

MINUTES OF THE FINANCE COMMITTEE
UNIVERSITY OF LOUISVILLE FOUNDATION, INC.

In Open Session

The Finance Committee of the University of Louisville Foundation, Inc. met on Wednesday, December 3, 2003, at 8:30 a.m. in the Alumni Board Room of the University Club with members present and absent as follows:

Present: Mr. Burt Deutsch, Chairman
Mr. H. Scott Davis
Mr. Nathaniel E. Green
Mr. Robert W. Rounsavall, III
Mr. William Wilcox

Other Directors

Present: Mr. Malcolm Chancey

From the
University:

Dr. James R. Ramsey, President
Dr. Shirley Willihnganz, Acting Executive Vice President and Provost
Dr. Joel Kaplan, Executive Vice President and Chancellor for HSC
Mr. Joe Beyel, Vice President for External Affairs
Mr. Mike Curtin, Vice President for Finance
Mr. Mitchell Payne, for the Vice President for Business Administration
Mr. Larry Zink, Controller
Mrs. Susan Magness, Assistant Controller
Mr. Joe Gahlinger, Controller's Office
Mrs. Kathleen Smith, Assistant Secretary
Mrs. Debbie Dougherty, Board Liaison

Foundation

Legal Counsel: Ms. Leslie Vidra, Stites & Harbison

Others

Present: Dr. Don Miller, Director, Cancer Center
Mr. Bob Barbier, UofL Hospital
Mr. Kent Meyers, Cambridge Associates
Mr. John Tyler, Cambridge Associates
Mr. Jim Carpenter, Deloitte & Touche
Ms. Gretchen Newton, Deloitte & Touche

I. Convene Meeting

Approval of Minutes, September 16, 2003

Mr. Davis made a motion, which Mr. Rounsavall seconded, to approve the minutes of September 16, 2003. The motion passed unanimously.

II. Executive Session – Directors Only

Action Item: Approval of Grant and Loan to the James Graham Brown Cancer Center

President Ramsey explained that he had to leave early and thanked Chairman Deutsch for reordering the agenda to accommodate his schedule. Dr. Ramsey asked Mr. Rounsavall, as chair of the capital drive for cancer, to introduce this recommendation. Mr. Rounsavall serves as chair of the UMC Board. Mr. Rounsavall acknowledged Dr. Miller spoke to the UMC board of directors in November, secured bank financing, which was a critical factor. Dr. Miller noted that the Cancer Center was seeking tax exempt status. Originally, the Cancer Center asked the UofL Foundation, Inc. to authorize a grant of \$3.75 million and a low interest loan of \$3.75 million. The Cancer Center will repay the loan as quickly as possible, with an ending term of five years. Mr. Chancey, however, recommended the grant be made at \$4 million and the loan become \$3.5 million. These changes will send a message of positive support to the Cancer Center for its work. Mr. Davis made a motion, which Mr. Green seconded, to approve the

President’s recommendation that the Finance Committee support a proposal to the Board of Directors that authorizes a grant to UofL’s James Graham Brown Cancer Center in the amount of \$4 million, and a 3% interest-bearing line of credit in the amount of \$3.5 million, without any prepayment penalty provision, for a term of five (5) years.

The motion passed with Mr. Rounsavall abstaining.

Information Item: Amelia Place Renovation Costs

Mr. Curtin reviewed the following project analysis for the Amelia Place renovation.

<u>Source of Funds:</u>	<u>Date</u>	<u>Gift Designated</u>
Owsley Brown Frazier Family Foundation	1/1998	\$200,000.00
Owsley Brown Frazier Family Foundation	2/1999	\$286,875.00
Owsley Brown Frazier Family Foundation	2/2000	\$ 42,330.00
Owsley Brown Frazier Family Foundation	4/2000	\$200,000.00
Owsley Brown Frazier Family Foundation	2/2001	<u>\$200,000.00</u>
Total		\$929,205.00*

<u>Use of Funds:</u>	<u>Dates</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Balance</u>
Phase I-Repair & Mechanical				
Upgrades	21//98-12/31/98	\$ 707,401.00	\$690,524.28	\$16,875.72
Phase II–Renovation*	1/1/99-8/31/00	650,499.00	658,647.07	(8,148.07)
Phase III–Solarium	9/1/00-6/30/01	250,000.00	248,287.69	1,712.31
Phase IV–Additional Improvements	7/1/01-8/1/02	<u>85,900.00</u>	<u>85,469.67</u>	<u>430.33</u>
Total		\$1,693,800.00	1,682,928.71	10,871.29

* This excludes a \$70,000 gift-in-kind from the Rotary Club of Louisville used to purchase furnishings, through Bittners. Mr. Frazier was instrumental with the Rotary Club gift.

Budget Surplus / (Deficit): (\$764,595.00) (\$753,723.71)

Cash Transactions:

		Cash Transfers
Acct #021004 (Gifts-misc. unrestricted)	Feb. 98	\$200,000.00
Acct #064000 (Campus Renovation-GF)	Nov. 98	10,000.00
Acct #021004 (Gifts-misc. unrestricted)	March 99	286,875.00
Acct #021004 (Gifts-misc. unrestricted)	March 01	400,000.00
Acct #026165 (Reserve fund)	Sept. 01	86,000.00
Acct #021004 (Gifts-misc. unrestricted)	Sept. 03	38,232.83
Program X9001 (Foundation Fund)	Sept. 03	<u>661,820.88</u>
Total		<u>\$1,682,928.71</u>

Current Project Surplus/(Deficit) 0.00

Cash Reconciliation (Account 765043) – As of 6/30/03

<u>Trans Date</u>	<u>Description</u>	<u>Budget</u>	<u>Cash</u>
Feb. 98	Acct. 765043 established with \$200,000 budget:	\$200,000.00	\$200,000.00
	\$200,000 transferred from Acct #021004		
Apr. 98	Budget increased by \$800,000; no cash transfer made	\$800,000.00	0.00
Nov. 98	Budget increased by \$190,000; \$10,000 transferred from Acct 064000	\$190,000.00	10,000.00
Mar. 99	\$268,875 transferred from Acct #021004	0.00	286,875.00
Aug. 00	Budget increased b \$237,800; no cash	237,800.00	0.00
Oct. 00	Budget increased by \$250,000; no cash	250,000.00	0.00
Mar. 01	\$400,000 transferred from Acct #021004	0.00	400,000.00
Sept. 01	Budget increased by \$86,000; \$86,000 transferred from Acct #026165	<u>86,000.00</u>	<u>86,000.00</u>
	Total Budget	\$1,763,800.00	
	Total Cash:		\$982,875.00
	Budget Adjustment (70,000.00)		
	(\$70,000 in furnishings included in budget but paid for directly by Rotary Club)		
	Revised Budget;	\$1,693,800.00	
	Unexpended Budget:	<u>(\$10,871.29)</u>	
	Total Expended:	\$1,682,928.71	(\$1,682,928.71)
	Cash Deficit (\$982,875 - \$1,682,928.71)		<u>(\$700,053.71)</u>
Sept. 03	Cash transfer made from remainder of \$42,330 gift		38,232.82
Sept. 03	Cash transferred from X9001		<u>661,820.88</u>
	Cash Deficit		<u><u>0.00</u></u>

Mr. Chancey re-committed to raising funds at an appropriate time to fund the \$682,928 for Amelia Place.

Action item: Repayment Schedule of Loan For Cardinal Park.

Vice President Curtin has facilitated the repayment discussions. Dr. Ramsey observed Mr. Curtin's diligence in overseeing cash and payments of pledges and assured the prompt continuation of transfers. Dr. Ramsey compared this schedule to that of the loan to the James Graham Brown Cancer Center.

In January, 1999, the Foundation Board agreed to revisit the payment schedule on an annual basis. Mr. Chancey noted that President Shumaker had asked the Foundation to advance funding to ULAA for Cardinal Park to spur fundraising and to address stated gender equity issues in athletics. He stated no formal repayment schedule existed when the Board granted the loan, but there was agreement to receive payment as pledges were fulfilled. Mr. Chancey commended President Ramsey and Vice President Curtin for achieving this repayment schedule. Mr. Chancey thanked Vice President Curtin for his conscientious work with this project. Mr. Green made a motion, which Mr. Wilcox seconded, to approve the

President's recommendation that the University of Louisville Foundation Board of Directors approve the attached Cardinal Park Repayment Schedule.

The motion passed unanimously.

III. Information Update

Chair Deutsch reconvened the open session of the meeting at 9:05 a.m.

Investment Control Report

Mr. Tyler reviewed the Third Quarter 2003 Investment Performance Report and October Return Summary, Five and Ten-Year Risk/Return Analyses for NAM and Hilliard Lyons, and Several Cumulative Wealth tables that analyze the impact of the Foundation's diversification program (copies attached). Mr. Tyler stated that ULF's diversification and consistent rebalancing has kept the investments moving toward ULF's objectives. Mr. Tyler further noted that Cambridge continues to support adhering to long-term policy targets. The ULF's well-diversified portfolio allocation, as well as its economic recovery bias, continues to track the current market environment. However, Cambridge believes that global forces taking place over the next decade, particularly the emergence of China as a major economic power, will stress the global resources, presenting both challenges and investment opportunities.

Mr. Tyler conferred that as allegations of substantial wrong-doing by mutual fund companies continue to come to light, Cambridge has monitored the news closely. Cambridge has written to over 120 mutual fund managers, or managers in sub-advisory positions, requesting information on each firm's involvement. As it pertains to the ULF, separate account managers Earnest Partners, Hilliard Lyons, Weatherbie, and ICM are not affected, as they do not offer, or sub-advise, on mutual funds.

Mr. Tyler presented the Five- and Ten-Year Risk/Returns analyses for NAM and Hilliard Lyons as contextual information for the presentations today. For both periods, Hilliard Lyons has provided superior risk adjusted returns relative to the index and median, and has a significantly higher Sharpe ratio than NAM. NAM has provided superior returns to the index, but has experienced slightly higher volatility than both the index and its peer managers. Over five years, NAM lags the median's

performance but has a positive 90 basis point variance over the decade. Both managers have added value for the ULF. He noted all returns are net of manager fees. In response to Ms. Vidra's inquiry concerning the Grawemeyer Trust, Messrs. Tyler and Gahlinger responded that the Grawemeyer Trust is included in these figures.

In response to Chairman Deutsch's request, Vice President Curtin and Mr. Gahlinger agreed to provide the Finance Committee with monthly financial reports from Cambridge. These reports, Chairman Deutsch commented, would assist the Committee in their fiduciary responsibility and allow updated risk analysis.

Investment Summary Report

Vice President Curtin presented the investment summary report (attached). There were no questions.

Uniform Management of Institutional Funds Act

Foundation Counsel, Stites and Harbison, prepared a memorandum regarding the parameters for spending from donor restricted endowment accounts (attached). Chairman Deutsch noted there may be a need to draft a policy statement to address the adjustments. He recommended a more extensive discussion at the next Finance Committee meeting, with information provided to the Committee well in advance of the meeting. Ms. Vidra will research and provide feedback for the next Finance Committee meeting.

FY 2004 Implementation of GASB Statement No. 39

Vice President Curtin provided a copy of State Auditor Ed Hatchett's memorandum describing GASB No. 39 (attached). Mr. Curtin noted that in May 2002, the passing of Statement No. 39 requires institutions to report, effective for the fiscal year ending June 30, 2004, private foundations in universities' financial statements. There were no questions.

IV. Action Item: Approval of FY 2003 Financial Statements

Chairman Deutsch asked Vice President Curtin, Ms. Magness and Mr. Carpenter to update the Committee regarding the audited financial statements. Ms. Magness reported the financial condition of the Foundation remains strong, noting that of the \$628 million total liabilities and assets, \$548 million represent investments. Of the \$88 million of total liabilities, \$38 million represents the debt for the two new dorms. She reported the Foundation has received two new pledges from Jewish Hospital HealthCare Services and James Roth. Mr. Carpenter thanked Ms. Magness for the overview. Mr. Carpenter reported a clean and unqualified audit. In response to Mr. Rounsavall's inquiry about a management letter, Mr. Carpenter said the ULF statements do not specifically contain the letter, but the University's audited financial statements will. If those statements include any comments specific to ULF, Vice President Curtin agreed to share such statements with the Foundation board of directors. Mr. Rounsavall made a motion, which Mr. Wilcox seconded, to approve the

Finance Committee's recommendation that the Board of Directors accept the audit report for the University of Louisville Foundation, Inc. for the year ended June 30, 2003, as prepared by Deloitte & Touche (copy attached).

The motion passed unanimously.

V. Presentation of Money Managers

The Committee heard presentations from NAM-INVESCO, Hilliard Lyons, and Deutsche Asset Management.

VI. Review and Discussion of Money Manager Presentations

VII. Adjournment

The meeting adjourned at 11:30 a.m.

BOARD ACTION:

Passed _____ X _____

Did not pass _____

Other _____

Asst. Secretary *Katalin M. Smith*