

Board of Trustees of the University of Oregon
Finance and Facilities Committee
Meeting Summary | December 3, 2018

Committee Membership

Marcia Aaron	Present	Joe Gonyea	Present
Peter Bragdon	Present	Jimmy Murray	Present
Andrew Colas	Absent	Michael Schill	Present
Ross Kari, Chair	Present		

The Finance and Facilities Committee (FFC) of the Board of Trustees of the University of Oregon (Board) met at the Ford Alumni Center on the UO’s Eugene campus on December 3, 2018. Below is a summary of committee discussions and actions. An audio recording is maintained on file.

Convening and Approval of Minutes. FFC Chair Ross Kari called the meeting to order at 3:15 p.m. A quorum was verified. The committee approved the minutes from the September 2018 meeting without amendment.

Audited Financial Statements and External Audit Report. Scott Simpson, partner with Moss Adams, provided an overview of the FY2018 external audit of the UO financial statements. The opinion issued was unmodified; the financial statements were fairly presented in all material respects and it is a clean audit opinion. Simpson stated that during the time that he has been auditing the UO, the institution has never received anything other than a “clean” audit opinion regarding the financial statements and indicated that these were very positive results overall. He then went through required reporting for internal controls within the institution. He noted that there were no material weaknesses or significant deficiencies and that the results of the audit were clean, positive and very strong. Simpson praised the central finance team at the University for their professional work on the audit. Simpson explained that each year the firm takes a more specific look at targeted areas for federal compliance. In particular, he explained that this year Moss Adams looked at research and development reporting and that this report is not yet finalized but will be completed soon. He anticipates issuing an unmodified opinion (no material findings) but reported to the board that there is a compliance finding he needs to report to the trustees. The finding relates to the timeliness of reports due to federal funding agencies and the fact that a significant number of reports were filed past required deadlines. Simpson clarified that while this is a significant deficiency that requires a corrective action plan and caused some concern, it does *not* alter the UO’s status as a low-risk auditee. He further explained that a corrective action plan will be included in the audit report issued by Moss Adams. Given that this is a single significant deficiency finding, he stated that it should not impact the institution’s ability to secure grant funding. He noted that there could be a risk to federal funding in the future if we were to see a trend of similar audit findings over time. Simpson noted that Moss Adams will look at this area again next year. Trustee Kari made a request that the Executive and Audit Committee receive regular status updates regarding the corrective action plan until the issue is remediated and that Internal Audit conduct a follow-up to ensure remediation plans are in fact in place and executed.

Kelly Wolf, associate vice president and controller, provided the board an overview of the FY2018 audited financial statements. He walked through overall trends related to revenue, expenses, cash flow, and net position. For the latter, Wolf pointed out the difference in net position with and without the application

of GASB 68 and GASB 75, which require pension liabilities and OPEB (Other Post Employment Benefits) be included in the calculation of overall net position. Additionally, Wolf discussed key industry standard ratios that are also reviewed by the Higher Education Coordinating Commission, including the primary reserve ratio, the viability ratio, the return on net assets ratio, and the debt burden ratio.

Quarterly Financial Reports and Annual Treasury Report. Jamie Moffitt, vice president for finance and administration and CFO, provided a quarterly update on university finances. Moffitt's report focused on an anticipated gap of \$5.6 million between expected revenue and expenses for FY2019 E&G fund, largely due to decreases in tuition projections. The expected decrease in tuition revenue is offset to some extent by other shifts in expected revenue streams and expenses, but a gap still remains. President Schill highlighted for the trustees the need to focus on this difficult budget situation and be as judicious as possible with resources while thinking creatively and strategically about how to grow revenue. Schill and Moffitt noted that more discussion about state funding would occur at the full board meeting to be held the next day (December 4) during the presentation of the government affairs team.

Karen Levear, director of treasury operations, provided the board with its annual treasury operations report as required by the treasury management policy. She discussed the current breakdown of UO's investment funds. She also shared the portfolio returns for the T3 funds invested with the UO Foundation. Levear showed historical and projected information about UO internal interest rates, UO bonding and debt obligations, and capital market trends. Pursuant to policy, Levear also shared with trustees updates made in fall 2018 to the internal treasury procedures (redlines available in the meeting materials).

Licensing Agreement with Fanatics, Inc. Kyle Henley, vice president for university communications, presented trustees with a resolution to approve a third party license management agreement with Fanatics Apparel, LLC. The agreement presented to the Board would authorize a ten-year agreement with Fanatics that provides a \$1.5 million signing bonus and a guaranteed minimum return of \$21.5 million in licensing royalty revenue over the ten-year period. This royalty revenue is split evenly between the Athletic department budget and the university's education and general fund, after related expenses for managing the institution's Brand Management and Trademark Licensing Department are covered. Henley provided trustees with a look at royalty revenue history, and indicated that this agreement coupled with the previously-approved apparel agreement would provide a minimum of \$3.1 million per year in returns. He noted the guiding principles of this proposed agreement with Fanatics are to create a floor for income (not a ceiling), protect relationships with Nike and Columbia, improve planning and certainty, and allow for innovation. Trustees engaged in questions about the prior licensing agreement with Fermata Partners, guaranteed returns compared to anticipated returns without such an agreement, and overall product assortment and improvements in licensing opportunities. The Office of General Counsel provided clarification on the record that Trustee Peter Bragdon does not have a conflict of interest in this resolution or agreement.

ACTION: The resolution was moved by Aaron and seconded by Bragdon. It carried by voice vote without dissent.

Capital Project Lease and License Agreement. Eric Roedl, deputy athletic director, and H.J. Cohn, senior associate athletic director for development, presented a resolution to the board seeking approval for a lease agreement and a license agreement that will allow a third party entity to make enhancements to Matthew Knight Arena (MKA). The project includes two key components: (1) visual updates throughout the arena to refresh graphics in the facility, and (2) an expansion for additional office, storage, training and administrative space for the sports housed in MKA. The resolution authorizes the university to enter

into agreements with PHIT TOO, LLC which are substantially similar to those included as exhibits to the resolution. The project will be privately funded with the value of the project gifted back to the university.

ACTION: The resolution was moved by Gonyea and seconded by Murray. It carried by voice vote without dissent.

Capital Gift Acceptance. Vice President for Research and Innovation David Conover introduced a resolution to the board that would allow the university to accept a gift of real property. The McKeown family would like to donate this property to the institution for use in educational, research and community outreach purposes. Conover shared that the property is appraised at \$215,000, largely because the property has restricted access, though he is confident that we have the access necessary to conduct anticipated teaching and research. He noted that the institution has maintained the ability to sell the property after three years, and that any final assessments, due diligence and inquiries would be completed before the university accepts it.

ACTION: The resolution was moved by Murray and seconded by Gonyea. It carried by voice vote without dissent.

Capital Planning Annual Report. Mike Harwood, associate vice president for campus planning and facilities management, provided trustees with an updated capital project dashboard that looks at individual projects recently completed, under construction and currently being planned. He also walked trustees through a chart that analyzes the costs per square foot for different types of projects on the university campus (e.g., housing v. labs, or new construction v. renovations). Harwood then transitioned to an overview of the updated 10-year capital development plan, looking at academic projects, housing projects, student service projects, and athletics projects. After walking through current and planned projects on the immediate horizon, Harwood spoke more in depth about the institution's approach and plan for deferred maintenance. He and Moffitt discussed the need for the plan put in place to better understand true costs, prioritization, and proactive approaches necessary to mitigate deferred maintenance issues. Trustees engaged in questions and discussion around McArthur Court, seismic upgrades and needs, and Portland space development and needs.

Adjournment. The meeting adjourned at 5:22 p.m.