MOUNT VERNON
NAZARENE UNIVERSITY

DEBT POLICY

Introduction

To further its mission and achieve strategic initiatives, MVNU must invest in and maintain buildings, equipment, and infrastructure. MVNU relies on an array of resources to achieve these goals, including debt, gifts, and budget allocations. The allocation of resources results from a planning process that considers operating and capital needs. Debt management links capital budgeting, financial management, and facilities planning. This policy is intended to provide a framework for debt management.

Guidelines

A. Management Review and Governance
1. A project may be financed only if there is an identifiable repayment source (e.g., capital fund or residence hall revenues), a reserve fund, or income from temporarily restricted or unrestricted sources.
2. The maximum amount of debt shall be based on the ability to service that debt through the operating budget without infringing on the resources needed for other priorities.
3. Borrowing in excess of $1 million annually requires approval by the Finance Committee. Information submitted with the request for approval shall include the total cost of the project, source(s) of funds for debt repayment, and the period of time over which the debt is planned to be repaid.
4. MVNU's debt portfolio shall be evaluated in the context of all of its assets and liabilities.
5. MVNU shall report to the Audit Committee compliance with covenants and obligations associated with any outstanding debt, including the payment of debt service.

B. Cost
1. To minimize the cost of borrowing, MVNU shall seek to maintain a long-term bond rating from Standard and Poor's that is at least BBB-rated.
2. MVNU shall seek the lowest cost source of financing when issuing debt.
3. MVNU shall seek to maintain an acceptable balance between interest rate risk and the cost of capital.
4. MVNU may issue fixed or variable rate financing, to provide an appropriate balance between interest rate risk and the cost of capital. Any debt swapped from a fixed rate to a variable rate shall be considered variable rate debt. This provision is to be reviewed annually by the Finance Committee.
5. MVNU shall periodically review outstanding debt to determine if refinancing opportunities exist. Refinancing or restructuring of current debt (within tax law constraints) may be used to reduce costs or to change bond covenants to provide an advantage to MVNU's financial or operating position.
6. MVNU shall consider use of tax-exempt debt, whenever feasible.

C. Security and Repayment
1. MVNU shall consider utilizing unsecured debt, whenever feasible.
2. Debt shall be amortized with, at minimum, annual principal repayments.
3. MVNU shall determine the appropriate term and amortization each debt issue by evaluating its overall debt portfolio and by considering the life of the assets being financed, interest rates, risk assessment, general market conditions and future financial plans.

Metrics

MVNU has selected the following ratios in evaluating debt levels:

- *Debt Service Ratio*: measures the % of debt service & leases to total expenses

$$\frac{\text{Annual Debt Service (P\&I) + Lease Payments}}{\text{Total Expenses}}$$

- *Debt Leverage Ratio*: measures the % of net assets leveraged by debt & leases

$$\frac{\text{Net Assets}}{\text{Annual Debt Service (P\&I) + Lease Payments}}$$

- *Operating Cash Flow to Debt Service & Lease Obligations*: measures the ability to meet debt service & lease payments from operating cash flow

$$\frac{\text{Net Cash Provided by Operations + Interest Expense}}{\text{Debt Service (P\&I) + Lease Payments}}$$

- *Interest Risk Ratio*: measures the impact of interest payments on total expenses

$$\frac{\text{Interest Expense}}{\text{Total Expenses}}$$

Sources: Queens University (Canada), Lakehead University (Canada), Auburn University (AL), Berea College (KY), Rockhurst University (KS)