PURDUE UNIVERSITY BOARD OF TRUSTEES

AUDIT AND ENTERPRISE RISK COMMITTEE

DECEMBER 13, 2024 | MINUTES

A meeting of the Audit and Enterprise Risk Committee of the Board of Trustees convened at 9:52 a.m. Friday, December 13, 2024, in Room 326 of Stewart Center on the campus of Purdue University in West Lafayette, Indiana.

All members of the Committee were present: Vanessa Castagna, chair; JoAnn Brouillette; and Theresa Carter. Other trustees in attendance were: Sonny Beck; Michael Berghoff; Kevin Boes; Malcolm DeKryger; and Michael Klipsch; Gary Lehman and Shawn Taylor.

Officers and administrators in attendance were: Mung Chiang, president; Patrick Wolfe, provost and executive vice president for academic affairs and diversity; Chris Ruhl, chief financial officer and treasurer; Eva Nodine, vice president, deputy cfo, assistant treasurer, and assistant secretary; Steve Schultz, senior vice president and general counsel; Cindy Ream, corporate secretary and senior executive assistant to the Board; and Chris Holford, chancellor, Purdue University Northwest.

Committee Chair Vanessa Castagna took a moment to acknowledge and express her gratitude to the finance team, led by Chris Ruhl. She commended Chris for the remarkable work he has done to pull everything together over the past year.

I. REVIEW OF FY24 AUDITED FINANCIAL STATEMENTS

Andrew Bean, Associate Vice President, Finance, provided an overview of the audited financial statements for the fiscal year ended June 30, 2024. He shared that the financial report, finalized at the end of October and reviewed by the state in November, was ready for public sharing. Key differences between the audited financial statement and the operating budget were explained, notably that the operating budget focuses only on operational activities and excludes capital and endowment activities, which are included in the financial statements. Additionally, the audited financial statement covers a broader set of corporate entities, with blended entities directly overseen by the university and discrete entities presented later in the report. He stated that the results include all campuses, PWL, PNW, PFW, Purdue Global and PARI.

Mr. Bean noted a clean audit was received with no material weaknesses or significant deficiencies in accounting practices or internal controls. The university's net position increased by nearly $600 million, primarily driven by the strong performance of the endowment and public equities, as well as the success of the capital program and major construction projects supported by loan proceeds.

Operating revenues increased by 6.2%, driven by growth in tuition and sponsored research, consistent with previous reports on enrollment and program growth. Non-operating revenues, including state appropriations and philanthropic contributions, also saw an increase, reflecting strong endowment performance and capital support for big initiatives like the Daniels School of Business building.

Operating expenses rose by $200 million, largely due to investments in faculty and staff to support enrollment growth, as well as market adjustments and compensation increases for employees. The university's total net position stands at $7.1 billion, with half of the value held in physical assets and the other half in endowment and liquid assets. Continued reduction in the debt portfolio has contributed to an improved financial position. He shared on a positive note that while there will be a lot of activity in the coming years, most of it will have a minimal impact on the financial statements and reported numbers. It was noted that there would be changes for the teams to incorporate, but they are not expected to materially affect the overall financial results. Supporting materials were filed with the minutes. No Committee action was required.

II. OFFICE OF RISK MANAGEMENT ANNUAL REPORT

Mark Kebert, Director of Domestic and Global Risk, presented the Office of Risk Management's Annual Report, which covered the financial health of the fund for 2024, insurance market conditions, highlights of the 2024-25 insurance renewal, risk financing analytics, and loss modeling and benchmarking data (see appendix). Mr. Kebert reminded the Committee that the viability ratio is used to assess the health of the fund, calculated by dividing the total assets by the fund's obligations. Currently, the fund stands at a robust 1.9, well above the preferred minimum of 1.5.

Mr. Kebert then provided an update on the insurance market, noting that property rates continue to rise, with increases ranging from 5-10%. He explained that the casualty risk market remains complex, with rates rising between 10-30%. The key drivers for these increases remain consistent with recent years, including adverse jury verdicts and the costs associated with harassment and discrimination claims. Pricing for cyber insurance is expected to remain stable throughout 2024, with rates projected to stay flat or decrease slightly. Meanwhile, the aviation market remains relatively unstable, with rates increasing by 15-25%, primarily due to supply chain issues, rising repair costs driven by inflation, and higher reinsurance treaty costs.

Next Mr. Kebert noted that during the most recent insurance renewal on September 30th, the university continued its partnership with FM Global, now referred to simply as FM. The university received a rate increase of only 1.5%, significantly lower than the market's maximum increase of 10%. This favorable rate is attributed to the university's strong relationship with FM, its proactive loss control measures, and the mutual understanding between both parties. The only policy change was an increase in the power plant deductible from $750,000 to $1 million, aligning with the industry standard for such operations.

In comparison to the industry’s average cumulative four-year property rate increase of 27%, Purdue’s rate increase of 18% reflects its strong position in the market. On the liability side, United Educators remains the primary insurer. There has been difficulty finding excess coverage to reach the $50 million policy limit desired by the University. It was necessary to utilize four AM Best A-rated insurance underwriters to accomplish our desired excess limits. The education sector is facing challenges in securing excess coverage due to industry-wide hesitance. He noted no material changes in coverage and shared a premium increase 13% on average between primary and excess layers.

Cyber coverage continues with Beazley and Starr with a premium decrease of 5% on both primary and excess layers and coverage. Coverages remain substantially the same.

Aviation coverage continued to be provided by Starr, with no rate increase year over year and no material coverage changes.

In closing, Mr. Kebert shared analytic findings and recommendations from a partnership with a consulting branch of AON Risk Services. He shared that overall, our current program is performing well. The current program structures are reducing volatility, which is what it's supposed to do. A copy of the 2024 Office of Risk Management Annual Report and the presentation were filed with the minutes. No Committee action was required.

III. ENTERPRISE RISK MANAGEMENT UPDATE

Committee Chair Castagna began by reminding the Board that this is a relatively new process. Over the past two years, the focus has shifted from simply reporting annually to actively embedding and operationalizing both the mitigation strategies and the assessment process. She shared there is a lot yet to do but noted the great progress made in a relatively short time and thanked Ms. Sabirova and her team. Ms. Sabirova, chief audit executive shared that the program has significantly increased outreach and acceptance, leading to greater awareness across the university about its benefits. Key takeaways include progress in maturing processes, with consistent improvement themes and ongoing remediation efforts. She shared that as a result, the program has reduced inherent risk for five out of 16 top risks, which is a strong achievement. However, some risks are impacted by external factors, making risk reduction less feasible for six out of 16 areas. On average, risk reduction is at 50%, which is considered a great indicator of the program's effectiveness.

Ms. Sabirova noted that additionally, prior year recommendations are currently 17% completed. To improve remediation efforts, the program will prioritize action items based on their impact, with internal audit providing advisory support. To ensure accountability, stakeholders will work on defining target dates and tracking progress. If significant investments or additional resources are required, these will be discussed in cost-benefit analyses or risk acceptance discussions at the board committees. The goal is to integrate proactive risk management practices seamlessly into daily operations, and the program continues to foster greater education and awareness. She thanked the Board for their support of the program. A copy of the ERM Update was filed with the minutes. No Committee action was required.

By consent, the meeting adjourned at 10:27 a.m.