

## **NEASC STANDARD NINE FINANCIAL RESOURCES**

### **DESCRIPTION**

This self-study reflects a recent period of significant growth and development, along with financial strengthening for the University. The study describes a university characterized by:

- Growth in revenue from tuition, grants and gifts
- Costly and relatively high levels of debt despite improvements in credit management
- Formal written budgeting processes and investment management policies
- Low tuition discount rates
- Increased written documentation of other policies and processes
- Uncertainty relative to property tax risk

All financial information presented in this study pertains to Roger Williams University, which includes the Ralph R. Papitto School of Law. The Law School's financial policies and processes are integrated with those of the rest of the University, although timing of some processes may differ slightly.

Most recent financial data available at the time of writing are cited in this section. When comparative data are presented, the most recent data for which all comparable data are available are used. Supporting documentation for all financial data referenced in this report is available in the evidence room, and is listed in the Appendix.

### *SOURCES OF FUNDS*

Financial revenue is sufficient to fund current expenses as well as to contribute to the University's endowment fund, to early debt retirement, and to initiatives consistent with the mission of the University. Between 2001 and 2005, total revenue grew by an average of 11.5% annually. That growth has improved the University's overall financial strength, and in particular its ability to develop programs and physical improvements that will further the University's goals for future growth and positioning.

Of the \$140 million in 2005 revenues, tuition and fees provided the primary source of funds (71%) and represents annual increases of nearly 14% over the past four years. Auxiliary enterprises of the University, including the University's Baypoint Inn and Conference Center, accounted for an additional 22% of revenues. Grants, contributions, and other income (4%), and return on investments (3%), provided the remaining revenues.

The University has traditionally attracted applicants from throughout the Northeast. It is now extending its applicant base throughout the U.S. National visibility has been facilitated by such programs as the Initiative to Educate Afghan Women. This program attracted national media attention, including extensive mention by First Lady Laura Bush in her keynote address at the 2006 Roger Williams University Commencement, later aired on C-SPAN. Further, the University has instituted initiatives to attract more international students, and as a result is developing greater geographical diversity of tuition sources.

The University has made great strides in fund-raising as well. Between 2001 and 2005, revenue from contributions, grants, and related income grew 8.6% annually. Nevertheless, contributions accounted for only 4% of total revenue in 2005. This is a low percentage compared with those of benchmark institutions, and RWU continues to be heavily reliant on tuition for operations. The University plans to rectify this situation by continuing to improve its fundraising efforts. In the meantime, fundraising and investments have resulted in a significant increase to the endowment over the past four years. The endowment value has grown by nearly 19% on an average annual basis, from \$42 million in 2001 to \$84 million in 2005.

The University's Grants Office strictly adheres to a set of policies and procedures governing contracts and grants. A Grants Oversight Committee was formed in 2005 to ensure that grants to the University are handled in accordance with compliance requirements of the Federal Office of Management and Budget, as well as with agency-specific regulations. This committee has formalized and documented grant policies and procedures for the University, including the conditions and terms under which gifts are solicited and accepted. The committee is also developing a training program for principal investigators.

The President and Chairman of the Board of Trustees communicate frequently regarding fundraising matters and potential donors. Acceptance of donations is guided by assessment of congruence between the donor's intent and the mission of the University. The Development Office works with the donor to identify alternative uses for previously accepted funds if the original intention of the gift is no longer consistent with University needs. Periodic meetings of a Prospects Committee provide a forum for Development officers and administrators to advance efforts in the areas of donor cultivation, stewardship, and outreach.

In addition, Development officers are paired with specific schools within the University so that they can understand a school's needs as well as help the school to initiate its own fundraising efforts. An example of school-level fundraising is the Gabelli School of Business "We Help Educate Our Siblings" (WHEOS) program, which began in 2005 to provide textbook scholarships for students.

The debt repayment schedule has been accelerated to retire debt earlier, reducing interest expense and improving financial strength. In 2005, Standard and Poor's upgraded the University's bond rating from BBB- to BBB in the lower medium investment grade category, indicating an improvement in the creditworthiness of the institution. Coupon rates on long-term bonds do not exceed 6.5%.

Early debt repayment, declining interest expenses, and an improved credit rating are results of the University's efforts to manage and reduce debt. Financial comparisons to benchmark institutions underscore the importance of continuous ongoing efforts in debt management. For example, the debt-to-asset ratio represents the amount of debt used to create one dollar in assets. For 2004, the University's debt-to-asset ratio of 67% indicates that each dollar in assets was created by an existing debt of 67 cents, and only 33% of assets were created by revenue rather than borrowing. In contrast, the top six institutions in the benchmark cohort had ratios of 30% or less and eleven of the institutions had ratios of 50% or less.

Benchmark comparisons related to interest on debt suggest that there is more work to be done in this area as well. In 2004, nearly 5% of total revenue was directed

toward interest payments, making the University last in rank of the fifteen benchmark institutions. This indicates that 5% of revenue cannot be used toward fulfilling the mission of the University. In comparison, the top four institutions committed less than 2% of revenue toward the cost of debt.

#### *USES OF FUNDS*

A team approach to the budget management process, based on the cooperative effort of the University's vice presidents, was instituted in 2001. This process is consistent with a balanced budget approach that uses expected revenues as a basis for spending plans. The process considers historical data, market forces, appropriate benchmarking, and new initiatives based on the University's strategic plan. The intent of the process is to encourage cost awareness without compromising the University's commitment to its students. This section addresses the three components of the budgeting process in the University: operating expenses, personnel, and capital expenditures (capex) [See Budgets, 2003-2006 and Budgets approved for 2007 in Common Area, NEASC Team Workroom].

The University begins its fiscal year on July 1, and planning for the following year begins in August. The budget process begins with the finance office forming revenue projections based on enrollment expectations provided by the Vice President of Enrollment Management. For the first time in 2005, the budget office used these projections to construct a recommended budget divided into operational units, based on past spending as well as new initiatives. In January, the Finance Office sends budget request forms, which include these recommendations, to vice presidents and department heads who manage operational accounts. These budget request forms also include three years history of actual spending, the current year budget, and the current year actuals for the first six months.

Deans and directors submit operating expense and personnel requests for their areas in August. The vice presidents return completed request forms to the Finance Office after reviewing and discussing these requests. The Finance Office updates the Access Database and prepares binders with a projected profit and loss statement, the budget detail requests by area, summaries by area, and expense summaries by object code.

Departments also submit their requests for equipment and capital improvements in August for review by the area vice presidents. Facilities works with deans and directors to determine building improvement needs. Information Technology also works with each area to coordinate software and hardware requests, upgrades, and renewals. Three-year rolling plans are developed based on the departmental requests for information technology, facilities, and vehicles.

The vice presidents meet with the Finance Office to review the proposed budget and identify areas requiring further review. Enrollment numbers are modified *ad hoc* as new information becomes available from Enrollment Management. After meeting with the Finance Office, vice presidents review comments on their original requests and submit modified budget requests for approval. This process of re-submission and re-review may require several iterations before a proposed operating budget is finalized.

Once a proposed budget is agreed on by the vice presidents and the Finance Office, the vice presidents present this budget to the University President. Upon approval

by the President, the budget is presented to the Board of Trustees for final approval in the April meeting. Copies of final budgets are distributed to the vice presidents and uploaded into Datatel, an integrated operating software system. Tuition and fees for the upcoming year are established based on this finalized budget and the most recent enrollment projections.

Academic deans make their requests for new faculty lines in September. While these lines follow their own approval process and timeline, they are integrated with the overall budget process. The approval process is outlined in the University's Employment Processing Policy and Procedure, which is available online. The President must approve all new positions or new personnel requiring additional salary lines. When additional salary lines are not required, the President must approve all new positions or personnel at the director level and above, as well as all full-time faculty; the division vice president or Dean of the Law School may approve all new positions or personnel below the director level as well as all replacement of personnel or additional non-tenured and non-tenure track faculty.

Deans and department heads are asked to manage to the bottom line, and to closely monitor actual spending compared to planned spending. Real time access to budget numbers is available through Campus Cruiser. Monthly budget reports are e-mailed to department heads and overall projections for the year are constructed based on actual expenditures. In order to encourage compliance with budgetary constraints, the Purchasing office process includes contacting the ordering department when budgeted funds are insufficient for a submitted purchase order. Finally, the Budget Manager holds quarterly budget status reviews with each dean or department head.

The University is working to improve the tracking of expenditures by operational area, such as school or department. A system for allocating overhead by area has been undergoing beta testing. The system is intended to more accurately portray the costs associated with various areas in order to better understand their relative utilization of resources.

In order to provide more transparency surrounding the budget process, a "Questions and Answers about the University Budget Process" brochure was produced and distributed to administrators, faculty, and staff (in NEASC Team Workroom, Standard Nine). This brochure provides a summary of the budgeting process and a timeline for planning purposes. A sample of this brochure is included in the supporting evidence for this report.

Authority for approval of requisitions and check signing is clearly outlined in the University's purchasing manual (in Online Evidence Center, Standard Nine, Doc.37), which is available on the Web site. Personnel with access to funds are bonded, and prospective employees are subject to background checks prior to a formal offer from the University.

#### *INVESTMENT MANAGEMENT*

Investment management is guided by a written investment policy, which defines the portfolio investment objective as asset preservation in real inflation-adjusted terms. The investment policy uses a return-based strategy with an overall target return of 5% above the Consumer Price Index (currently totaling a target of 8%). Of the overall 8%

target return, the University intends to direct 5% to operations, and to retain the CPI target return (currently 3%) in the endowment for growth.

The investment policy indicates asset allocation guidelines for diversification in order to enhance return without unduly concentrating in a single asset class or investment category. The written policy allows for a mix of equities, fixed income, and other securities, and suggests minimum, target, and maximum percents for each investment class. Relative performance of each asset class is benchmarked against an appropriate comparable market index.

On an annual basis, the Finance Committee establishes an actual target asset mix for the year. A review for rebalancing purposes is conducted at least semi-annually to ensure that the representation of each asset class lies within the stated tolerance range. Rebalancing is conducted at least annually even if asset classes remain within the stated range.

The investment policy defines the characteristics of appropriate securities in each asset class. With the exception of securities issued by the U.S. government or its agencies, no more than 5% of the fund may be invested in the securities of a single issuer. The category "other securities" includes real estate, venture capital and other private equity partnerships, and derivatives and derivative securities. No securities are specifically excluded as potential investments.

The University engages three investment managers, each managing a portion of the endowment fund. In the past, these portions were held under various custodians. In 2005, custody of the funds merged under US Trust in order to facilitate better performance reporting and integrated asset allocation.

Asset ownership decisions are guided by the mission of the University. For this reason, in 2005, the University put its Providence branch up for sale. A buyer has submitted a substantial deposit, and the sale is scheduled to close in January 2007. Also in keeping with the mission of the University, the AEICO Insurance Agency book of business was recently sold. Until its sale, AEICO was a wholly owned subsidiary of the University, providing personal, commercial, and group benefit insurance in nearly every state. While agency profits contributed to the University's scholarship funds, it was decided that ownership of the agency was not consistent with the mission of the University. Proceeds of the sale will be used toward capital projects.

#### *FINANCIAL AID*

The goal of the Financial Aid office is to facilitate a comprehensive, enjoyable, and affordable education for Roger Williams University students (Financial aid master calendar 2006 in NEASC Team Workroom, Standard Nine). The University participates in a variety of federal, state, and private programs that offer loans, grants, scholarships, and other awards to students who demonstrate financial need, superior academic achievement, or other circumstances that have an impact upon their ability to seek an education at RWU. A complete list of scholarships and awards funded by the University or by private individuals and organizations is available on the University Web site (RWU Financial Aid Home Page in Online Evidence Center, Standard Nine, Doc. 33).

The Financial Aid office conducts business in accordance with a comprehensive written procedures manual retained in the office. Procedures are consistent with

guidelines suggested by the National Association of Student Financial Aid Administrators.

Increases in tuition and fees have averaged less than 5% annually for the past four years, with the University providing the primary source of aid, funded by the operating budget. In 2005-2006, 79% of students received financial aid, with the endowment providing over \$25 million to cover 25% of total tuition and fees. Outside grants or scholarships funded less than 2% of total aid provided to students. Student aid as a percent of tuition compares favorably with benchmark institutions (ranking 12<sup>th</sup> of the 15 for 2004), indicating a relatively low discount rate. The ability to attract students despite this discount rate reflects positively on the University and its ability to continue strengthening its financial position.

#### *RISK MANAGEMENT*

The Facilities Department has developed and implemented plans to avoid or reduce financial risks related to the physical plant. Written safety policies in place include a Safety Handbook (in NEASC Team Workroom, Standard Nine), an Emergency Response Plan (in NEASC Team Workroom, Standard Nine), a Crisis Communications Plan (in NEASC Team Workroom, Standard Nine), and a Hazardous Material Contingency Plan (in NEASC Team Workroom, Standard Nine). Facilities employees regularly conduct building walkthroughs to ensure compliance with safety regulations. Additionally, the Department works with an insurer representative to further reduce risks.

In Fall 2005, the University received its second Rhode Island Safety Association Safe Employer award (in Online Evidence Center, Standard Nine, Doc. 31) for its “safety programming, training of employees, worker’s compensation record, and overall interest and concern of the University management team”. Additionally, the University also received a United Educators grant to purchase additional safety training.

The General Counsel has developed various written policies in order to reduce liability risks related to the workplace. The University has written policies that pertain to employment (Employment Processing Policy & Procedure [in Online Evidence Center, Standard Nine, Doc. 21]), (Family and Medical Leave Act [in NEASC Team Workroom, Standard Nine]), (Position Classification Policy & Procedure [in Online Evidence Center, Standard Nine, Doc. 21]), work place behavior (Conflict Of Interest Policy [in Online Evidence Center, Standard Nine, Doc.24]), (Harassment and Hate Crimes [in NEASC Team Workroom, Standard Nine]), (Sexual Harassment Policy and Procedures [in Online Evidence Center, Standard Nine, Doc.26]), and work place safety (Drug Free University, Pets Policies and Procedures [in Online Evidence Center, Standard Nine, Doc. 28]), (Smoking Policy [in Online Evidence Center, Standard Nine, Doc. 29]), (Weapon Free Campus [in NEASC Team Workroom]). Each of these written policies is available on the University Web site. Additionally, training programs for new hires and for supervisors are in place to communicate these policies.

The University has also developed a process to reduce liability related to research, and which assures the health, safety, privacy, and dignity of human subjects who participate in University-sponsored research. In 2003, a Human Subjects Review Board Policy Manual (in Online Evidence Center, Standard Nine, Doc. 32) was created, and is available online. All research involving human subjects must meet the standards of the Human Subjects Review Board, regardless of the funding source for the research.

The University has documented its assumption of liability for trustees, directors, officers, faculty, and staff employees while performing their University duties. In 2005, the Board of Trustees approved a written Indemnification Policy (in Online Evidence Center, Standard Nine, Doc.34), which defends, indemnifies, and holds harmless these parties while carrying out their duties. The Policy also describes the limits of assumption of liability for intentional malicious tortuous conduct, gross negligence, or wanton or willful violation of or disregard for law or RWU policies.

Responsibility for the risk-shifting and risk retention strategies lies with the Chief Financial Officer, who manages insurance selection and regularly reviews insurance coverage. Risk shifting to an insurer is generally used for low probability, high potential dollar loss risks. The Chief Financial Officer reviews insurance needs and insurance policies on an annual basis, with input from the General Counsel. Insurance providers and appropriate contracts are selected in conjunction with our insurance broker, who is associated with the insurance agency formerly owned by the University. Risk retention is relatively high in order to manage premium expenses, and is coordinated with cash reserves.

The University's exposure to property tax risk is currently under public discussion and receiving local media attention (in NEASC Team Workroom, Standard Nine). There are three separate issues under discussion related to the taxation of University property. These issues include Payment in Lieu of Taxes, property taxation for value in excess of the state exemption, and the tax-qualified status of the University. Each of these issues is addressed in the following paragraphs.

The first tax exposure is a request from the town of Bristol that the University provide voluntary Payment in Lieu of Taxes (PILOT) as compensation for town-provided services. The town has estimated that 2005 services, which include police, rescue, and fire services, cost approximately \$197,000. In March of this year, President Nirschel publicly indicated his intention to provide PILOT, although not necessarily in cash. Shortly after, the University announced a \$2.5 million scholarship program effective Fall 2006 for eligible Bristol high school seniors.

At this point, the University has not volunteered cash PILOT payments, pending further analysis. The University Board of Trustees has arranged for a study to clarify the economic impact of the University on the town of Bristol. The study, which will quantify both the economic benefits that the University contributes to the town, as well as the cost of services provided by the town, is currently in process and a report is expected in the near future. In the meantime, citing the University's delay to volunteer cash PILOT, the Town Council is pursuing the following two additional avenues for obtaining cash payments from the University.

The second tax exposure relates to tax treatment of property owned by the University. Since 1994, the state of Rhode Island has allowed a tax-exemption for University property up to the value of \$100 million. The Bristol Tax Assessor has valued the University property in Bristol at \$164.4 million.

The University has indicated a desire to continue working with the town to establish a mutually agreed on payment in lieu of these taxes. Additionally, the University has requested that the local State Senator introduce legislation to raise the property exemption to \$250 million. However, the timing of the request, shortly before

the legislature's summer adjournment, as well as questionable support by local representation, has stalled this initiative.

The third tax exposure is the potential challenge to the tax-exempt status of the University's Bristol property. The local District 69 Representative filed state legislation to this effect, and the House Finance Committee voted that study is warranted prior to further action. However, because the legislation denies exemption specifically to Roger Williams University, rather than all similar organizations in the state, passage of the law appears remote. Denial of this status is estimated to result in a property tax of \$1.68 million annually.

The University is recognized by the Internal Revenue Service as a 501(c)(3) tax-exempt organization. The University is conscious of the need to maintain the charitable tax-exempt nature of its operations, and carefully monitors usage of the Baypoint Inn and Conference Center to ensure that its operations are consistent with the University's educational mission.

#### *AUDITING AND OVERSIGHT*

University policy requires adherence to all federal and state laws, regulations, and procedures. Internal controls are designed to ensure data integrity. While there is currently no University internal audit staff, the responsibility for adherence to internal controls lies with the Finance Department. The Office of the General Counsel is responsible for monitoring and communicating new regulations that may affect the University operations.

The Board of Trustees selects an external firm to perform an independent audit annually in accordance with generally accepted auditing standards. This external auditing firm performs specific tests annually to insure the adequacy and soundness of our internal control structure. Specifically, the auditor reviews internal controls, financial statements, and A-133 federal funds. Each of these audit items will be described further in this section of the report.

The external auditing firm reviews procedures and tests internal controls each May to ensure compliance. Because the University receives more than \$25,000 in federal funding, internal control auditing is also more rigorous than a standard audit. In the most recent audit, there were no findings relative to internal controls. Additionally, the Finance and Audit Committee of the Board of Trustees recently engaged an external auditor to further review internal controls.

The external auditor reviews the year-end financial statements in August or September. For the year ended 2005, the auditors have given the University an unqualified opinion for the financial statement audit.

The external auditors perform an A-133 Federal funds audit each March. This audit is an Office of Management and Budget (OMB) requirement for all nonprofit organizations that receive more than \$25,000 in federal funding. Because the University receives more than \$100,000 in federal funding, the audit is conducted on a University-wide basis. The audit includes review of program effectiveness, eligibility, and efficiency of fund use. In the most recent audit, there were no findings or material weaknesses relative to the A-133 Federal funds.

There is currently no written code of ethics or statement of independence for the Board of Trustees. Through 2003, several Board members or their firms were among the five highest paid independent contractors for professional services. These members or

firms were providers of legal and investment management services to the University. Since 2003, this compensation has been offset by contributions returned to the University.

### **APPRAISAL**

While significant strides have been made to both reduce debt and lower its cost, the capital structure remains costly relative to benchmark institutions, and the University should continue to make managing down its existing debt a priority.

While the University has been successful in obtaining large donations which were used for capital projects (for example Lester Blount, Mary Tefft White), additional work is necessary to create an ongoing source of contributions. For instance, one opportunity would be to focus on encouraging the University's earliest graduating classes to create estate plans that provide contributions to the University, either by gift or bequest.

The University does not have a comprehensive written risk management plan. Risk management efforts are decentralized and shared by the Finance Office, the General Counsel, and the Facilities Department. As a result, some risk exposures may not have been identified and inappropriate unfunded retention may exist. Additionally, the water-side location poses unique financial risks, which could result in business interruption as well as property loss or damage. On the positive side, written policies and procedures have been developed and many are readily available on the Roger Williams University Web site.

The University is not alone in its financial risk regarding property taxes, as PILOT programs have sprung up throughout the country in the past few years. In 2003, the city of Providence made a PILOT agreement with the colleges and universities operating there. Prior to this agreement, these colleges and universities had been threatened with challenges to their tax-exempt statuses. After months of negotiation, Brown University, Johnson & Wales University, Providence College, and the Rhode Island School of Design all agreed to PILOT as well as additional tax liability on newly acquired property. The town of Bristol appears to be using the Providence approach as a model for its own negotiations with the University.

Given the success of the neighboring city of Providence in their endeavors to raise funds from local colleges and universities, additional property taxes in the future are probable for the University. Regardless of the outcome of the PILOT negotiations, the University is likely to incur significant attorney's fees and to endure negative publicity locally.

### **PROJECTION**

Turnover in the Development area has hindered implementation of strategic plans related to targeted campaigns. Recruitment is currently taking place for a Vice President of Development. With a new Director of Alumni Relations and Annual Giving in place, various alumni initiatives will be implemented. These initiatives include re-establishing regional alumni chapters and creating various events tied to the University. The timing for increased solicitations of alumni is opportune, as the University's 50<sup>th</sup> anniversary this year provides a good reason to reach out to alumni.

As this self-study evolved, questions arose regarding the appropriateness of current benchmarks for financial comparisons. While institutions on the benchmark list

share many commonalities, most have been in existence considerably longer than this university. As a result, they may not be comparable for financial measures such as debt ratios and contributions as a percent of revenue. A preliminary list of institutions that may be appropriate for financial comparative measures and benchmarking has been developed and will be reviewed by senior management.

The Finance and Audit Committee of the Board of Trustees along with the General Counsel plans to develop a written code of ethics and a statement of independence for the Board of Trustees. The Office of the President is working with the Board of Trustees to confirm Board members' awareness and understanding of these documents.

The University plans to review risk management policies and procedures with the intention of creating a comprehensive risk management plan. This will begin with risk assessment of the organization, and a recommended plan for reviewing particular operating areas over time. The Finance committee of the Board of Trustees is reviewing the risk management proposal provided by the consultants in order to determine next steps.

The University will continue to work with the town of Bristol in order to reach mutual agreement regarding a PILOT program. Next steps will be determined following completion of the economic impact study ordered by the University Board of Trustees. The University is asking the State of Rhode Island for an increase in the property exemption, currently limited to property valued up to \$100 million. The University is prepared to defend against further loss of property tax-exemption. (see evidence documents in NEASC team work room)