



Board Notes

November 2018

Next Steps in Board Development

Good board governance matters to the success of Saint Paul. That was a central theme for Dr. Amy Kardash, President of In Trust Center for Theological Schools, during the board development workshop she led for Saint Paul last month. Much of our work together focused on the results of a board self-evaluation survey. The following statements were among those in the survey, which garnered the lowest consensus (highest % disagreement or "don't know") and will need to receive much of the attention of the board going forward:

- Our board focuses the majority of its attention on issues of long-term significance to the school. (75% agree/strongly agree; 25% disagree/strongly disagree)
- Our board regularly discusses difficult theological and societal issues facing the school and its constituent churches. (67% agree/strongly agree; 33% disagree/strongly disagree)
- Our board is comfortable with meeting in executive session without the president present. (75% agree/disagree; 25% disagree/strongly disagree)
- Our board supports the president in taking risks for the sake of advancing the school (67% agree/strongly agree; 33% disagree/strongly disagree)
- Our board has a plan in place for presidential succession. (67% agree/strongly agree; 25% disagree/strongly disagree)
- Our board trusts the president to lead in implementing the strategic plans for the school. (67% agree/strongly agree; 17% disagree/strongly disagree)
- Rather than waiting for financial issues to reach a crisis point before taking action, our board is quick to address potential problems as they emerge. (58% agree/strongly agree; 42% disagree/strongly disagree)
- Individual board members play an active role in fundraising. (58% agree/strongly agree; 42% disagree/strongly disagree)

- Individual board members play an active role in student recruitment (33% agree/strongly agree; 58% disagree/strongly disagree)
- Board orientation introduces new members to how shared governance is practiced at our school. (75% agree/strongly agree; 16% disagree/strongly disagree)
- Members of our board understand how decisions by the faculty are made. (50% agree/strongly agree; 50% disagree/strongly disagree)
- Before taking a vote, our board considers the possible down-sides of a proposed action. (75% agree/strongly agree; 25% disagree/strongly disagree)
- Our board has adopted specific, measurable goals for its performance that support institutional goals. (58% agree/strongly agree; 42% disagree/strongly disagree)

According to Dr. Kardash, the four pillars of good board governance are mutual accountability, communication about things that matter, transparency and trust. The Saint Paul Board clearly recognizes areas in which they can improve their work and better support the mission of Saint Paul School of Theology.

The Saint Paul Endowment

Matt Mills, Chief Financial Officer

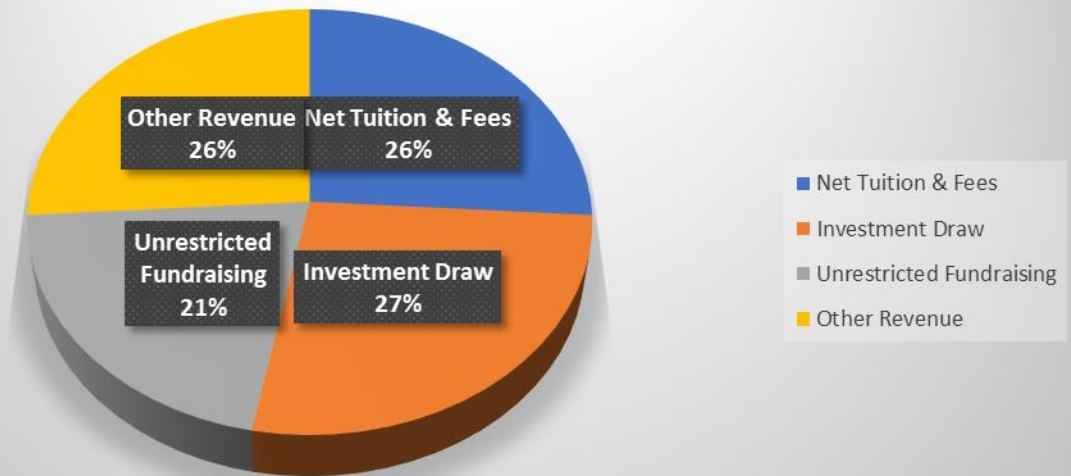
The endowment at Saint Paul is an important piece of our financial health. Because the endowment is our largest asset, the board's fiduciary duty requires a basic understanding of certain features of the endowment. This article will cover four important topics:

1. Annual revenue mix
2. Endowment strength by the numbers
3. Allocation of assets
4. Long-term sustainability

Annual Revenue Mix

Currently, endowment drawdowns represent approximately 27% of our annual revenues. While this sounds high, it is actually a strength of Saint Paul. As can be seen by the chart below, Saint Paul receives its revenues from 4 separate sources. This revenue diversity ensures we are not too dependent upon one type of revenue.

Revenue Mix - Budget 2017-2018



Between 50% and 60% of the endowment draw goes directly to restricted scholarship funds, meaning that only a minority of our draw covers operational needs. We should celebrate that such a large portion of our scholarships are directly funded by the endowment.

Endowment Strength by the Numbers

Endowment strength can be measured in many ways. Since joining SPST, I have found that ATS provides ample data in its annual Strategic Information Report (SIR). This report includes more than 100 pages of charts, numbers, and data. When reviewing the information, I found an important key performance indicator (KPI), the "coverage ratio," was missing from ATS reports on endowment. The coverage ratio divides total endowment assets by total expenses. The resulting number indicates the years that the endowment can cover expenses. The coverage ratio, as of 9/30/2018, for SPST is:

$$\$33,180,000 / \$3,500,000 = 9.5 \text{ years}$$

The question becomes how does this compare to other institutions? I asked the CFO of ATS for these data, and he promptly reported the total endowment sizes and total expenses of their 268 member schools. The average coverage ratio for this group is 3.2. Thus, we are 3 times better prepared than the average ATS

school to sustain our operations in the face of unexpected challenges. Only 16 schools (6%) have a coverage ratio of 10 or greater.

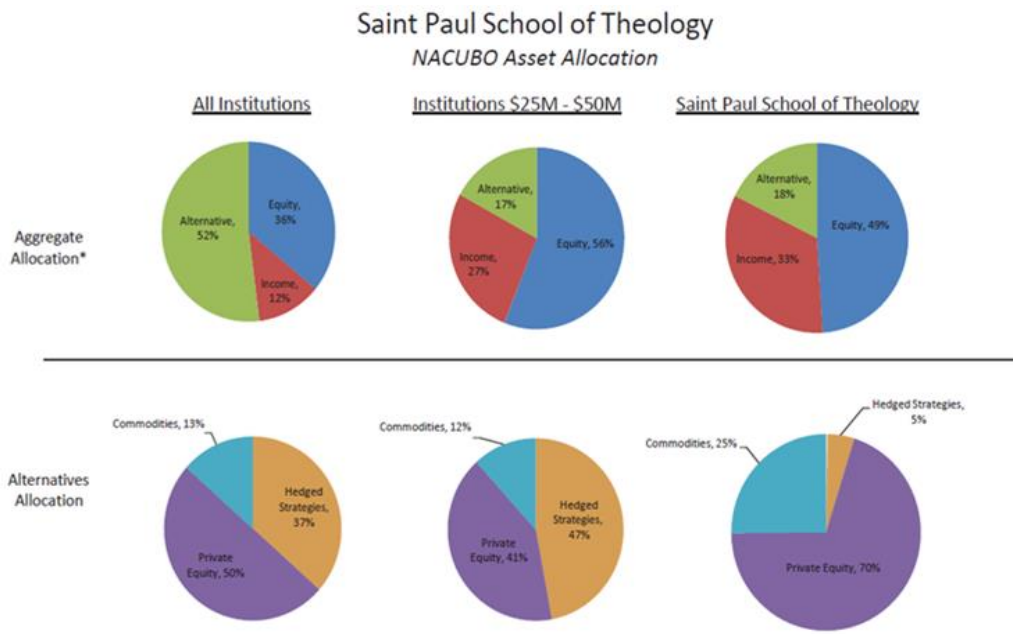
In other words, Saint Paul ranks 17th out of 268 schools in the ATS school in terms of coverage ratio. This is a true strength and highlights the balance sheet strength of SPST.

Allocation of Assets

Market performance is unpredictable from year to year. For example, a significant downturn in the overall equity markets can substantially dampen our overall strength as a school. To minimize market fluctuations, we must regularly review investment allocations between the following four asset categories:

1. Equities - Risky, higher risk higher return
2. Income/Bonds - Stable incoming producing assets, increasing interest rates diminish performance
3. Alternatives - private equity, hedge funds, commodities, etc (Similar to equities, alternatives are risky assets which can produce an unpredictable annual return. Must be carefully monitored)
4. Cash - Little to no risk, little to no return

The figure below shows our current asset allocation compared to institutions with similar-sized endowments and all member institutions of NACUBO.



Based upon these comparisons, SPST is making three adjustments in our allocations:

1. Increase equity exposure
2. Decrease Income/Bond exposure
3. Decrease private equity exposure

The Resource Committee is working with Prairie Capital, our investment manager, to reformulate our investment policy. This investment policy will be reviewed and discussed at the February committee meeting.

Long-term Sustainability

When considering endowment sustainability, the board needs to consider the following:

1. Is your draw down sustainable?
 - a. SPST is targeting a 4% draw in 2018-2019. ATS recommends 5%. Many studies conclude that a draw between 4-6% is "sustainable" and keeps the corpus intact. Below you will find our historical drawdowns:

FY	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19
Drawdown (%)	8.65	8.59	10.89	5.80	5.91	5.81	5.21	5.00	4.00*

* budget target

2. Do you have enough assets to cover your needs?
 - a. Best practice is to have liquid endowment assets equivalent to 2 years expenses. On average, ATS schools have 3.2 years and SPST currently has 9.4 years' worth of expenses in its endowment. SPST has more than enough assets to cover our needs.
3. Can you access your endowment for short-term financial emergencies?
 - a. SPST currently holds approximately \$1 million in cash as part of a short-term treasury market mutual fund. This short-term account can be liquidated and accessed the next day. This cash holding represents 3% of our total endowment and allows SPST ample flexibility to respond to financial emergencies.

These features of the Saint Paul endowment should provide confidence that the funding provides important support for our core mission, is a decided strength of the institution and is carefully monitored to meet industry standards of performance and reliability as a durable source of institutional revenue.

Celebrating the Smith Chapel in Oklahoma City

Neil Blair, President

I was honored on November 8th to attend at Oklahoma City University celebrating the 50th anniversary of the Smith Chapel located on the University campus and the location of Saint Paul School of Theology in Oklahoma.

The work on this unique triangular shape structure and a spire that reaches 151 feet into the air, Smith Chapel immediately became iconic. Designed by world-renowned architect Pietro Belluschi, who was honored for his work by receiving an honorary degree from OCU and also gave that year's commencement address. Also MIT professor of visual design Gyorgy Kepes created the chapel's prominent stained glass windows, for which he was awarded a gold medal in fine arts from the American Institute of Architects.

The chapel was named for Bishop W. Angie Smith, who served as Bishop of the Oklahoma-New Mexico Area and the Indian Missionary Conference for twenty-four years beginning in 1944. He also served as president of the OCU board of trustees. The board honored the episcopal leader by naming it in his honor.

I was granted the privilege to bring greetings and a word of thanksgiving on behalf of Saint Paul School of Theology to those gathered. We all were blessed by Dr. Amy Oden's keynote address honoring this spirited filled sanctuary marking history for OCU for 50 years and now Saint Paul School of Theology for a decade.

The music shared at this event by the organist and world renowned pipe organ, the OCU orchestra and choirs was amazing.