

**Wright State University**  
Financial Governance Policy  
DRAFT v.1 – With Comments  
March 31, 2017

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**A. Overview**

Wright State University is committed to transforming the lives of its students and the communities it serves. In order to accomplish this mission, Wright State University must remain financially strong with consistently positive operating margins and responsible levels of reserves. Maintaining a strong financial position yields multiple benefits, among the most important of which include:

1. Ensuring Wright State University meets its obligations to students, faculty, staff, and other stakeholders;
2. Protecting the University from unanticipated financial stress such as from funding shortfalls or excessive operating expenses;
3. Providing the University with responsible levels of reserves to absorb short term financial shocks;
4. Maintaining a growing investment portfolio which allows strategic investments for the future;
5. Providing access to capital markets at favorable interest rates.

The financial strength and credit rating of Wright State University are also strongly influenced by a number of non-financial factors including student enrollment and retention, strength of research programs, and the institution's ability to attract and retain high quality faculty and staff. The level and consistency of state support is also an important factor in determining financial policy.

The Board of Trustees is responsible for ensuring Wright State University operates in a fiscally responsible manner. It performs this task primarily through the annual budgeting process and ongoing financial reviews through a Finance Committee. The purpose of this governance policy is to provide a framework through which the Board exercises its fiduciary duty regarding the financial health of the University.

**B. Policy Objective**

The objective of this policy is to document guidelines for Wright State University's Board of Trustees to employ in exercising governance oversight of the University's financial affairs. The Board's fiduciary responsibility is to ensure financial resources are used responsibly in support of the University's mission and that cash reserves are sufficient to protect against unexpected downturns in financial circumstances. Accordingly, this policy:

1. Defines roles and responsibilities of the WSU Finance Committee;
2. Establishes performance benchmarks against which financial performance will be evaluated;
3. Establishes key indicators of financial performance for assessing overall financial health and long term trends;

4. Provides direction to the President or his/her designees regarding the Board's financial expectations for strategic investments, normal operating purchasing/expenditures, and actions to be taken when reserves fall below minimum levels;
5. Requires the Board of Trustees to approve the University's investment strategy by adopting and regularly reviewing an Investment Policy Statement;
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 ~~in excess of \$500,000 dollars~~ which exceed prescribed levels;
7. Sets reporting and policy review guidelines.

**C. Finance Committee**

The WSU Finance Committee is the Board of Trustee's primary means of overseeing University financial affairs.

*1. Membership*

The chairperson of the Board of Trustees will appoint the chair and membership of the Finance Committee. 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.

**Commented [DAF1]:** Should two financial professionals be required? In the event that Board membership does not include this expertise, the Board should consider inviting other members of the WSU community to serve in a non-voting capacity. Also, no mention of maximum size of the committee.

In addition to members appointed by the chairperson of the Board, the chair of the Finance Committee may invite representatives of other University stakeholders, such as faculty and staff, to attend and participate in committee meetings as non-voting participants.

**Commented [DAF2]:** Are these voting members? Is it permissible for a non-trustee committee member to be a voting member of the committee?

*2. Administrative Liaison*

The Vice President of Business and Finance will serve as primary liaison to the Finance Committee. Other members of the Division of Business and Finance may assist the Finance Committee in its work.

**Commented [DAF3]:** Can non-Board members be voting members of the Finance Committee? One commenter opposes non-Board members as voting members of the Finance Committee.

*3. Meetings*

The Finance Committee shall meet at least four times per fiscal year, and may convene additional meetings as circumstances require or to align with the University's budgeting and planning cycle. Meeting agendas will be prepared and provided in advance to members and participants along with appropriate briefing materials. A written summary of each meeting will be prepared and provided to the Board of Trustees.

**Commented [DAF4]:** Should the committee include a non-voting representative of the faculty senate (as official members, not as observers "to attend and participate".

**Commented [DAF5]:** Should be nine times per year.

*4. Duties and Responsibilities*

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

- a) Regular reviewing of the University's financial position including current and projected cash position, current and projected revenue and expenses as compared to board-approved budgets, other financial performance measurements as appropriate, etc.
- b) Receive the University's audited annual financial statements and related documents such as a management letter of recommendation or other related reports as a result of an external audit;

**Commented [DAF6]:** There is no mention that the committee review historical context of financial information, such as comparisons of actual results to projections, or to hold discussions when actual results materially miss initial projections.

- c) Reviewing and making appropriate recommendations to the Board of Trustees regarding financial governance policies;
- d) Reviewing substantial expenditures according to current policy and, when appropriate, making recommendations to the Board of Trustees for approval of such expenditures;
- e) Reviewing and making recommendations to the Board of Trustees for approval of the issuance of debt for capital and other projects
- f) Overseeing University investments and the board-approved Investment Policy Statement;
- g) Reporting on committee activities to the Board of Trustees;
- h) At the discretion of the chair the Finance Committee may consider other University financial matters as may arise from time to time.

#### 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 long term interests of Wright State University and its stakeholders.

1. *Minimum Credit Rating:* Wright State University will manage its financial affairs to maintain a minimum Moody's credit rating of A2 – Stable.
2. *Senate Bill 6 Composite Score:* In order to maintain a balance between spending to meet the University's academic mission and the need to maintain a prudent level of reserves, Wright State University will target a Senate Bill 6 Composite Score of not less than 3.0 (excluding the impact of GASB 68). If at any time the score falls below 3.0, a plan shall be put in place and presented to the Finance Committee that will bring the score back to at least 3.0. See Appendix C for a description of how the Senate Bill 6 Composite Score is calculated.
3. *Operating Performance:* Revenues and expenses should be matched so that the average annual operating surplus runs between one and three percent of total revenues. Higher surpluses may be required when reserves fall below minimum levels as required by this policy.
4. *Minimum Reserve Levels:* Unrestricted reserves are critical for maintaining a financial buffer against uncertainty, unexpected financial downturns, and short term financial losses. Accordingly, Wright State University will maintain unrestricted reserves at a level that will result in a Primary Reserve Ratio no less than 0.1.
5. *Debt:* Wright State University's direct and indirect debt (the amount of debt attributed to the University by ratings agencies as a result of its relationship with third parties) should not exceed the median debt capacity of a peer group of Moody's A2 and similar universities. In addition, the University will manage its debt levels such that the Viability Ratio will not fall below 0.6.

The Board of Trustees directs the President or his/her designee to submit an annual report to the board via the Finance Committee describing the university's most recent performance in these benchmark areas. In

**Commented [DAF7]:** These benchmarks do not include any mention of cash flow. A suggestion was made to include a cash flow benchmark in which negative cash flow would indicate a "warning light" to be addressed immediately.

**Commented [DAF8]:** Are SB6 composite scores sufficient to measure institutional health? The Faculty (AAUP and Senate) prefers the Fichtenbaum-Bunsis score which essential places different weights on score components and believes these weights to be superior in measuring financial health.

the event any of the above benchmarks are not being achieved the Board of Trustees directs the President to submit a written plan for achieving these benchmarks to the board through the Finance Committee.

**E. Key Indicators of Financial Performance**

The Board of Trustees will monitor key financial indicators over time to assess long term financial trends. Primary indicators will be tracked in the following areas: Financial Health, Debt Position, and Market Demand. Secondary indicators will also be reviewed to provide further insight into financial performance. The Board will make these financial indicators available for review by the University community. A list of primary and secondary indicators are included in Appendices A and B.

**F. University Reserves**

The Board of Trustees will monitor levels of reserves as described in this policy. In circumstances when unrestricted reserves fall below minimum guidelines (see Financial Benchmarks, above), the President will suspend spending of business unit carryovers and/or include accumulation of new reserves in the annual operating budget until minimum reserve levels for the University are met.

**G. Governance of Strategic Investments**

The Board of Trustees recognizes the benefit of making strategic investments in projects that further the University’s mission, and that such projects may at times require use of unrestricted reserves or debt capacity. Because of the unfunded nature of such projects the Board directs the President to report expenditures of non-base budgeted funds with a total expected (project) cost of \$100,000 or more to the Board accompanied by a robust cost/benefit analysis. Further, expenditures (projects) with a total expected cost of \$250,000 or more must be approved by the Board of Trustees prior to being started.

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

1. The relationship of each investment to the University’s Strategic Plan and its potential for helping achieve WSU’s academic mission;
2. The potential to increase enrollment and retention;
3. The extent to which an investment is required to maintain the condition of the campus and its facilities;
4. The long term (3-5 year) expected financial impact of the project including effect on primary financial performance indicators, revenue-generating potential, and expenses which will become part of future budgets;
5. The relationship of each investment to University research priorities.

**Commented [DAF9]:** Should the policy include enhancing student academic and campus experience as a governing guideline in this section or elsewhere in the policy?

**H. Governance of Purchases and Expenditures**

In order to exercise stewardship over financial resources, the Board of Trustees directs the President to develop a policy requiring the following with regard to single purchase transactions in a single fiscal year to a single vendor:

1. Notification to the Finance Committee of purchases between \$150,000 and \$249,999;

**Commented [DAF10]:** Should the policy directly address the use of external consultants and stipends/Allowances/Bonuses by the university? Should the policy be even stronger to prohibit or strictly limit these or make them subject to BoT review and/or approval?

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

The actual amount of individual purchases approved by the Board of Trustees or Finance Committee may vary by 10% without further Board or Committee action, however the Finance Committee should be informed of any overruns. Purchases approved which exceed the approved amount by more than 10% must be re-approved by the Board of Finance Committee. Should a single project require the use of multiple vendors/suppliers, the aggregate amount spent should be reported/approved based upon the criterion defined above.

For capital projects, cost overruns exceeding 5% of approved projections are to be reported to the Board of Trustees through the Finance Committee with a plan on how the overruns are to be funded.

### I. Investment Policy Statement

The Board of Trustees will adopt an Investment Policy Statement to effectively define, monitor, and evaluate the University's investment strategy. The purpose of the Investment Policy Statement is to ensure University funds are invested in a prudent manner to maximize returns in asset classes that do not exceed policy guidelines for risk. The Finance Committee will review the Investment Policy Statement at least annually and make policy modification recommendations to the Board of Trustees as may be appropriate.

### J. Use of Reserves for Capital Projects

In order to maintain University unrestricted financial resources at responsible levels, the Board of Trustees directs the President to enforce a Wright Way Policy that requires 90% of project funding to be in hand prior to beginning capital projects. During times of financial stress where unrestricted reserves are below minimum levels as described in this policy, the Board may require higher amounts of project funding be on hand prior to beginning projects. The President may request the Board of Trustees to make exceptions to this policy as conditions warrant.

### K. Financial Reporting

The Board of Trustees, through the Finance Committee, will review annual audited financial statements and interim financial reports throughout each fiscal year. Accordingly, the President or his/her designee will present the following financial reports to the Finance Committee as such become available during each fiscal year:

1. Audited fiscal-year ending financial statements;
2. Monthly Cash Report including sources and uses of cash and fiscal-year ending cash projections;
3. Monthly Revenue/Expense Report including year-to-date actual versus budgeted revenues and expenses and fiscal year-ending actual versus budgeted revenue and expense projections;
4. 5-Year trends for annual financial performance benchmarks and other financial data (see Appendix D).

**Commented [DAF11]:** Begs the question of "Voting" members. Current BoT bylaws say Finance Committee Members must all be members of the BoT ... should this change?

**Commented [DAF12]:** How will this be performed without adversely impacting operations if the Finance Committee meets only four times each year (see above)?

**Commented [DAF13]:** Should the Building and Grounds Committee also be informed of this sort of cost overrun?

**Commented [DAF14]:** The Faculty (Senate and AAUP) had several suggestions for WSU's revised investment policy statement which may be beyond the scope of this financial policy. One is a preference for passive index funds and a restriction against high risk and/or illiquid securities, such as private equity, venture capital, structured debt, hedge funds, etc. These comments should be considered by the committee when it takes up the investment policy statement.

**Commented [DAF15]:** Should the policy require 100% of funding be in place? The policy already permits exceptions to be approved by the BoT.

**Commented [DAF16]:** The Faculty (Senate and AAUP) suggested this figure be either 100% (Senate) or even 105% (Senate and AAUP) of funding on hand prior to initiating capital projects to account for cost overruns. This comment suggests legacy donations in support of capital projects shall be used only to "backfill" debt payments.

**Commented [DAF17]:** This policy does not require a financial review of the performance of auxiliary (affiliated entity) performances and suggests such performance be reviewed at least annually to determine their financial impact on the university. The financial performance of entities is now required by the Board's Affiliated Entity Policy, which is overseen by the Compliance/Audit Committee.

**L. Policy Review**

This financial governance policy will be reviewed by the Finance Committee of the Board of Trustees at least annually.

## **Appendix A: Primary Financial Performance Indicators (Annual Indicators)**

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### **Financial Health Indicators**

#### Senate Bill 6 Composite Score

Purpose: A composite score used by the State of Ohio to assess the University's overall financial health.

Target: 3.0 or higher

Calculation: See table in Appendix D.

#### Primary Reserve Score

Purpose: Measures the adequacy of reserves to cover operating expenses. One of three ratios (weighted at 50%) to determine composite Senate Bill 6 score.

Target: .10 or higher

Calculation: Expendable Net Assets  
Divided By: Total operating expenses

#### Viability Score (%)

Purpose: Measures adequacy of reserves to cover total debt. One of three ratios (weighted at 30%) used to determine composite Senate Bill 6 score.

Target: 0.6 or higher

Calculation: Expendable net assets  
Divided by: Total debt

#### Net Income Ratio (%)

Purpose: Measures whether the University is operating at a gain or a loss. Third of three ratios (weighted at 20%) used to determine composite Senate Bill 6 score.

Target: .01 - .03

Calculation: Change in total net assets  
Divided by: total operating revenues

### **Debt Position Indicators**

#### Debt Capacity (\$)

Purpose: Defines prudent levels of debt necessary to maintain a given debt rating and reasonable level of financial health.

Target: Total debt – including indirect debt via affiliated entities and certain third party partnerships – should not exceed the median debt capacity calculated using selected metrics of Moody’s A2 rated universities.

Calculation: Sum of:  
Total direct debt  
Plus: Total indirect debt as compared to a calculated median debt level of Moody’s A2 rated universities utilizing several Moody’s debt metrics and ratios as published annually by them.

**Market Demand Indicators**

Total Applications Received

Purpose: Measures the total number of applications to attend WSU. May be subdivided into graduate, undergraduate, domestic, international, or other important.

Target: N/A

Calculation: Total applications received.

Selectivity Ratio (%)

Purpose: Measures the number of students who accept offers to matriculate.

Target: TBD

Calculation: Number of acceptances  
Divided by: Number of applicants

Matriculation Ratio (%)

Purpose: Measures the number of students enrolling as a percentage of acceptances.

Target: TBD

Calculation: Number of students enrolling  
Divided by: Number of acceptances

Total Tuition Discount (%)

Purpose: Measures the percentage of gross tuition actually paid by students.

Target: TBD

Calculation: The sum of:  
Scholarship discounts and allowances (e.g. fee waivers)  
Plus scholarship expense  
Divided by: gross tuition and fee revenue



University-Provided Financial Aid (%)

Purpose: Measures the percentage of full tuition forgiven by the university in exchange for attendance.

Target: TBD

Calculation: Scholarship discounts, allowances, and fee waivers paid from the WSU operating budget to reduce tuition for students in exchange for attendance  
Divided by: Gross tuition and fee revenue.

## Appendix B: Secondary Financial Performance Indicators

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### Financial Health

#### Unrestricted Financial Resources/Debt (%)

Purpose: Measures the University's most liquid funds as compared to outstanding debt.

Target: TBD

Calculation: The sum of:  
Unrestricted reserves  
Divided by: Total debt

#### Debt Service Coverage (x)

Purpose: Measures cash available to make principle and interest payments on University debt from annual operations.

Target: The median ratio of Moody's A2 universities.

Calculation: The sum of:  
Annual operating surplus (deficit)  
Plus: non-cash depreciation expense  
Plus: Interest expense  
Divided by: Total of principal and interest payments on direct and indirect debt.

#### Total financial resources per student (\$)

Purpose: Measures the amount of money from all sources available to the University per FTE student.

Target: N/A

Calculation: The sum of:  
Unrestricted net assets  
Plus: restricted expendable net assets  
Plus: restricted nonexpendable net assets  
Plus: foundation total net assets less foundation net investment in plant  
Divided by: Total FTEs

#### Resource Sources (%)

Purpose: Measures financial resources received from the following areas:

- Tuition & Fees
- State Appropriations
- Contracts and Grants
- Auxiliary Activities

- Endowment and Investment Income
- Gifts
- Departmental Sales & Services
- Other

Target: N/A

Calculation: Total resources received from each area measured  
Divided by: Total resources received

Spending per FTE Student  
By Standard Expense Category (\$)

Purpose: Measures University spending per FTE student in each of the following standard categories:

- Instruction
- Academic Support
- Student Services
- Research
- Net Scholarships & Fellowships
- Institutional Support
- Public Service
- Operations & Maintenance

Target: N/A

Calculation: Expenses for each category  
Divided by: Total FTE

Note:

Average Operating Margin (%)

Purpose: Measures average operating margin over the previous three fiscal years. Allows a longer term view of profitability not affected by results (positive or negative) from a single year.

Target: N/A

Calculation: The sum of:  
Last three years Operating Margin  
Divided by: Last three years of operating revenue

**Market Demand**

Net Tuition per Student (%)

Purpose: Measures the actual amount students pay to attend WSU. Does not include amounts paid via scholarship or forgiven via discounts and allowances.

Target:

N/A

Calculations:

The sum of:  
Gross tuition and fees revenue  
Less Scholarship discount and allowances  
Less Scholarship expense  
Divided by total FTEs

## Appendix C: Senate Bill 6 Composite Score Calculation

Wright State University's Senate Bill 6 Composite Score calculation is the primary measure of financial health from the State of Ohio. The score is determined by weighting the scores for the Viability Ratio, Primary Reserve Ratio, and Net Income Ratio according to the following table:

Ratio Scores	0	1	2	3	4	5
Viability Ratio	<0	0 to .29	.30 to .59	.6 to .99	1.0 to 2.5	> 2.5 or N/A
Primary Reserve Ratio	< -0.1	-.1 to .049	.05 to 0.99	.10 to .249	.25 to .49	.5 or greater
Net Income Ratio	< -.05	-.05 to 0	0 to .009	.01 to .029	.03 to .049	.05 or greater

The composite score equals the sum of the assigned viability score multiplied by 30%, the assigned primary reserve score multiplied by 50%, and the assigned net income score multiplied by 20%.

Note: A composite score of or below 1.75 for two consecutive years would result in an institution being placed on fiscal watch. The highest composite score possible is 5.00.

## Appendix D: Financial Trends Summary

<b>Wright State University Financial Trends Report</b>					
<b>Primary Financial Indicators</b>					
<b>Indicator:</b>	<b>FY 2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Senate Bill 6 Composite Score					
Primary Reserve Score					
Viability Score					
Net Income Ratio					
Debt Capacity					
Selectivity Ratio					
Matriculation Ratio					
Total Tuition Discount Percentage					
<b>Secondary Financial Indicators</b>					
Unrestricted Financial Resources to Debt %					
Debt Service Coverage Ratio					
Total Financial Resources per Student					
3-Year Average Operating Margin					
Net Tuition per FTE Student					
Total Tuition Discount %					
Operating Expenses per Student					
State Appropriations per Student					
<b>Other Performance Data</b>					
Total FTE Enrollment					
Total Financial Resources					
Total Direct Debt					
Total Operating Revenue					
Reliance on Tuition/Auxiliary Revenue as % Op. Revenue					
Reliance on State Appropriate Revenue as % of Op. Revenue					