LONGWOOD UNIVERSITY
BOARD OF VISITORS
December 4-5, 2014
Minutes

Thursday, December 4, 2014

Call to Order

The Longwood University Board of Visitors met on Thursday, December 4 in the Stallard Board Room in Lancaster Hall. From approximately 10:30 a.m. until noon some members attended an optional financial overview session on university finance and budgeting lead by Vice President Ken Copeland.

The meeting was called to order shortly after 1 p.m. by Rector Colleen Margiloff.

Members present:

Mr. Stephen Mobley
Mr. Brad Schwartz
Mrs. Shelby Jones Walker
Mr. David Hallock
Mrs. Katherine Busser
Mrs. Marianne M. Radcliff
Mrs. Eileen Anderson
Mrs. Colleen McCrink Margiloff
The Hon. Robert S. Wertz, Jr.
Mr. Eric Hansen
Mr. Thomas Johnson
Mrs. Pia Trigiani
Mr. Lacy Ward

Also present:

President W. Taylor Reveley IV
Dr. Kenneth Perkins, Provost and Vice President for Academic Affairs
Mr. Kenneth Copeland, Vice President for Administration and Finance
Ms. Victoria Kindon, Vice President for Strategic Operations
Dr. Tim Pierson, Vice President for Student Affairs
Mr. Troy Austin, Director of Athletics
Ms. Courtney Hodges, Interim Vice President for Commonwealth Relations
Mr. Justin Pope, Chief of Staff
Mrs. Kay Stokes, Executive Assistant to the President
Dr. Audrey Church, Faculty Representative
Mr. Joe Gills, Student Representative
Mr. Bart Mitchell, Longwood University Foundation

Ms. Ella Maokhamphiou, Internal Auditor
Mr. Cameron O'Brion, Office of the Attorney General

Rector's Welcome and Approval of Minutes and Consent Agenda

Mrs. Margiloff welcomed the Board and requested a motion to approve minutes of the September meeting. Mrs. Walker moved to approve the motion, Mr. Hansen seconded and the motion was approved unanimously.

Mrs. Margiloff requested a motion to approve the consent agenda, including standard edits, updates, and amendments to University policy, procedure and planning, specifically regarding: acquisition of property; financing of student housing through the Real Estate Foundation, including the new residence halls approved for ARC Quad; ARMICs internal control; SWaM procurement; internal audit; the policy regarding operation of golf carts; and the clarification in definitions in the policy on weapons on campus. Mrs. Busser moved to approve the motion, Mr. Mobley seconded and the motion was approved unanimously.

President's Report and Discussion

President Reveley reported positive news on enrollment, with Longwood unusual among Virginia public universities in reporting enrollment increases this fall. He noted new software to help with retention efforts made possible by a gift from Colleen and Will Margiloff. He also expressed the university community's enthusiasm following the previous night's come-from-behind men's basketball win, and a national honor received by the campus police department.

The president led a discussion of Title IX issues and reminded the Board that, despite its challenges, the law requiring a campus response remains an important supplement to the criminal justice system. Tim Pierson provided an update on Title IX education and enforcement issues, saying he believes there has been a substantially increased level of understanding and conversation about the issue on campus. Overall, he believes that conversation has been healthy. He emphasized that there is constant communication and interaction between his office, campus police and town police. Title IX coordinator Jen Fraley also spoke briefly, emphasizing that one effect of the law has been to provide more resources to a broader number of students, which has been positive.

Mrs. Busser brought up recent events at the University of Virginia and the importance of a strong statement from university leadership that sexual assault will be handled firmly. President Reveley said he believes current policies are strong. Ms. Trigiani said the goal should be continued education and effort, and to encourage reporting, and that an increase in Title IX reports is a sign of progress. Mr. Gills said he believes President Reveley has been communicating with students well over the course of the semester and that he believes students feel comfortable availing themselves of the resources on campus. President Reveley suggested a statement to the campus community on behalf of himself and the rector.

Victoria Kindon provided an update on admissions trends, including an increase in fall deposits, visits to campus (up 10 percent) and applications (up 17 percent). She discussed how the software made possible by the Margiloffs' gift will be deployed to identify factors that affect student retention.

Dick Bratcher provided an update on campus construction and the master planning process, summarizing some of the themes that have emerged from community and constituency meetings thus far. He said there has been a call for Longwood to take a leadership role downtown. Most of the hundreds of comments about Longwood and the direction it is moving have been positive.

Ken Copeland gave an overview of the proposed dining and housing fees for the coming years; the proposed increase is 2 percent and the housing increase 4 percent, necessitated by the loss of revenue from the Cunninghams. Housing costs will remain below average for Virginia public universities. He also discussed proposed course fees. Mrs. Margiloff asked for a motion to approve the proposed fee schedule. Mrs. Busser moved to approve the motion, Mr. Mobley seconded and the motion was approved unanimously (a copy of the fee schedule is attached as Appendix 1).

Nancy Shelton provided a brief update on behalf of Alumni Relations and the Alumni Association.

Courtney Hodges provided an update on ongoing advancement efforts in conjunction with Royall & Co., particularly the focus on annual giving, which is up 16 percent year-to-date, and on gift stewardship to ensure donors remain engaged.

Ella Maokhamphiou provided an update on internal audit operations. Five audits are nearing completion, and she is moving forward with a network vulnerabilities audit which she expects to take place in the first quarter of calendar 2015.

Reports of Representatives to the Board

Joe Gills provided an update on voter registration drives, a visit by himself and other students to the White House to discuss campus safety, and Title IX and bystander intervention training efforts.

Audrey Church provided a brief faculty update on issues including the provost search and campus master plan. She said the faculty wished to convey from the faculty the importance of a proper balance between athletics and academics, and encouragement wherever possible not to remove trees. She said faculty would be pleased to see that faculty and staff compensation will be used as a principal metric in assessing the strategic goals of the university, and is appreciative of President Reveley's leadership style. "We've transitioned from him being the 'new' president to being 'our' president," she said.

Bart Mitchell offered a brief report on behalf of the Longwood University Foundation, noting spending is up roughly 11 percent and total assets remain about $75 million.

The meeting broke from approximately 3 p.m. until 3:20 p.m.

Courtney Hodges and Victoria Kindon offered further perspective on efforts to drive advancement efforts, and the work with Royall. Emily O'Brion was introduced as new director of government relations.

Troy Austin provided an update on athletics, including his own appointment on the NCAA Division 1 Council, the success of the benefit auction, and some recent personnel changes related to compliance.

President Reveley addressed the issue of Centra Hospital and its forensic nurse staffing. He emphasized that the issue is common to many smaller communities and that Centra has reasonable concerns for wishing to continue to offer its complete forensic exams only in Lynchburg, but that he would continue to advocate for some kind of on-call system so that Longwood students would not have to travel to Lynchburg. There was a discussion among Board members, with suggestions made including looking to Richmond-area options. Mr. Ward emphasized the importance of the issue to broader rural communities, not just Longwood and other universities. At the close of the afternoon session, Board members discussed with Ms. Maokhamphiou the substance of current work by the office of internal audit and planning for audit committee activities going forward.

There being no further business, the meeting was adjourned at 4:07 p.m.

Friday, Dec. 5, 2014

The Board assembled on Friday at 9 a.m. in Stallard Board Room. All members from the previous day were present except Mrs. Busser, as were all the vice presidents, Audrey Church, Joe Gills and Ella Maokhamphiou.

Welcome

President Reveley praised the Longwood police for their recognition as the No. 16 national ranking among university police departments in a recent magazine report. Chief Robert Beach offered comments.

Town Matters

Mayor David Whitus '83 and Town Manager Gerry Spates were introduced and addressed the Board. Mr. Whitus praised his relationship with Mr. Spates, who noted he has worked with Longwood staff since the time of President Willett and has found President Reveley particularly easy to work with. They addressed questions concerning capital improvements, joint participation in the Master Plan, and parking issues. Mr. Spates noted there has been substantial improvement in the off-campus behavior of Longwood students and praised the work of Tim Pierson and Chief Beach.

Composite Financial Index

Ken Copeland made a presentation on the Composite Financial Index and its use as a metric in the strategic plan (a copy of the briefing materials on the CFI is included as Appendix 2).

General Education

Sharon Emerson-Stonnell, professor of mathematics, and Lara Ferguson, professor of history, presented an overview of the process for renewing and revising general education, and an update on the progress of the committee, and answered questions. The faculty committee will continue with its work through the current academic year and next, with a timetable to begin piloting new general education courses in the fall of 2016.

Strategic Priorities Task Force meetings

After President Reveley reviewed the purpose behind small tasks forces comprised of BOV members and vice presidents, the task forces met for the first time (the roster of each group is included as Appendix 3):

Retention

Regional prosperity:

Governance

Foot Traffic

Strengthening the University

National Marketing

When the Board reconvened, each group briefly summarized its initial discussions, including the prospect of creating a broader system of supporting entities for various parts and areas of the university. There was a brief update from Victoria Kindon on Longwood's work with the branding firm Free Range, and from President Reveley on the provost search.

There being no further business, the meeting was adjourned at 1:45 p.m.

LONGWOOD UNIVERSITY

PROPOSED HOUSING & DINING FEES 2015-16

	2014-2015	2015-2016
Housing		
Main Campus-Double	$ 6,148	$ 6,394
Main Campus-Triple	$ 5,898	$ 6,134
Main Campus-Single	$ 7,148	$ 7,394
Lancer Park-Quads	$ 7,150	$ 7,436
Lancer Park-Doubles	$ 8,084	$ 8,408
New Lancer Park-Quads	$ 7,974	$ 8,292
New Lancer Park-Doubles	$ 8,084	$ 8,408
New Lancer Park-Singles	$ 8,698	$ 9,046
Longwood Village	$ 7,406	$ 7,702
LU Landings-Quads	$ 7,974	$ 8,292
LU Landings-Singles	$ 8,698	$ 9,046
Dining		
14 + $250	$ 3,108	$ 3,164
19 + $150	$ 3,800	$ 3,878
Block 160 + $300	$ 3,082	$ 3,080
10 + $350	$ 3,132	$ 3,192
Block 80 + $300	$ 1,860	$ 1,890

PROPOSED COURSE FEES 2015-16

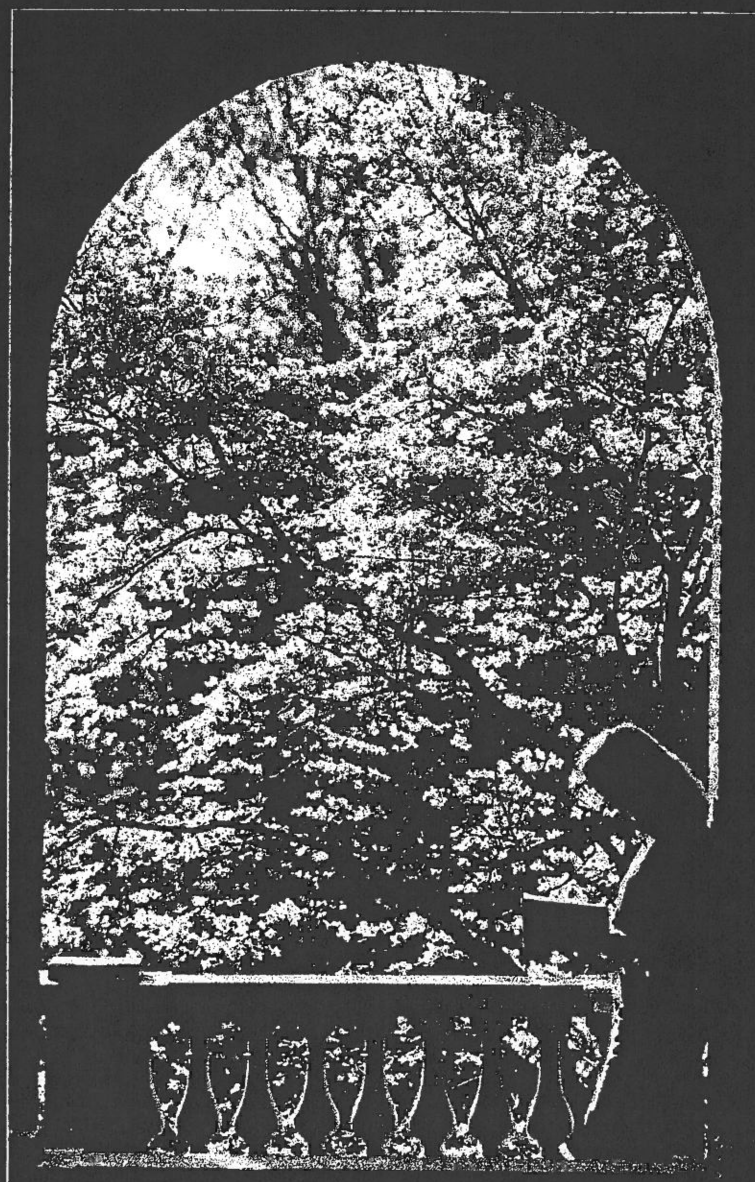
	2014-2015	2015-2016
Leadership Development through Wilderness Pursuits (REC375)	$55	$65
Program Planning (REC371)	$0	$25
Meteorology Lab Fee (GEOG 261)	$0	$30
Ecosystem Ecology Lab Fee (BIOL434)	$0	$30
Animal Behavior Lab Fee (BIOL475)	$0	$30

Honors Research in Environmental Science (ENSC498)	$0	$125
Directed or Independent Study (ENSC490)	$0	$125
Graphic Design and Production II (DSAM 322)	$0	$60
Special Topics Material Fee (DSAM295)	$0	$60
Special Topics Material Fee (DSAM395)	$0	$60
Special Topics Material Fee (DSAM495)	$0	$60

Appendix 2

STRATEGIC FINANCIAL ANALYSIS FOR HIGHER EDUCATION

SIXTH EDITION



KPMG PRAGER, SEALY & CO., LLC BearingPoint

10 THE COMPOSITE FINANCIAL INDEX (CFI)

CHAPTER SUMMARY

After looking at the relative strengths and weaknesses of each of the four core ratios, it is useful for an institution to be able to combine them into a single score. This combination, using a reasonable weighting plan, allows a weakness or strength in a specific ratio to be offset by another ratio result, thereby allowing a more holistic approach to understanding the total financial health of the institution.

COMPOSITE FINANCIAL INDEX—COMBINING THE CORE RATIOS INTO A SINGLE MEASURE

In Chapters 6–9, we represented four core higher-level ratios that can provide information on the overall financial health of the institution. These ratios are:

- Primary Reserve Ratio
- Viability Ratio
- Return on Net Assets Ratio
- Net Operating Revenues Ratio

For public institutions, this chapter introduces a methodology for creating one overall financial measurement of the public institution's health based on those four core ratios. This measure is called the Composite Financial Index, or CFI. The CFI is useful in helping governing boards and senior management understand the financial position that the institution enjoys in the marketplace. Moreover, this measurement will also prove valuable in assessing future prospects of the institution, functioning as an "affordability index" of a strategic plan. For private institutions, this chapter reiterates the conceptual framework and methodology for the CFI introduced in the fourth edition of *Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Directions*.

Since we introduced the concept and methodology of the CFI in the fourth edition in 1999, it has been adopted by many leading institutions and found great acceptance by senior management and governing boards. We are convinced that the CFI is a very valuable tool for senior managers and boards of trustees to help understand not only the state of an institution's financial situation at a point in time but also serve as a valuable tool, unavailable from other sources, that can provide insight into the trends of an institution's key financial indicators.

We believe this for several reasons. First, by blending the four key measures of financial health into a single number, a more balanced view of the state of the institution's finances is possible because a weakness in one measure may be offset by the strength of another measure. Second, by using the same criteria to determine the CFI over a period of time, the board and management are given the opportunity to measure the overall financial progress that it is making. Lastly, the measure is easily understood and remembered, so it can become part of institutional communications on where the institution is as well as how far the institution has come.

Our recommendation is that each institution develop the CFI that is tailored to the institutional needs and then apply it over an extended period of time—both historically and as a planning tool as the institution develops a prioritized and priced strategic plan. By tailoring the CFI in this way, the institution will have insight into the financial impact of different activities.

As an example, if an institution has just completed a significant investment in new facilities with a significant debt component, the expectation that both the CFI and the Viability Ratio will be depressed is reasonable. Similarly, if the institution has recently completed a major capital campaign, the CFI may well have improved, and the governing board and senior management have the opportunity to consider whether the amount of the increase matched overall expectations.

As with any financial analysis, we believe a long period of time, at least five years, represents enough measurement points to effectively understand the financial direction of the institution. We also believe that once developed, the schema should be fixed, and if there is a compelling reason for a change, that all information be restated so that comparative data is consistent. However, the weighting should not be revised as a response to changes or deterioration in certain financial indicators but should only be done if the institution's financial or programmatic objectives have fundamentally changed over the long term.

We have also found, however, that applying the CFI as a peer group measure has some limitations. This is different from the comparison of an individual ratio, where senior managers of an institution believe they have the capability to understand the action to take if an individual ratio is different from another institution. This relates to the fact that there are a limited number of most likely reasons for movement in a selected ratio. However, when the ratios are combined, the underlying reasons for change may be indiscernible because of the number of possible variations.

Within this edition, we present the development of the CFI using specific weightings for each ratio that we believe represent an appropriate assessment of the relative importance of each ratio and a reasonable assessment of balance between an institution's short- and long-term needs. However, the weighting of the ratios becomes the key variable that would reflect differences in institutional philosophy and approach to financial planning. We have determined that the weighting and scoring systems developed for private institutions in the fourth edition are appropriate for public institutions. We have validated this assessment through calculations using public institutions' financial statements and information.

The four-step methodology is as follows:

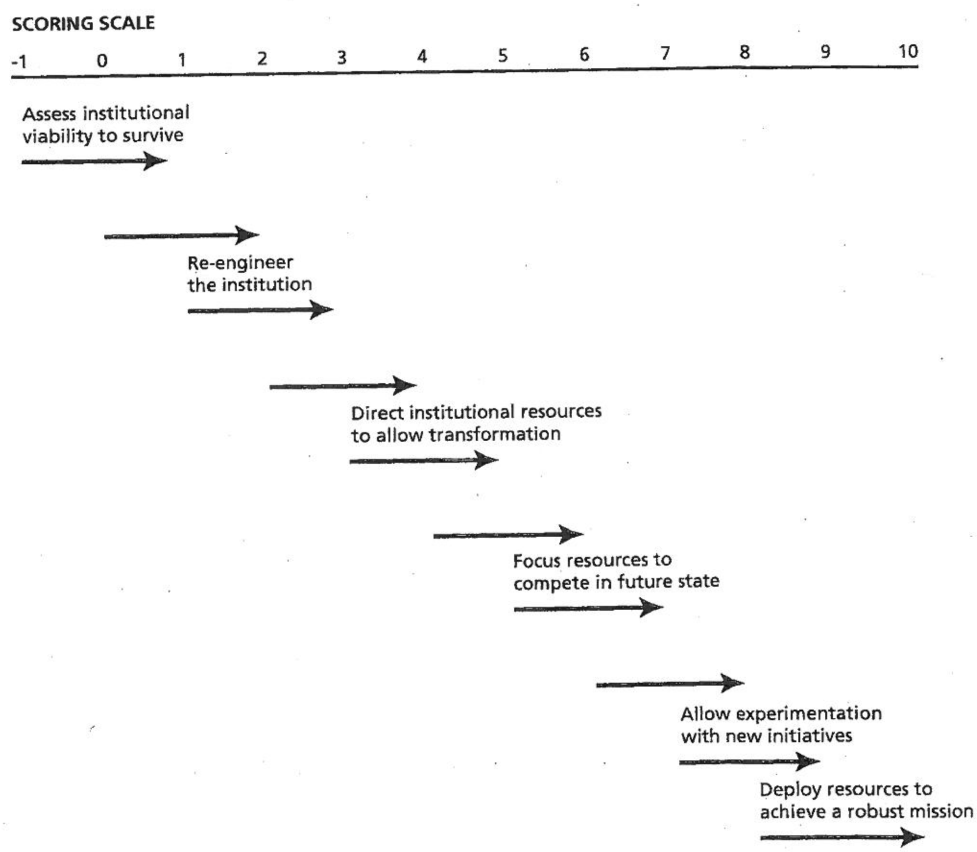
- Compute the values of the four core ratios;
- Convert these figures to strength factors along a common scale;
- Multiply the strength factors by specific weighting factors; and
- Total the resulting four numbers to reach the single CFI score.

The CFI only measures the financial component of an institution's well-being. It must be analyzed in context with other associated activities and plans to achieve an assessment of the overall health, not just financial health, of the institution. As an example, if two institutions have identical CFI scores but one requires substantial investments to meet its mission-critical issues and the other has already made those investments, the first institution is less healthy than the second. In fact, an institution's CFI can become too high as well as too low. When put in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution.

IMPLICATIONS OF THE CFI

These scores do not have absolute precision. They are indicators of ranges of financial health that can be indicators of overall institutional well-being, when combined with nonfinancial indicators. This would be consistent with the fact that there are a large number of variables that can impact an institution and influence the results of these ratios. However, the ranges do have enough precision to be indicators of the institutional financial health, and the CFI as well as its trend line, over a period of time, can be the single most important measure of the financial health for the institution. Stated graphically in Figure 10.1, this scoring system may look like the following:

FIGURE 10.1: SCALE FOR CHARTING CFI PERFORMANCE



The overlapping arrows represent the ranges of measurement that an institution may find useful in assessing itself. There is little discernible difference between the financial position of an institution with a 3.3 or one with a 3.4 CFI. In this case, the nonfinancial indicators will be a stronger differentiator between the institutions. However, there are readily discernible financial differences between an institution scoring 3.4 and 5.5 on the CFI. An institution with a significantly low or declining CFI will be disadvantaged when competing with institutions with a higher or improving CFI.

CALCULATING THE CFI

To calculate the CFI, the model requires that the four ratios articulate to each other on a common scale. The "Scale for Converting the Core Ratios to Strength Factors" is shown in Table 10.1. By selecting points on the scale and determining a corresponding comparable strength for each ratio, the scoring system achieves a commonality along the range of the scale.

Table 10.1 presents the ratios at three selected points—1, 3 and 10—on a scale of 1 to 10. A score of 1 represents very little financial health; 3, the threshold value, represents a relatively stronger financial position; and 10, the top score within range for an institution. Some institutions will exceed the top score; however, for purposes of measuring financial health there is no reason for the scale to be extended beyond 10. By using the methodology to compute the CFI, an institution could fall below 1 and create negative amounts. These amounts should be computed and included in the determination of the CFI. Should an institution wish to continue the calculation beyond the score of 10, the proportionate analysis would continue to be effective. However, extending strength factors beyond the score of 10 will create a higher CFI and may unduly mask a weakness in another ratio.

ESTABLISHING THE THRESHOLD VALUE

The scale represents an assessment based on industry experience. Using 6 percent as the threshold value for the Return on Net Assets Ratio is intended to establish a rate of return in excess of the growth in total expenses. The Primary Reserve Ratio threshold of moderate financial health is set at .4x. The Viability Ratio threshold is set at 1.25:1. The Net Operating Revenues Ratio is set at 2 percent for private institutions using an operating indicator, and 4 percent for both private institutions using the change in total unrestricted net assets and for public institutions. Even though public institutions have an operating indicator, that indicator excludes certain key elements of operating revenues, such as appropriations and gifts for operating purposes. Using the income before other revenues, expenses, gains and losses (operating income/loss and net nonoperating revenues) includes total investment income of the institution, resulting in an amount that is consistent with total changes in expendable net assets, unrestricted and restricted, and plant equity. For public institutions that use a spending rate that is obtainable from the accounting records, that amount may be used to calculate the Net Operating Revenues Ratio and the 2 percent threshold should be used.

TABLE 10.1: SCALE FOR CONVERTING THE CORE RATIOS TO STRENGTH FACTORS

SCORING SCALE	1	3	10
Primary Reserve Ratio	.133x	.4x	1.33x
Net Operating Revenues Ratio:			
Using an operating indicator	0.7%	2%	7.0%
Using change in unrestricted net assets	1.3%	4%	13.0%
Return on Net Assets Ratio	2.0%	6%	20.0%
Viability Ratio	.417x	1.25x	4.16x

CALCULATING STRENGTH FACTORS

To calculate the strength factor at a point other than those presented in Table 10.1, divide the ratio value by the relevant value for 1 given in the table. As an example, a Viability Ratio of 1.5x converts to a strength factor of 3.6 as follows:

$$\frac{1.5x}{.417x} = 3.597, \text{ or } 3.6$$

ANALYZING STRENGTH FACTORS

In analyzing the strength factor, a composite strength factor of 1 indicates an institution under financial stress. Reading down the table, the profile of an institution with a score of 1 on each of the individual ratios (and a CFI of 1) discloses a Primary Reserve Ratio of .133x, indicating that expendable resources are available to cover about 45 days of annualized expenses (13.3 percent of 365), and that while some net operating revenues and return on net assets exist, the amounts of .7 percent and 2 percent are too small to allow replenishment of reserve levels and may well not equal even modest growth in total expenses. Finally, a Viability Ratio of .417x indicates long-term debt exceeding expendable resources by 2.4 times (1 ÷ .417x).

A strength factor of 3 on each ratio indicates that an institution is relatively financially healthy in that approximately 140 days of annualized expenses are retained in expendable resources (40 percent of 365); the net operating revenues generated are sufficient to keep pace with, and will likely exceed the growth of, moderate expense levels; the return on net assets would appear reasonable for the overall investment activity of the institution; and expendable net assets exceed the institutional debt levels, although not by excessive amounts.

Institutions with this profile generally have enough wealth and access to capital resources to finance modest program improvements and address a modest financial challenge; however, a significant institutional transformation may be difficult to realize without additional resources. At a strength factor of 10 on each ratio, about 485 days of annualized expenses exist in expendable resources, net operating revenues indicate the margin from operating activities will exceed normal increases in expense levels, the return on net assets will provide marginal resources that may be used to support institutional initiatives, and the institution has substantial expendable resources in excess of debt.

WEIGHTING THE RATIOS

A key feature of the CFI is that a single score allows weaknesses in individual ratios to be quantitatively offset by strengths in other ratios. The result is the ability to look at overall financial health, not just individual components of financial health. For this process to be most useful, it is important to use the weighting factor consistently for each of the ratios. If substantial differences in scores result from year-to-year comparisons, the explanation will be related to economic events, not different weighting plans. Elimination of any of these ratios would be inappropriate for the application of the CFI. In certain cases, the Viability Ratio will not apply because some institutions carry no long-term obligations. If that is the case, then the weighting for the Viability Ratio is zero and the remaining three ratios will be allocated 100 percent of the weight, proportionate to one another.

In a "normalized" institution, the suggested weighting would be more heavily skewed toward measurement of retained wealth and less toward current operations. The principal reason for this is the belief that retained wealth and strategic use of debt are stronger indicators of long-term institutional financial health than measures depending on a single year's performance. As previously stated, we believe that an institution will, at various points in its evolution, find need to invest in itself, and that may mean generating short-term, controlled deficits. These investments may well impact annual operating performance negatively but may be the most important strategic investments that the institution makes. That is not to say that the operating results are unimportant, as evidenced by the use of operating ratios in developing the CFI. With that as a concept, the weighting pattern is as follows in Table 10.2:

TABLE 10.2: CREATING THE WEIGHTING SCHEMA

RATIO	INSTITUTION WITH LONG-TERM DEBT	INSTITUTION WITH NO LONG-TERM DEBT
Primary Reserve	35%	55%
Net Operating Revenues	10%	15%
Return on Net Assets	20%	30%
Viability	35%	–

INTEGRATING THE CFI INTO THE STRATEGIC PLAN

The CFI is best used as a component of financial goals in the institution's strategic plan. Further, the institution is best served if the CFI is calculated over an established time period, for example, the past three years and the next five. This gives a more accurate picture of overall financial health and answers the questions (a) were returns earned on investments, and (b) were the right investments made. Routine financial statement modeling to determine the CFI gives the opportunity for constant assessment and continual awareness of institutional performance. Table 10.3 is an example of the calculation of the CFI using the information from Utopia University as discussed previously.

TABLE 10.3: UTOPIA UNIVERSITY—SUMMARY OF THE COMPOSITE FINANCIAL INDEX

RATIO	RATIO VALUE		STRENGTH FACTOR		WEIGHTING FACTOR		SCORE
Primary Reserve	.74x	=	5.56	x	35%	=	1.95
Net Operating Revenues	2.28%	=	3.26	x	10%	=	.33*
Return on Net Assets	4.78%	=	2.39	x	20%	=	.48
Viability	1.28x	=	3.07	x	35%	=	1.07
					Composite Financial Index		3.8**

* Calculated using an operating indicator for private institutions
** Number has been rounded to reflect appropriate level of precision as indicated by research

Strategic Priority Task Forces

Friday, December 5

All Task Force meetings will take place in the President's Office Suite
Lunch is available in the Stallard Board Room from 11:30 to 1:00

- 11:30 to 12:15 -

Retention & Graduation (Victoria Kindon's Office)
Hallock and Radcliff
with Kindon, Perkins, and Pierson

Foot Traffic by Alumni & Friends (President's Office Conference Room)
Anderson and Johnson
with Austin and Hodges

Organization, Structuring, and Governance (President Reveley's Office)
Schwartz and Wertz
with Bratcher and Copeland

- 12:15 to 1:00 -

National Marketing (Victoria Kindon's Office)
Hansen and Ward
with Austin, Hodges, and Kindon

Strengthening the University Community (President's Office Conference Room)
Mobley and Walker
with Copeland and Perkins

Regional Prosperity (President Reveley's Office)
Busser and Trigiani
with Bratcher and Pierson