Strategies Worksheet

Goal 5 – Strategy 5: Maintain a System of Monitoring the Financial Health of the University

A. Introduction and Background

Financial strength and stability is the foundation for the success of a university. The responsibility for assuring the quality of an institution rests first with the institution itself. Institutional accreditation assesses the capacity of an institution to assure its own quality and produce evidence when it does not.

Our accreditation status with the Higher Learning Commission (HLC) requires annual financial reporting through the Institutional Update. The HLC reviews financial data and non-financial data for specific risk indicators and conducts follow-up with institutions when certain indicators are triggered. This initiative focuses on the development of a system of monitoring the financial health of the university. The financial reporting will impact all stakeholders of the university. The strategy will involve the following:

1. Monitoring the CFI to insure that any fluctuations and changes are quickly identified and evaluated
   The financial data submitted in the Institutional Update generate a Composite Financial Index (CFI). The identified "Above the Zone" ranges of CFI for public institutions, which would require no follow-up, is 1.1 to 10.0. ECU will strive to always remain "Above the Zone".

2. Ongoing review of debt load, revenues, budget and expenses
   Assessing an institution's ability to repay current and future debt, including its rationale for creditworthiness, is a major component of the financial health of a university. Resources need to be sufficient and flexible enough to support the mission of the university, while budgets and expenses need to be developed and monitored for effectiveness.

3. Formation of a Financial Advisory Board
   To insure the effectiveness of the monitoring system, an advisory board of internal and external stakeholders should be defined and developed to review the performance of East Central University. The board should report directly to the President.

B. Contributions to Other Goals

This strategy will also contribute to the following other strategies:

Goal 1: Achieve Academic excellence through innovative programming, outstanding faculty, continual assessment, a flexible learning environment and community engagement.

Goal 2: Maintain strong undergraduate and graduate enrollment and high retention, graduation, and job placement rates.

Goal 4: Create a culture of effective communication.

C. Specific Actions, Elements, Steps, and Timelines

Steps to monitor the CFI include:

1. Implement a training program for Financial Advisory Board members. Educating them on the calculation of CFI.
2. Prepare a reporting mechanism that accurately reflects not only the current CFI of East Central University, but also the CFI over the last 5 years.
3. Prepare a reporting mechanism that compares the CFI of East Central University with other universities identified as Peer Universities, specifically "Best in Class" universities (not only sister RUSO institutions)

Steps to Ongoing review of debt load, revenues, budget and expenses.

4. Implement a training program for Financial Advisory Board members educating them on the debt, revenues, budgets and expenses on the university.
5. Prepare a reporting mechanism that reflects the debt of East Central University and its comparison with other universities which also reflects the university's ability to repay the debt including the primary reserve ratio which determines whether the institution's resources are sufficient and flexible or liquid enough to supports its mission.
    a. The primary reserve ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. Trend analysis indicates whether an institution has increased its net worth in proportion to the rate of growth in its operating size.
        i. The primary reserve ratio is calculated as follows: GASB Expendable Net assets plus FASB Expendable net assets divided by the GASB total expenses plus GASB total expenses.
6. Prepare a reporting mechanism that reflects the return on net assets ratio.
    a. The return on net assets determines whether the institution is financially better off than in the previous years by measuring total economic return. This ratio is better applied over an extended period.
        i. The return on net assets is calculated as follows: GASB Change in net assets plus FASB change in net assets divided by the GASB total net assets plus FASB total net assets.
7. Prepare a reporting mechanism that reflects the revenues of the university including the actual related to budgeted amounts and also comparing it to other universities identified as peers. The mechanism should include the net operating revenue ratio which determines whether the university is living within its available resources.
    a. The net operating revenue ratio indicates whether total operating activities resulted in a surplus or deficit.
        i. The net operating revenues ratio is calculated as follows: GASB operating income (loss) plus Net Non-operating Revenues (expenses) plus FASB Change in Unrestricted net assets divided by GASB Operating revenues plus non-operating revenues plus FASB Total unrestricted income.
8. Prepare a reporting mechanism that reflects the viability ratio which assesses how strategically the university is managing its resources and debt to advance its mission.
    a. The viability ratio measures the availability of expendable net assets to cover debt.
        i. The viability ratio is calculated as follows: GASB Expendable net assets plus FASB expendable net assets divided by GASB Long-term debt plus FASB long-term debt.
9. Prepare a reporting mechanism that reflects the performance of the university comparing it's actual to budgeted amounts.

D. <u>Potential Models and Useful Information</u>

https://www.agb.org/trusteeship/2015/septemberoctober/stress-testing-how-can-you-ensure-your-institutions-fiscal-health

http://policies.medschool.ucsf.edu/sites/policies.medschool.ucsf.edu/files/documents/NSS_Handbook.pdf