Doane University Debt Policy

As revised by the Board of Trustees, October, 2012

OVERVIEW

This Debt Policy sets forth comprehensive guidelines for the construction, financing, and refinancing of needed educational facilities, equipment, and structures. It is the objective of the policy that

1. The University obtains financing only when reasonable and necessary
2. The timing and amount of debt or other financing needed is identified
3. That competitive interest and other costs be obtained
4. To establish targets for selected financial ratios to ensure the university is able to obtain and maintain highest acceptable credit rating
5. This debt policy for the University shall conform with all applicable state and federal law.

This Debt Policy serves to articulate Doane University's philosophy regarding debt and to establish a framework to help guide decisions regarding the use and management of debt. As the University establishes institutional priorities through its strategic planning processes, including its campus master planning, the University will consider utilizing a mix of financing and funding sources including gifts, internal reserves and investments, and external debt. Appropriate use of leverage will enable the University to advance its mission, achieve its strategic goals, and ensure financial health in present terms and over the long term. This policy will help ensure that Doane University's debt capacity is allocated strategically, and that Doane University's debt levels and types of debt are appropriate and responsible given the University's financial strength and risk tolerance levels.

SCOPE

Debt financing shall include revenue bonds (used to purchase or construct real property, facilities, and other improvements), revenue anticipation notes (for cash flow financing), master loan or small loan note program (for capital equipment), and other obligations permitted to be issued or incurred under Nebraska law. The useful life of the capital asset shall exceed the payout schedule of any debt the University assumes in order to acquire the asset or project.

RESPONSIBILITY

Board of Trustees

The Board of Trustees is responsible for establishing and approving modifications to this Debt Policy as recommended by the Business Committee.

The Board of Trustees has ultimate decision making authority and responsibility for the assumption of debt, both direct and indirect. It is responsible for authorizing the issuance of debt, for modifying the nature of or accelerating the repayment of existing debt, and for approving any debt-related derivative contracts.

Business Committee of the Board of Trustees

The Business Committees is responsible for recommending to the Board of Trustees the issuance of new debt, the modification or repayment acceleration of existing debt, and the approval of any debt-related derivative contracts. The committee will consider and act upon recommendations from the President and Vice President for Finance and Administration.

The committee is responsible for reviewing this Debt Policy Statement at least annually and recommending modifications as needed to the Board of Trustees.

President

The President will be supported by the Vice President for Finance and Administration in the development of recommendations to the Board regarding the use of debt.

Vice President for Finance and Administration and Staff

The Vice President for Finance and Administration, in consultation with the President, is responsible for ongoing debt management. He/She will seek appropriate counsel from experts as needed. The Vice President for Finance and Administration will develop and manage relationships with investments bankers, financial advisors, Nebraska Educational Finance Authority (NEFA), financial institutions, and others in support of the objectives stated in this policy. He/She is responsible for ensuring timely payment of debt service payments, monitoring debt covenant compliance, debt related financial reporting, and regulatory compliance.

The Vice President for Finance and Administration is responsible for reviewing and approving equipment leases and other financing arrangements in support of normal operations funded by approved budgets.

The Vice President for Finance and Administration may delegate the above responsibilities to senior staff reporting directly to her/him and will work closely with those senior staff on such matters.

GENERAL FRAMEWORK FOR DEBT UTILIZATION AND MANAGEMENT

Consideration is given to purpose, affordability, risk management, and financial structure management in developing a framework for debt utilization and management:

1. <u>Purpose</u> includes ensuring that the debt-funded project will help the University further its mission or reach its goals.

2. <u>Affordability</u> includes an analysis of the cost of capital, cash flow forecasts, and rationale to instill budget discipline and ensure intergenerational equity between the beneficiaries and payers of debt.

3. Risk management includes an appropriate weighting of fixed and variable rate debt, a plan to manage liquidity risks and exposures, and rationale for matching assets to liabilities along the duration spectrum.

4. A Credit Rating via rating agencies may be obtained and managed to meet the University's strategic objectives while maintaining the highest acceptable credit rating worthiness and most favorable relative cost of capital and borrowing terms.

5. Financial structure management includes maintaining strong financial ratios in comparison to peers, a rational for the appropriate level of debt versus equity, and proactive monitoring of capital markets to manage debt. In no case shall the Debt to Expense ratio be greater than 5%. See examples in Appendix A.

PRINCIPLES OF DEBT UTILIZATION AND MANAGEMENT

1. Only projects that further the mission and strategic goals of the University, either directly or indirectly, will be considered for debt financing.

2. To the extent possible, gifts, grants, and internal reserves will be used to fund capital projects. Debt represents a valuable and scarce resource and will be used conservatively and strategically.

3. Bond financing will be coordinated to the extent possible so that multiple projects can be accommodated in a single borrowing to reduce overall issuance costs per dollar of debt issued. Bridge financing from external or internal sources may be used for low-cost interim financing to facilitate best timing considering project schedules, fundraising schedules, bond financing schedules, and other variables.

4. The University will limit its overall debt to a level that, when viewed in the context of its current and future strategic objectives, is intended to optimize financial strength over the long term. In considering debt capacity and affordability, the University will compare its financial ratios, including those described in Appendix A, to other institutions and to its peer group. The University will also prepare long-term cash flow projections to demonstrate affordability within its budget or dedicated reserves. Decisions will be made based on the specific and unique needs of the University consistent with this debt policy.

5. The use of debt must be supported by an achievable financial plan that includes servicing the debt and meeting any new or increased operating costs associated with the project, including long-term maintenance costs. A project that generates a new revenue stream or can create budgetary savings will receive priority consideration.

6. The University will employ maturity structures that correspond with the expected useful life of the projects to be financed. Should debt be issued with a bullet or

balloon principal payment at the final maturity, optional principal payments will typically be made over the term of the debt to result in generally level annual debt (principal and interest) payments. Call features will be structured to provide the highest degree of flexibility relative to cost and consistent with market requirements.

7. Annual debt interest and principal amortization payments will be provided for in the annual operating budget.

8. The University will invest bond proceeds appropriately to achieve the highest return available under arbitrage limitations consistent with preservation of principal. The University will comply with arbitrage requirements on any invested bond funds.

Appendix A: DEBT CAPACITY REVIEW

The following ratios will be used as a guide when determining debt capacity

Financial Ratio	Definition / Formula for Calculation	Goal for Ratio
Viability Ratio	Expendable Net Assets/ Plant Debt	>1
Leverage Ratio	Unrestricted and Temporarily Restricted Net Assets/Debt Outstanding	> 2
Debt Burden Ratio	Actual Annual Debt Service / Total Operating Expenses	< 5%