

**Finance Committee
Meeting of April 28, 2017**

Minutes

Present: D. Fecher, J. Large, W. Montgomery, G. Ramos

Guests: F. Ainina, C. Bajek, L. Chan, T. Heigel, J. Hensley, D. Kimpton, C. McCray, K. Ralston, S. Sherbet, T. Sudkamp, J. Ulliman (phone in), J. Vance

Mr. Fecher called the meeting to order at 11:07 a.m. and reminded the Trustees to be aware of any conflict of interest and take the steps they deem appropriate.

Comments from the Chair

The agenda for this meeting included one item, namely, the solicitation of comments and potential revisions during a public review of the Financial Governance Policy. The Finance committee hoped to complete their revision process to be able to present a final draft to the full Board for a vote at the June 8, 2017 Budget Presentation meeting.

The Board's Financial Governance Policy was last updated in 2003. A first draft policy was written and sent to the full Board, Faculty Senate, the Finance Office, the University community, and the AAUP for their review and comments. Today, the Finance Committee will review the second draft to identify what other changes are needed.

This policy will be used by the Board of Trustees to oversee the financial performance of the University and to help determine what resources are necessary to pursue its mission and strategic plan.

Board's Financial Governance Policy Discussion

Mr. Fecher briefly reviewed the previous suggestions and changes that were incorporated into the second draft. The comments and suggestions listed below were offered during the Finance Committee meeting on April 28, 2017.

- **Section A: Overview**

#4: "maintaining a growing investment portfolio which allows strategic investments for the future."

The question was raised whether the liquidity of investments should be a priority. Consensus was, while this will be addressed in the Investment Policy Statement (IPS), it would not hurt to add it in here for consistency.

- **Section B: Policy Objective**

#6 “sets a policy for minimum funding levels required to start capital projects and establishes a reporting/approval requirement for non-base budgeted strategic projects which exceed prescribed levels;”

Under discussion was at what level is it permissible to take advantage of strategic opportunities or capital projects that were not previously identified in the University’s adopted budget. Currently, and for the near future, there are no plans to enter into any unbudgeted expenditures. However, with strong reserves, there could be a time when the University would want to. The question then becomes what are “prescribed levels” and how, and when are these communicated? A suggestion was made to delegate the responsibility to the Finance Committee to set the level subject to full Board approval. The prescribed level would be based on the University’s financial health and priorities and each year could be amended.

- **Section C: Finance Committee**

b) “At least one member of the Committee should be a financial professional. This is a person who has an understanding of concepts of commercial finance, generally accepted accounting principles, financial statements, budget management, investing, or related skills, with experience in applying such principles in a working environment. The financial professional may be a non-Board member who meets the criteria to serve in an advisory capacity but who shall not be a voting member.”

Two viewpoints were presented. One, whether this financial person needs to have a Wright State faculty or staff member affiliation or two, it is permissible to bring in a qualified outsider with no Wright State connection? Considerations included the fact that only Trustees are permitted to vote. In addition, someone with an affiliation to an outside entity would need to sign a non-disclosure, not accept any business from Wright State, and take all steps necessary to avoid any conflicts between self-interest and the interest of the University. The consensus was to leave the statement as written making the position open to any qualified person inside or outside the institution.

#4: “Duties and Responsibilities of the Finance Committee include, but are not limited to, the following:”

(g) “Recommending capital budgets for approval to the full board and reviewing actual expenditures on such projects”;

Broad support was offered to add duty (g) to centralize review and approval of capital budgets with the Finance Committee. Currently the Building and Grounds Committee oversees incorporating the six-year capital plan into the strategic plan but they may not have the full University budgetary picture when doing their planning. The recommendation to assign as the last step, final capital budget

responsibility to the Finance Committee, puts a process in place to make sure that the financial review is completed prior to moving capital budgets forward for Board approval.

- **Section D: Financial Performance Benchmarks**

“The Board of Trustees directs the President to efficiently operate the University in a way that maximizes its academic mission while maintaining a responsible level of financial health. The benchmarks in this section provide guidelines to assist the Board in evaluating financial resources, debt levels and cash reserves available for serving the strategic and long-term interests of Wright State University and its stakeholders.”

2. *Currently this reads a Senate Bill 6 (SB 6) ratio of 3 or higher.*

The proposal is to make the SB 6 ratio a secondary metric (see Appendix B: Secondary Financial Performance Indicators) and make the Composite Financial Index (see Appendix C: Composite Financial Index) the primary means of analyzing the University’s financial position.

Trustee Fecher indicated that metrics and benchmarks are crucial to evaluating the University’s financial health. Senate Bill 6 (SB 6), the legal measure Wright State is graded on by the state, does not track cash flow as one of the three variables making up the ratio. The argument was made that SB 6 does not provide a true, complete picture of financial health. The AAUP offered the Fichtenbaum-Bunsis (FB) score as a better tracking metric (see Appendix E).

Mr. Fecher proposed the substitution of another metric, the “Composite Financial Index (CFI)” as developed by KPMG, LLC and Prager, McCarthy, & Sealy LLC and outlined in the 2010 publication Strategic Financial Analysis in Higher Education. The CFI is a composite score that indicates current financial health, includes the exposure of affiliated entities, and the affordability of future-plans.

A lengthy discussion ensued around the merits of all three scores and the reality that Wright State is legally bound to demonstrate our financial health through a Senate Bill 6 score. Consensus was SB 6, while the mandate, does not track cash flow, take into account affiliated entities, nor give relevant information for strategic planning. Incorporating all three scores would give a broader picture of financial viability and more information for decision-making. It would also offer a better “early warning system”. Consensus was to adopt the CFI, and also use SB 6 and the FB.

Two other additions were made under the section for Financial Performance Benchmarks. These include:

6. **Liquidity:** *“Wright State University will monitor its liquidity position according to a short term (one year) and intermediate term (three year) liquidity*

ratio. Short term liquidity will be maintained at a ratio of at least 1.15 and intermediate term will be maintained at a ratio of at least 1.0”

7. Cash Flow: *“Wright State University will manage its financial performance to produce positive cash flow (cash inflows exceed cash outflows) each operating year. The Board of Trustees may approve exceptions when sufficient reserves are on hand in order to take advantage of strategic opportunities in support of overall mission.”*

- **Section G: Governance of Strategic Investments**

“The Board of Trustees recognized the benefit of making strategic investments in projects...”

“Guidelines for evaluating such projects and/or expenditures should include, but are not limited, to evaluations of the following:”

2. “The potential to enhance the student academic and student experience and/or increase enrollment and retention.”

When evaluating expenditures for strategic projects, Trustee Ramos recommended giving weight to the student experience as an equally important factor with the student academic experience. Dr. Doom suggested the incorporation of “all the way to graduation” as another provision in governing decision making since the mission of Wright State is help transform lives through degree attainment and professional success and this should be a factor in governing our decisions.

- **Section H: Governance of Purchases and Expenditures**

Changes were made to the policy requiring the following with regard to single purchase transactions in a single fiscal year to a single vendor:

Currently, the Board is notified of purchases \$250,000 to \$499,999 with no action required. Contracts \$500,000 and over require Board approval.

New guidelines would include:

1. Notification to the Finance Committee of purchases between \$150,000 and \$249,999.
2. Approval by the Finance Committee of purchases between \$250,00 and \$499,999; and
3. Approval by the Board of Trustees of purchases of \$500,000 or more.

An additional new provision specified that individual purchases approved by the Board or the Finance Committee under the guidelines listed above may vary by 10% without further Board or Committee action, however, the Finance Committee

should be informed of any overruns. Overages exceeding 10% would require re-approval in the manner specified.

To facilitate these approvals in a timely manner, the Finance Committee will need to continue meeting 9 times per year as specified in Section C. (3).

The Board is also requesting an annual listing outlining:

1. External consultants paid more than \$50,000 per fiscal year; and
2. All stipends/allowances/bonuses paid by the University.

A provision was also included specifying that individual purchases approved by the Board of the Finance Committee under these guidelines may vary by up to 10% without further Board or Committee action, however, the Finance Committee should be informed of any overruns.

- **Section J: Debt Policy Statement**

The original Board Financial Governance Policy did not address Board policies for acquiring and managing external debt. The newest version added a requirement for a separate debt policy statement similar to the investment policy statement.

Most universities enter financial difficulties by over extending themselves with debt. Having this policy in place will prevent this type of occurrence.

- **Appendix F: Financial Trends Summary**

This table tracks the Primary and Secondary Financial performance indicators as well as other performance data. A suggestion was made to publish this information on the web (perhaps through a Finance Committee web page) to allow the public to review the financial health of the University. Mr. Fecher will look into this.

In addition, Mr. Sherbet asked about adding a section to address what happens should the University fail to meet their metrics or show a downward trend over time on key indicators. There was agreement for the creation of a Policy Compliance section to give the Board a mechanism to request a written plan from the President and the administration on how they propose to attain the minimum metrics within a defined timeline and their thoughts on how the University should address the problem. Mr. Fecher will write the Policy Compliance section content and forward it to the Committee and Board for incorporation and review.

Final Comments

Mr. Fecher indicated he sees the University turning a corner with the development of new and better governing policies, more people talking and collaborating with each other, and better and more informative Board meetings. He recognized the care and commitment of

the Wright State community and thanked everyone for their efforts.

The meeting was adjourned at 12:08 p.m.

Respectfully Submitted,
Deborah Kimpton