

STANDARD NINE: FINANCIAL RESOURCES

Worcester Polytechnic Institute is in a healthy financial position as a result of many years of conservative management, a successful capital campaign, and the past several years' growth in the U.S. economy. WPI's strategic initiatives—including increasing the number of faculty to bring down even further the student/faculty ratio, improving academic laboratories, improving campus culture and community presence, and enhancing global technological education—are supported by the increased revenues generated from the endowment earnings, capital campaign gifts and strategic tuition increases.

The following chart shows major trends in WPI's enrollment, revenue and expense during the last five and 10 years. Especially between 1995 and 2000, the statistics are favorable for the applicant pool, student aid as a percentage of education and general expense, and endowment market value and its contribution to annual expenses.

	1990	1995	2000
Number of First-Year Student Applications	2693	2480	3244
First-Year Students Admitted as a Percent of Applicants	79	85	79
First-Year Students Enrolled as a Percent of Applicants	26	24	20
First-Year Students Enrolled as a Percent of Students Admitted	33	28	26
Student Aid Expense as a Percent of Education and General Expense	14	26	20
Net Tuition and Fee Revenue as a Percent of E & G Expense	59	73	55
Total Unrestricted Gifts	\$1,450,396	\$1,819,036	\$1,961,344
Unrestricted Gifts as a Percent of E & G Expenditures	3	3	2
Endowment Market Value (June 30)	\$ 98,262,692	\$152,407,164	\$385,916,375
Endowment Income as a Percent of E & G Expense	11.5	10.3	13.6
Total Development Fund Raising	\$1,775,901	\$1,886,185	\$4,189,333
Graduate Tuition and Fees as a Percent of Total Tuition and Fees	10.8	10.0	10.7
Continuing Education Revenue	\$1,348,356	\$1,292,328	\$7,204,700
Continuing Education Revenue as a Percent of Total Revenue	2.1	1.9	7.4

The President's Cabinet meets regularly to oversee and evaluate the operating and capital budgets. The Cabinet makes decisions concerning financing WPI's strategic objectives. These decisions are later presented to the WPI Board of Trustees, in the form of short and long range capital and operating budgets, through the Budget and Finance Committee. Over the past several years, WPI has been able to position itself, through the results of the capital campaign and prudent management of the endowment, to meet the financial aid needs of students during a period of decreasing federal and other outside support. This task has been accomplished without dedicating an increased portion of the operating budget to student aid.

Budget planning at WPI is done within the context of a five-year budget. The model uses the budget for the current fiscal year as the base and then projects revenue and expense for the following four years. The budget for the next year is developed with as much detail as possible. The next two years are developed with reasonably accurate projections; the final two years are projections only. The proposed five-year operating budget is regularly reviewed by the President and the Cabinet as it is developed between October and February. Key assumptions in the model are for enrollment, financial aid, and the contributions of the endowment. Managers responsible for these areas provide input to the Cabinet. Rates of increase for tuition and fees as well as salary are other key variables. The cost of new or expanded initiatives is defined on the divisional level and incorporated into the model.

In January and early February final recommendations are made for rate increases and proposed additions to operating expenses. At the winter meeting of the Board of Trustees, the summary budget for the next fiscal year is presented and approved. The board votes set the rates for tuition and fees, as well as room and board rates. The board also approves percentage pools for faculty and staff merit and equity increases. During the following months, the detailed line-item budget for the next fiscal year is developed. Financial managers review their operating budgets, transfer funding between lines, and incorporate approved additions into their financial plans for the next year. The budget director reconciles these departmental budgets with the summary budget approved by the board. At the May meeting of the board, the line item budget is presented and approved.

As a policy of the Board of Trustees, WPI operates with a balanced budget. Quarterly reviews of activity identify any budget variances. The vice presidents work with the budget director to ensure each year ends with no institutional deficit.

WPI's internal controls and formal financial management policies provide a basis for making sound financial decisions. Regular financial reports analyzing actual to budgeted expenditures have regularly been presented to the President's Cabinet and the Budget and Finance Committee of the Board of Trustees.

As part of an overall financing strategy, WPI has opted, from time to time, to finance capital projects through debt vehicles, normally in the form of tax-exempt bonds. Over the past 10 years, the average return on WPI's endowed funds has been in excess of 14 percent, while the average debt rate has been approximately 5.5 percent. This margin has had a considerable positive impact on WPI's resources. WPI currently has an "A+" rating, as determined by Standard & Poor's. Of the many factors used to make this determination, WPI is particularly strong in the areas of debt capacity and endowment per student and weaker in the areas of selectivity and tuition

dependency. One common measure of debt capacity is the ratio of temporarily restricted and unrestricted net assets less net investment in plant, divided by debt. This “Expendable Resource to Debt” ratio at WPI, using June 30, 2000, balances, was 5.1 to 1, whereas the median for all colleges and universities rated A by Standard & Poor’s is about 3.2 to 1. This indicates WPI’s healthy financial position. Although WPI is still significantly dependant upon tuition revenue, its net tuition and fee revenue as a percentage of educational and general expenses has dropped from 59 percent 10 years ago to 55 percent currently.

WPI is in the midst of a major capital fundraising campaign, with the goal, established in spring 1998, of \$150 million. The campaign runs through fiscal year 2003. The major categories of endowment, facilities, operating support and other are targeted to be credited with gifts totaling \$81 million, \$48 million, \$10 million and \$11 million, respectively. Led by WPI’s vice president for development and university relations, the University clearly and accurately represents itself to prospective donors, clearly defines the purpose of the gifts, and explains to donors the expected impact their gift will have. The gifts are accurately recorded and monitored to ensure that they are used for the purpose stipulated by the donor. Gifts and pledges are entered according to the designation stated on the donor’s signed Letter of Intent, solicitation response, pledge card, or other documentation.

Using the Banner Finance System, WPI’s general ledger allows for the accurate recording of all transactions and gives program managers the ability to view the funds for which they are responsible at all times.

Outcomes Assessment

The strength and stability of WPI’s finances are verified by an annual financial audit by an independent firm and have received only unqualified opinions on their presentation. The audit firm is also asked to review management’s internal controls and practices. The audit reports resulting from the audit firm’s work are reviewed by the Audit Committee of the Board of Trustees. WPI’s financial statements and other pertinent data are continually monitored and assessed by bond rating agencies. As noted previously, WPI currently has a Standard and Poor’s rating of A+.

Management and trustee committees continually review the allocation of funding for strategic initiatives. If it is determined that additional funds are required to meet the highest priority goals, funds are reallocated.

Appraisal

Although WPI has benefited, during the last few years, from larger than normal tuition increases and the phenomenal growth in the endowment, this growth pattern likely will not continue. With a slowing economy, the ability of parents to pay may decline. Such a change may result in the need for more financial aid funds and, possibly, fewer students generating tuition revenues. Decreasing enrollments have already occurred in the continuing education program. The result will be a decrease in the net revenues realized by the Office of Continuing and Professional Education.

WPI is significantly dependent upon tuition revenue. A major change in the economy or demographics could negatively affect enrollment and require quick adjustments to the operating budget.

The Banner Finance System does not provide easy access to complete summarized financial data. The Controller's Office spends much time summarizing and collating the data into financial statement format. WPI has been working, internally as well as with other institutions experiencing the same concerns, to automate reports.

Projection

WPI's spending rule, currently set at 5.5 percent, based on the average of the unit market value of the previous two years, one-year removed, allows WPI time to react to significant changes in market value due to outside economic factors. This rule has provided management a significant opportunity to invest in new initiatives in recent years and hopefully will provide a significant infusion of resources going forward. However, should a market decline persist, budget reductions will be required even though the effects of the decline will be dampened by the spending rule formula.

Since the implementation of the Banner Finance System in July 1998, customized financial reports have not been available, as they were with the previous system. Many resources have been committed to developing these customized financial reports to supplant the standard reports from Banner and increase the effectiveness of the system as a management tool.