WAYNE STATE UNIVERSITY

Board of Governors

BUDGET AND FINANCE COMMITTEE

February 6, 2015

Minutes

The meeting was called to order at 10:39 a.m. by Governor Massaron in the Ballroom at the Student Center Building. Secretary Miller called the roll. A quorum was present.

Committee Members Present: Governors Kelly, Massaron, Nicholson, Pollard, and Thompson; Andrea Sankar, Faculty Representative and Louis Romano, Faculty Alternate Representative

Committee Members Absent: Madhu Sanam, Student Representative; Diana Svinarich sat in for student representation

Also Present: Governors Dunaskiss, O'Brien, and Trent; and President Wilson; Provost Winters; Vice Presidents Johnson, Lanier, Lessem, Lindsey, Nork, Staebler and Wright, and Secretary Miller

APPROVAL OF MINUTES, DECEMBER 5, 2014

The Minutes of the Budget and Finance Committee meeting of December 5, 2014 were approved by acclamation, as presented.

CONTINGENCY RESERVE

There were no requests for transfer of funds from the Contingency Reserve. The balance remains at $220,000 for FY 2015. For the benefit of the two new Board members, Mr. Kohrman explained that the Contingency Reserve is a fund that is designated for special purposes, generally for searches for executive-level positions. Funding for the Reserve comes from the General Fund, and in recent years that has amounted to $500,000 for each fiscal year.

SCOTT HALL RESEARCH LABORATORY AND MECHANICAL SYSTEMS UPGRADES

Vice President Nork asked for approval for funding of $325,000 to start design work on renovations on the fourth floor of Scott Hall. The complete project is expected to cost between $5 and $7 million, with funding coming from Series 2013 bond issue proceeds.

> **ACTION** — Upon motion by Governor Pollard and seconded by Governor Thompson, the Budget and Finance Committee recommended that the Board of Governors

authorize the President, or his designee, to proceed with design phase activities to plan the upgrade of various research laboratories and mechanical system components in Scott Hall for a cost not to exceed $325,000. Funding for this project will be provided from Series 2013 bond proceeds. The motion carried.

AUDITED FINANCIAL REPORT FOR FISCAL YEAR 2014

Vice President Nork presented the audited financial report for FY 2014, as well as the review of the federal awards audit. Mr. Nork said that in previous years, there were usually one or two minor findings in the federal awards audit, although nothing significant. This year, however, there were zero findings, probably the first time in the history of the University. He then introduced Ms. Tamaka Butler, the University's associate controller, to continue the presentation.

The auditors, Plante Moran, L.L.P., have issued a clean unmodified opinion on the financial statements, which is the highest form of auditor assurance that can be received from external auditors. Ms. Butler presented several charts illustrating the financial position of the University for FY 2014. The consolidated summary of revenues, expenses, and changes in net position showed that the University had total revenues of $809 million with total expenses of $838.2 million, with a decrease in net position of $29.2 million. This was partially offset by an increase in the Wayne State Foundation's net position of $18.6 million, resulting in a total net decline for the University of $10.7 million. Operating revenues decreased by $8.3 million in FY 2014. Although net tuition and fees increased by about $13.1 million, the revenue decline was driven by a decline in federal grants and contracts awards. Ms. Butler also called attention to the timing of certain state and non-governmental revenue, which resulted in two years worth of revenue credited to FY 2013, and none or minimal in FY 2014. Non-operating and other revenues also declined by $9 million. Although investment income increased by $9 million, this was offset by declines in other areas such as Foundation revenues of $7.8 million and gifts to the University, the latter driven largely by an estate gift of $6.8 million received in FY 2013 but not repeated in FY 2014.

The University also experienced a decline in operating expenses of about $5.4 million. Compensation and benefits increased by $1.1 million but were partially offset by a reduction in employee headcount. Depreciation expenses, however, decreased by $4.9 million, attributable primarily to certain construction and renovation projects that were fully depreciated in FY 2013.

Ms. Butler then moved to the Unrestricted Net Position chart. The majority of these assets are committed or designated for specific programs, projects, or functions. The chart showed that the University's unrestricted net assets decreased steadily between FY 2011 and FY 2014, from $220 million to $162.7 million.

The final charts illustrated the University's net position over the last five fiscal years, and showed that the decline was not limited to restricted assets but to the overall consolidated net assets as well. Cash and temporary investments, excluding bond proceeds, were down approximately $17.6 million for FY 2014. Ms. Butler said that given that the net unrestricted net position is declining, it is not surprising that the cash balance would decline as well. Also, funds that had been set aside for spending from previous years, such as faculty startups or other projects, were spent in FY 2014.

The final chart on investment income and realized gains showed a considerable jump in income from FY 2011 at $2.2 million to $9 million in FY 2012. Ms. Butler attributed this to the change in the cash pool investment policy implemented in December 2011, and the benefits have continued into FY 2013 and 2014. Ms. Butler concluded her presentation. Governor Nicholson congratulated her and her team on earning a "no exceptions" ruling on the audit, which he described as in itself being exceptional.

> **ACTION**— Upon motion by Governor Pollard and seconded by Governor Kelly, the Budget and Finance Committee accepted the auditor's report as presented. The motion carried.

FISCAL YEAR 2014 YEAR END REPORT

Mr. Rob Kohrman presented the year-end report for FY 2014. Where the previous report presented the actuals for FY 2014 and compared them to the actuals for FY 2013, the year-end report analyzes the FY 2014 actuals and compares them to the approved budget for the General Fund. Overall, the General Fund balance for FY 2014 was down by $10.4 million, with revenues about $2.3 million below budget (.4%) and expenditures $8.1 million above budget (1.4%).

Of the two components of revenue, tuition and fees were down $0.9 million, or .2% greater than budget projections, and indirect cost recovery (ICR) was down $1.4 million, or 4.1% less compared to budget. The latter was caused primarily by the poor federal funding environment, which resulted in lower ICR revenues.

Turning to the expenditure side, compensation was $5.1 million (1.8%) above budget, an unanticipated cost primarily due to additional hiring for the capital campaign and for part-time non-academic positions. Transfers and one-time spending were $3.2 million (1.7%) above budget; this was spending from existing balances for startups and the campaign. Utilities were about $1.5 million (7.5%) over budget, due primarily to last year's abnormal winter.

Mr. Kohrman then reviewed the calendar for preparation of the budget for FY 2016, which starts on October 1, 2015. The proposed housing rates for resident halls will be presented to the Board at the March 27 meeting; School of Medicine tuition rates on May 1; and the budgets for the General Fund and the Auxiliary Funds as well as the general tuition and fee rates will be presented at the June 26 meeting. Discussion of specifics of the FY 2016 budget will be conducted at Board meetings when needed.

Governor Massaron commented that the year-end report together with the audited financial report both present a bleak picture of the University's situation. He asked Mr. Kohrman for his interpretation. Mr. Kohrman conceded that there are substantial challenges during FY 2015 on the revenue side, especially with indirect cost recovery and the problems with federal funding of research awards. Tuition revenue and enrollment, however, might be more positive in FY 2015. Students have registered for a larger number of credit hours in Fall 2014 and Winter 2015 than originally budgeted, and the mix of non-resident and resident student population is more favorable than budgeted. Mr. Kohrman added that the severe slide in enrollment during the last two years has stabilized, and he sees a more optimistic outlook for FY 2015 and 2016.

Governor Pollard asked what the outlook is for research grants. Vice President Lanier responded that the award dollars for FY 2014 are about $1 or 2 million higher than for FY 2013. Although it is too early to make any prediction for FY 2015, Vice President Lanier noted that federal awards during the first quarter were up significantly compared to the first quarter of last year. The numbers will perhaps average out during the course of the year, but he is cautiously optimistic.

Professor Romano asked about the additional hiring for the Pivotal Moments campaign. He understood that the campaign would be assigned $1 million more each year for five years and did not understand why the additional compensation costs would be unanticipated. Mr. Kohrman explained that the funds were originally budgeted in another area of operating expenses, and once the hiring began, the funds were moved to the compensation line. Therefore, what had not been anticipated was the line to which the funds would be assigned. Mr. Nork added that in addition to the General Fund increment, money from the Hartman Estate gift was used to reduce the amount of funding that had to come from the General Fund. A large part of that was not budgeted; it was in a reserve and later transferred to a spending line. Professor Romano said the Academic Senate could not hold a meeting of its budget committee because of the weather, and he did not have an opportunity to ask these questions of the administration in that venue. Governor Massaron added that when Mr. Kohrman elaborates on the year-end report at the Academic Senate's budget meeting, he would be interested in hearing about the discussions.

ANNUAL REPORT ON THE LONG-TERM INVESTMENT PROGRAM FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2014

Vice President Nork presented the annual informational report on the endowment fund, or Long-Term Investment program, for FY 2014. The report was accepted and approved by the Wayne State Foundation board on November 18, 2014. Earnings during FY 2014 were about 7.5%, placing WSU in the median 63rd percentile compared to its peer universities, but its seven- and ten-year rates show a much better performance, in the 33d and 29th percentile, respectively. Mr. Nork explained that in 2008, the Foundation board modified its investment policy to become more conservative, partly because of the size of WSU's endowment and partly because of the financial crisis of 2008. Over the last two years, however, the S&P 500 U.S. domestic equities outpaced the market, and in FY 2012 the board decided to increase the risk level of its portfolio by moving away from the liquidity pool established in 2008, comprised primarily of cash and short-term treasury investments. The results of 7.5% earnings are in line with what is needed to meet the targeted distribution and growth of the endowment, but the board is looking at the possibility of further increasing its risk level. The investment committee will meet within the next two weeks and will report to the Foundation board at its next meeting in March whether to continue its current course or to increase the risk level.

Governor Massaron asked about the chronology listed in the document about the report going first to the Foundation board and then to the investment committee. Mr. Nork explained that normally the investment committee meets first and then submits the report to the Foundation board. This year, however, a scheduling conflict resulted in a delay of the investment committee meeting. Therefore, Paul Glantz, the chairman of the investment committee, met with Vice President Nork and Paul Kenny from the New England Pension Consultants (NEPC) and decided to submit the report to the Foundation board with the investment committee's preliminary review. Mr. Nork assured Governor Massaron that he will inform the Board about the Foundation board's decision regarding a different approach to its investment policy.

Professor Romano expressed his opinion that the report should state clearly how much of the investment increase is actually an increase in the returns of the portfolio, how much is an increase to the endowment through donations, and how much is paid out in the five percent distribution policy. Vice President Nork replied that the purpose of the Investment report is to discuss the returns of the portfolio. However, he and Mr. James Barbret, University Controller, noted that the breakdown requested by Professor Romano could be found in the Audited Financial Report that was discussed earlier in the meeting. The five percent distribution policy resulted in about $11 million being paid out. Further, page 20 of the Financial Statements shows that there was $21.5 million in investment income and $6.4 in new gifts, resulting in the $28 million increase in the endowment fund. At the close of the discussion, Governor Massaron said that the usual letter from the Board of Governors and the President should be sent to members of the Foundation's investment committee thanking them for their contribution of time and knowledge to the Foundation.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:17 a.m.

Respectfully submitted,

Julie H. Miller
Secretary to the Board of Governors