



Southern Nazarene University

Financial Policies

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The following policies have been approved for the purpose of guiding and directing the financial and business operations of the University.

Operational/Budgeting

- The University will operate with a balanced budget presented annually by management to the Board of Trustees for approval prior to the beginning of the fiscal year. Adjustments to the budget can and will be made during the fiscal year as needed to maintain the budget in a balanced state. This includes, but is not limited to, re-designating funds as allowable (e.g. Class Fee's) to be unrestricted, reducing operating budgets, reducing personnel, changing Employee Benefit packages, etc.
- Budget estimates for enrollment and net revenue along with gift revenues will be made based on (minimum) an analysis of three years of historical data. Other lines within the budget will be projected based on historical data and a reasonable analysis.
- A bottom line, or a contingency balance, will be built in to the operating budget. This amount is to provide a margin to help cover unexpected expenses and to manage unrestricted cash balances. The Administration has set the goal of maintaining 5% of gross tuition revenues budgeted annually to establish reserves for future use.
- Budgeting to fully fund depreciation is an additional goal of the Administration. Allocations for principle debt service reduction and capital expenses along with allocations for repair and replacement reserves count towards meeting this goal.
- Designation of unrestricted operating surplus and major unrestricted gifts in excess of the budgeted surplus will be allocated by the President.
- Operational surpluses released after all expenses (Operations, Debt Service, Depreciation, Capital, etc.) by the SPRC LLC board of managers to the University are unrestricted funds to be designated under recommendation of the President by the Board of Trustees.
- The annual budget will be prepared by a budget committee consisting of members as appointed by the President in consultation with the Vice President for Business and Finance and the Vice Provost for Institutional Planning and Effectiveness.

Spending Authority

- Officers of the University and the Foundation are limited in their spending authority by Board of Trustees and Foundation policies and by Signatory Resolution.
- All contractual agreements, with financial implications or not, will be reviewed and signed only by those designated in Signatory resolutions.

Debt

- All debt that exceeds \$1.5 million requires the approval of the Board of Trustees. Care is taken to manage the assets that have been pledged for debt.
- Within each annual budget, both principal and interest payments shall be accounted for within planning.
- The University operates a line of credit as approved by the Board of Trustees to manage cash flow needs.
- Covenants in loan documents and promissory notes will be met at all times.
- Borrowing between the unrestricted and restricted funds of the University is permitted under the following guidelines:
 - Borrowing must be approved by the Board of Trustee regardless of the amount
 - A promissory note must be executed to indicate the terms for interest and repayment of said borrowings.

Capital Projects

Capital projects in excess of \$1.5 million must receive pre-approval by the Board of Trustees unless emergency circumstances are present. In the event of an emergency circumstance, the University administration will communicate with the Board of Trustees for consultation as soon as possible. Funding for capital projects must be composed of liquid assets in hand, collectible pledges in hand, and/or approved borrowing. Debt service on borrowed funds will be a part of the construction budget until the project is complete and thereafter the University operating budget in the form of debt service payments, depreciation, and/or interest. Budget plans for operating costs related to new construction will be developed prior to beginning construction.

Endowment

- Endowment funds shall be invested in accordance to the Investment policy as reviewed and managed by the SNU Foundation board.
- The Spending policy for endowment earnings will be set, reviewed, and revised as necessary by the SNU Foundation board in accordance with SPMIFA regulations. This policy addresses both earnings to be recognized as income and earnings to be distributed.
- The University and the SNU Foundation will remain in full compliance with the terms of endowment agreements.

Gift Acceptance

Gifts to the University will be received in accordance to the Gift Acceptance policy as set, reviewed, and revised by the SNU Foundation board.

Reporting

- Reporting to budget managers is an important internal control. Budget managers are able to see current data for the budgets they have been given responsibility for within the SNU Portal. At the conclusion of the first three quarters of a fiscal year, Cabinet members and Academic Dean's will receive printed summary reports for all of their accounts. During the last fiscal quarter, these reports will be issued monthly. At the conclusion of a fiscal year, these reports will be issued and reviewed as needed with University leadership.
- A 12 month cash flow projection will be devised and completed following the fourth week of the Fall traditional academic term. A data sheet will be updated monthly tracking results to this projection and will be presented to the Senior Leadership team. Reporting for cash flow will occur during regular meetings of the Board of Trustees.
- University financial records will be audited annually by an audit firm as designated by the Board of Trustees.

Finance Committee of the Board of Trustees

On behalf of the full Board, the finance committee:

- Will receive the audited financial report, the management letter, and all other reports as provided by the board designated external audit firm.
- Will monitor compliance with University financial, employment, facility, risk management, and insurance plans, activities, practices, and policies.
- Will review, approve, and monitor University performance to the budget and cash flow projections.
- Will review and act on capital project plans as presented by the University Administration.
- Will provide fiduciary oversight for the University's defined contribution 403b retirement plan.
- Will review and oversee the annual statement of financial goals for the University.

Repair and Replacement Reserve

Funding of a repair and replacement reserve for buildings and equipment will be budgeted annually as a means towards reaching the University goal of fully funding depreciation. The University President, in consultation with the Vice President for Business and Finance and the Senior Leadership Team, will approve expenditures from this reserve within the Board of Trustees guidelines and in consideration of the University Strategic plan and Campus Master

Plan. Cabinet members will be able to request equipment replacement, classroom/lab improvements, and other building needs each year during the Fall term for consideration.

Asset Protection

Adequate insurance protection for property and casualty risk, worker's compensation, auto, director and officer's liability coverage, life and health insurance coverage, and other ancillary (Cyber, Foreign Travel, Kidnapping, Umbrella Liability) areas as deemed necessary towards fully protecting University liability will be in effect at all times. Full participation in the Nazarene Higher Education Insurance Consortium helps ensure that this policy is adhered to in an on-going manner.

Compliance

- Department of Education financial responsibility scores will be monitored and plans made such that the University stays above the zone at all times (score higher than 1.5).
- Compliance with regulations for the filing of 990, 990T, submitting of payroll withholding and student financial aid audit reporting and all other governmental reporting will be done as required by law.
- The University is expected to operate within generally accepted accounting principles and report its financial condition within those same standards.

Student Account Receivables and Collections

Student account receivables are reduced by an allowance for uncollectible accounts. Uncollectible accounts are written off against the allowance when all reasonable collection efforts have been exhausted (generally, no payment activity during over 6 month period) Student accounts are charged interest at the rate of 1% per month on any unpaid balance.

Revenue Recognition and Deferred Revenue

Tuition, fee, room, and board revenue is recognized as revenue at the beginning of each semester, less related discounts. Tuition, fees, room and board for future terms in future fiscal years are recorded as deferred revenue and recognized at the beginning of the semester in which the amounts relate.

Cash and cash equivalents

SNU considers all cash and other highly liquid investments with original maturities of three months or less to be cash equivalents for financial statement purposes.

Capitalization

Property and equipment is carried at cost at the date of acquisition or date of completed construction. Donated property and equipment is recorded at fair value at the date of donation. If an asset is constructed, interest expense associated with the project is capitalized as part of the original cost and depreciated over the life of the asset. Depreciation is calculated using the straight-line method over the estimated useful lives of assets, which range from 7 to 70 years.

Contributions and contributions receivable

Contributions, including unconditional promises to give, are recognized as revenue when pledges are made by respective donors that are determined by management to be valid and collectible. Bequests from estates and trusts are recorded at the time an unassailable right to the gift has been established and the proceeds are measurable. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Exceptions to Financial Policy

Exceptions to this financial policy may be granted by the Senior Leadership Team as needed.

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