus. It was constructed in 1957 and houses the Fine Arts program. Exterior gross square footage of the building is 66,422 sq. ft. and consists of offices, open laboratories, a library, and classrooms.

In August 2022, an issue was discovered in the basement involving the air quality and the HVAC system. Preventative measures were initiated to temporarily handle the humidity and air quality issues in the building. The HVAC system was evaluated, and it was determined that the system is past its expected life and needs replacement. Replacement of the HVAC system will remedy the current humidity issues. The HVAC system will need to be ordered as soon as possible because of market constraints on materials.

Projected Construction Start Date: September 2022
Projected Construction Completion Date: August 2024

Authorization for the project will be requested from the Council on Postsecondary Education and the Capital Project and Bond Oversight Committee once the project is authorized by the University of Louisville Board of Trustees.

COMMITTEE ACTION:

Passed _____ X _____
Did Not Pass _____
Other _____

Signature on file
Assistant Secretary

BOARD ACTION:

Passed _____ X _____
Did Not Pass _____
Other _____

Signature on file
Assistant Secretary



FY2022 DRAFT Financial Results

September 23, 2022

Highlights of FY22 Financial Statements

- **The Audit**

- *Financial statement audit underway*
- *Adoption of lease accounting: Significant increase in assets and liabilities*
 - Recognition of right to use assets and lease payable for lessee transactions
 - Recognition of receivable and deferred inflow for lessor transactions
 - Required restatement of FY 2021 results
- *Single audit (Federal Compliance) to be released at a later date due to extensive review of lease accounting implementation*

- **Key Points**

- *DRAFT results presented - pending final audit results*
- *Accrual based: Reflects commitments and measures economic value*
- *Ended with positive margin (revenues exceeded expenses) = balanced budget overall*
- *Heavily influenced by extraordinary items:*
 - Health system mission support distribution
 - ULAA (Athletics) one-time activities
 - Capital-related activity
 - CARES/HEERF funds utilized for lost revenue replacement
- *Balance Sheet continues to improve (liquidity and unrestricted net position increased)*
- *More in-depth analysis will be presented upon issuance of final statements*

Summary of Revenues, Expenses, and Changes in Net Position

Fiscal Years Ending June 30, 2022 and 2021 (in thousands) DRAFT

	FY 2022	Restated FY 2021	\$ Diff	% Diff
REVENUES				
Student tuition and fees, net	\$ 240,060	\$ 231,505	\$ 8,555	3.7%
Clinical services and practice plan	404,628	388,069	16,559	4.3%
State appropriations	131,725	125,420	6,305	5.0%
Grants and contracts	214,086	183,501	30,585	16.7%
Facilities & administrative	38,714	32,434	6,280	19.4%
Intercollegiate athletics	96,940	62,241	34,699	55.7%
Affiliate contributions, net	44,481	42,412	2,069	4.9%
Capital appropriations & gifts	9,798	8,902	896	10.1%
Other revenue	63,948	48,646	15,303	31.5%
Total Revenue	1,244,380	1,123,130	121,251	10.8%
EXPENSES				
Salaries and wages	551,292	525,613	25,679	4.9%
Employee benefits	142,861	119,396	23,465	19.7%
Utilities	23,397	21,987	1,410	6.4%
Scholarships and fellowships	62,758	39,623	23,135	58.4%
Depreciation and amortization	56,365	57,780	(1,415)	(2.4%)
Supplies and services	359,244	287,933	71,311	24.8%
Total Expenses	1,195,917	1,052,332	143,585	13.6%
Increase/(decrease) in net position	48,463	70,798	(22,334)	(31.5%)

Significant Revenue Fluctuations:

- Student tuition and fee revenue: Increase due to 1.75% rate increase.
- Grant revenue: Continued growth in grant activities, including CARES funding year-over-year, \$4.9 million additional in FY22 versus FY21.
- F&A cost recoveries: Increase related to increased grant activity.
- Intercollegiate athletics: Increase in FY22 due to release of COVID capacity restrictions and game cancellations for the football and men's basketball seasons in FY21.
- Other revenue increased primarily due to increases in auxiliary as campus was back to full capacity and gift & donations for athletics.

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Significant Expense Fluctuations:

- Salaries increased primarily due to 1% COLA adjustment, increased hiring, and payout of former head basketball coach.
- Employee benefits increased due to the university reinstating the full 7.5% 403b contribution in FY22 and increased hiring.
- Scholarships increased due to HEERF (CARES) and other financial aid grants to students given during the Fall 2021 and Spring 2022 semesters.
- The increase in supplies and services expense is generally driven by normal return to campus activities vs. COVID restrictions in FY21. Operational expenditures have risen partially in response to purchases delayed from prior year and increased campus activity.

Revenue and Expense Extraordinary Items

YTD Period Ended June 30, 2022

(in thousands)

	<u>FY 2022</u>	
Consolidated Change in Net Position	48,463	
Extraordinary items impacting Net Position:		
Capital Revenues	(9,798)	Revenues restricted to capital activities (e.g. buildings)
UL Health Additional Mission Support	(22,969)	Recognized in FY 22 but actually paid over 3 years
Impact of Lease Accounting Standard Adoption	(2,177)	All accrual based - no cash impact
Men's Basketball Coach Buy-out	4,705	Recognition of full cost but paid over multiple years
Timing on Crum Hall Revenues & Expenses	4,625	Gifts collected in FY21 to meet FY22 obligations
CARES Lost Revenue Replacement	(18,271)	Revenue replacement dollars for auxiliary functions and lost tuition revenues
Normalized FY 2022 Margin	4,578	

Statement of Net Position (Balance Sheet)

Years Ended June 30, 2022 & 2021 (in Thousands) DRAFT

	Restated			
	FY 2022	FY 2021	Difference	Percent
ASSETS				
Unrestricted cash and cash equivalents	\$ 219,375	\$ 206,674	\$ 12,701	6 %
Restricted cash and cash equivalents	26,804	55,964	(29,160)	(52)%
Accounts receivable, net	832,430	837,263	(4,833)	(1)%
Due from affiliates	62,505	65,450	(2,945)	(4)%
Other investments	113,053	53,458	59,595	111 %
Other assets	15,744	17,627	(1,883)	(11)%
Right to use asset	57,283	62,896	(5,613)	(9)%
Capital assets, net	1,061,846	1,069,819	(7,973)	(1)%
Total assets	2,389,040	2,369,151	19,889	1 %
DEFERRED OUTFLOWS OF RESOURCES				
	19,129	17,305	1,824	11 %
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	\$ 2,408,169	\$ 2,386,456	\$ 21,713	1 %
LIABILITIES				
Accounts payable and accrued liabilities	111,604	116,291	(4,687)	(4)%
Advances	47,964	57,436	(9,472)	(16)%
Line of credit	9,000	9,000	-	- %
Bonds and notes payable	367,342	372,305	(4,964)	(1)%
Amounts due to federal govt for student loans	16,335	17,311	(976)	(6)%
Other post-retirement benefits	85,940	80,238	5,702	7 %
Other liabilities	4,814	7,187	(2,373)	(33)%
Total liabilities	642,998	659,768	(16,770)	(3)%
DEFERRED INFLOWS OF RESOURCES				
	730,463	740,444	(9,981)	(1)%
NET POSITION				
	\$ 1,034,707	\$ 986,244	\$ 48,464	5 %
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
	\$ 2,408,169	\$ 2,386,456	\$ 21,713	1 %

Significant Balance Sheet Fluctuations:

Assets:

- Total Assets increased by \$21 million.
- Unrestricted Cash and investments increased by nearly \$72 million but includes \$10.3 million from FICA tax deferrals to be paid back in December 2022.
- Restricted Cash decreased from use of bond funds to construct new residence hall - planned & normal.
- Accounts receivable now includes increase of \$690 million in both years for lease accounting.
- Right to use asset represents future usage of leased assets (now required under new lease accounting standards).

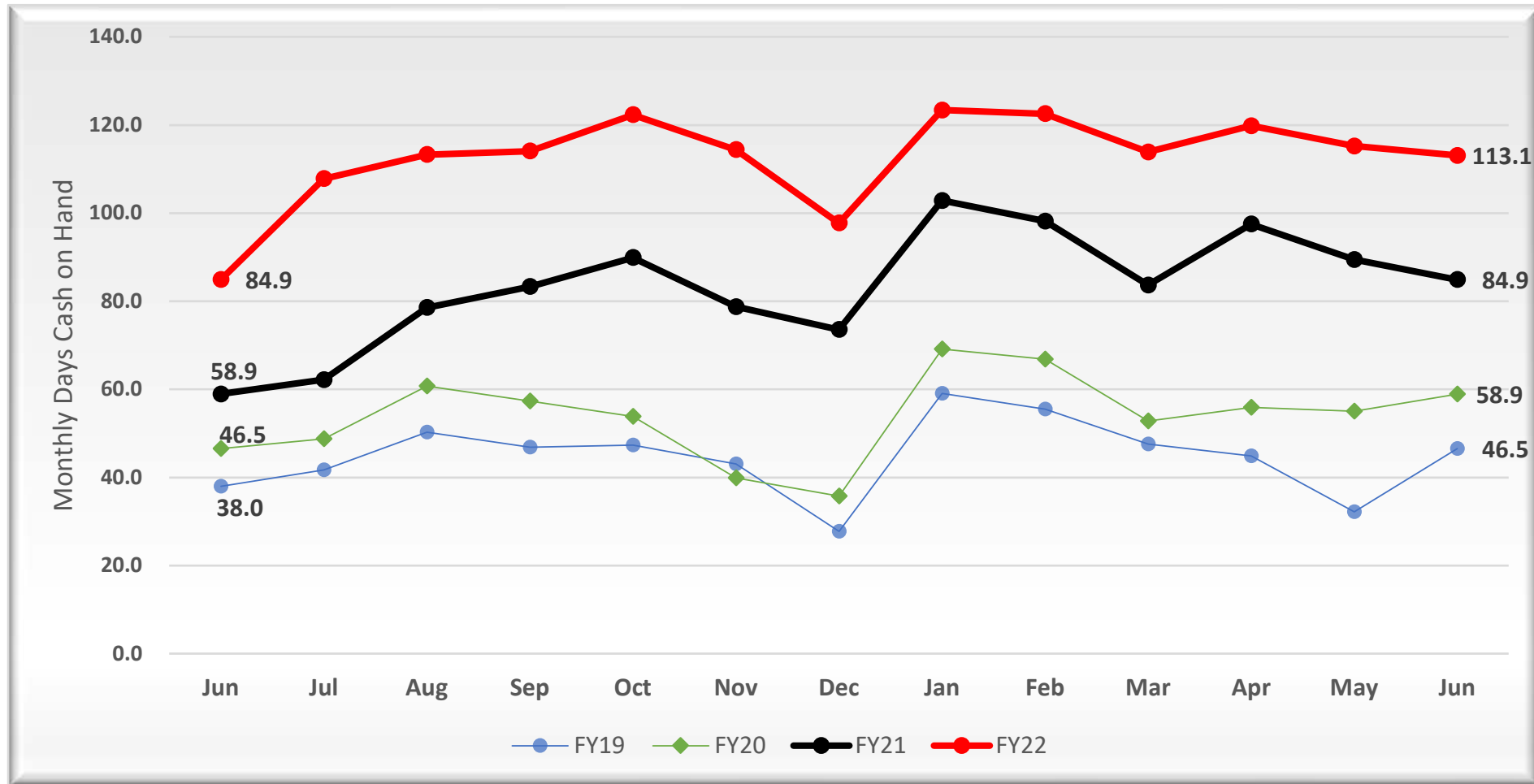
Liabilities:

- Total Liabilities and Deferred Inflows decreased by \$17 million and \$9 million, respectively.
- Accounts payable includes increase of \$14 million in both years for lease accounting.
- Bonds & note payable includes increase of \$58 million for future lease payments with an offset for retired debt.
- Deferred inflows includes increase of \$679 million for future lease revenues.

Net Position:

- Unrestricted Net Position continues to improve due to more favorable operations and balanced budgets.
- Denotes better stability.

Days Cash on Hand – FY 2019 to FY 2022



Summary of Investments

As of June 30, 2022 (in thousands)

Investment Type	Maturity	Total Amount Invested	Average Category Yield	Estimated Annual Income
Money Markets	Current	-	1.31%	-
Checking Account, CEBRB, etc.	Current	108,909	1.47%	1,600
Treasury Bill	Less than 3 Months	105,000	0.78%	815
Agency Discount Notes	Less than 3 Months	30,000	1.00%	300
Agency Notes	Less than 3 Years	49,564	1.15%	570
Municipal Bonds	Less than 3 Years	6,100	0.47%	29
Certificates of Deposit	Less than 3 Years	-	0.00%	-
Total Portfolio*		299,573		3,314

* Investments portfolio includes cash in operating bank accounts. Cash held by third party trustees or the state is not included

Supplemental Information

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position (DRAFT - UNAUDITED)
June 30, 2022 and 2021

	FY 2022	Restated FY 2021	Difference	Percent
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 219,375	\$ 206,674	12,701	6 %
Short-term investments	47,809	7,853	39,956	509 %
Deposit with bond trustee and escrow agent	33	776	(743)	(96)%
Loans, accounts and contributions receivable, net	107,736	116,152	(8,416)	(7)%
Due from affiliates	36,880	53,027	(16,147)	(30)%
Inventories	5,627	6,278	(651)	(10)%
Investments held with University of Louisville Foundation, Inc.	3,400	3,410	(10)	(0)%
Other assets	9,735	10,967	(1,232)	(11)%
Total current assets	<u>430,595</u>	<u>405,137</u>	<u>25,458</u>	<u>6%</u>
Noncurrent Assets				
Restricted cash and cash equivalents	26,804	55,964	(29,160)	(52)%
Deposit with bond trustee and escrow agent	14,946	14,607	339	2 %
Loans, accounts and contributions receivable, net	724,694	721,111	3,583	0 %
Due from affiliates	25,625	12,423	13,202	106 %
Other long-term investments	46,865	26,812	20,053	75 %
Other long-term assets	382	382	—	—
Right to use asset, net	57,283	62,896	(5,613)	(9)%
Capital assets, net	1,061,846	1,069,819	(7,973)	(1)%
Total noncurrent assets	<u>1,958,445</u>	<u>1,964,014</u>	<u>(5,569)</u>	<u>(0)%</u>
Total assets	<u>2,389,040</u>	<u>2,369,151</u>	<u>19,889</u>	<u>1 %</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>19,129</u>	<u>17,305</u>	<u>1,824</u>	<u>11 %</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	<u>2,408,169</u>	<u>2,386,456</u>	<u>21,713</u>	<u>1 %</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	108,340	113,805	(5,465)	(5)%
Line of credit	9,000	9,000	—	— %
Unearned compensation and wages payable	1,120	1,537	(417)	(27)%
Advances	42,019	50,894	(8,875)	(17)%
Due To From	—	—	—	— %
Lease payable	4,555	4,406	150	3 %
Bonds and notes payable	27,904	21,443	6,461	30 %
Total current liabilities	<u>192,938</u>	<u>201,085</u>	<u>(8,147)</u>	<u>(4)%</u>
Noncurrent Liabilities				
Due To From				
Note payable to University of Louisville Foundation, Inc.	1,000	1,000	—	— %
Unearned compensation and wages payable	2,144	949	1,195	126 %
Deposits	1,769	1,142	627	55 %
Advances	5,945	6,542	(597)	(9)%
Amounts due to federal government for student loan programs	16,335	17,311	(976)	(6)%
Other post-retirement benefits	85,940	80,238	5,702	7 %
Other long-term liabilities	2,045	5,045	(3,000)	(59)%
Lease payable	53,112	57,910	(4,798)	(8)%
Bonds and notes payable	281,770	288,547	(6,777)	(2)%
Total noncurrent liabilities	<u>450,060</u>	<u>458,684</u>	<u>(8,624)</u>	<u>(2)%</u>
Total liabilities	<u>642,998</u>	<u>659,768</u>	<u>(16,770)</u>	<u>(3)%</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>730,463</u>	<u>740,444</u>	<u>(9,981)</u>	<u>(11)%</u>
NET POSITION				
Net investment in capital assets	792,291	800,980	(8,689)	(1)%
Restricted:				
Nonexpendable	1,831	1,868	(37)	(2)%
Expendable	60,778	73,377	(12,599)	(17)%
Unrestricted	179,807	110,019	69,789	63 %
Total net position	<u>1,034,707</u>	<u>986,244</u>	<u>48,464</u>	<u>5 %</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
	<u>\$ 2,408,169</u>	<u>\$ 2,386,456</u>	<u>\$ 21,713</u>	<u>1 %</u>

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses, and Changes in Net Position (DRAFT- UNAUDITED)
June 30, 2022 and 2021

	FY 2022	Restated FY 2021	Difference	Variance
OPERATING REVENUES				
Gross student tuition and fees	\$ 335,805	\$ 333,392	\$ 2,413	1 %
Less: Discount	\$ (95,745)	(101,887)	6,142	(6)%
Net student tuition and fees	\$ 240,060	231,505	8,555	4 %
Clinical services and practice plan	404,628	388,069	16,559	4 %
Federal grants and contracts	95,654	82,197	13,457	16 %
State and local grants and contracts	16,134	9,169	6,965	76 %
Nongovernmental grants and contracts	18,163	16,052	2,111	13 %
Sales and services of educational departments	1,884	1,629	255	16 %
Facilities and administrative cost recoveries	38,714	32,434	6,280	19 %
Auxiliary enterprises	16,961	13,635	3,326	24 %
Intercollegiate athletics	96,940	62,241	34,699	56 %
Other operating revenue	16,322	13,251	3,071	23 %
Total operating revenue	945,460	850,182	95,278	11 %
OPERATING EXPENSES				
Instruction	260,397	241,422	18,975	8 %
Research	158,865	151,233	7,632	5 %
Public service	171,808	147,573	24,235	16 %
Academic support	169,428	165,474	3,954	2 %
Student services	33,991	30,187	3,804	13 %
Institutional support	91,718	79,906	11,812	15 %
Operation and maintenance of plant	65,156	52,217	12,939	25 %
Scholarships and fellowships	58,654	37,460	21,194	57 %
Auxiliary enterprises	8,510	7,004	1,506	22 %
Intercollegiate athletics	121,025	82,076	38,949	47 %
Depreciation and amortization	56,365	57,780	(1,415)	(2)%
Total operating expense	1,195,917	1,052,332	143,585	14 %
Operating gain/(loss)	(250,457)	(202,150)	(48,307)	24 %
NONOPERATING REVENUES (EXPENSES)				
State appropriations	131,725	125,420	6,305	5 %
Gifts and donations	33,220	21,322	11,898	56 %
Nonexchange grants and contracts	84,135	76,083	8,052	11 %
Contributions from University of Louisville Foundation, Inc.	44,481	42,412	2,069	5 %
Investment income	941	1,159	(218)	(19)%
Realized and unrealized gain on investments	(1,436)	908	(2,344)	(258)%
Interest expense	(9,978)	(12,037)	2,059	(17)%
Other nonoperating revenue (expense)	6,034	8,778	(2,744)	(31)%
Net nonoperating revenue	289,122	264,046	25,077	9 %
Income (Loss) before other revenue, expense, gains and losses	38,665	61,896	(23,230)	(38)%
Capital appropriations	169	120	49	41 %
Capital gifts	9,629	8,782	847	10 %
Contributions (to)/from related entities	—	—	—	— %
Total other revenue	9,798	8,902	896	10 %
Increase (decrease) in net position	48,463	70,798	(22,334)	(32)%
NET POSITION				
Net position - beginning of year	986,244	915,446	70,798	8 %
Net position - end of year	1,034,707	\$ 986,244	\$ 48,463	5 %