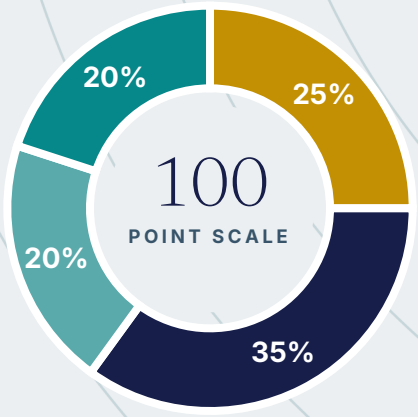
CFO COLLEAGUE

HIGHER EDUCATION FINANCIAL STRATEGY

THE SUSTAINABILITY SCORECARD

Measure. Manage. Sustain.

A four-part measure of institutional financial health, scored from -1 to +1.



This document contains instructions for the projection model.
The accompanying Excel file can be found at this link

In our work with over 200 colleges and universities, certain characteristics have been noted of those who thrive and those who work feverishly to survive. While boatloads of endowment earnings and annual fund receipts are great, our work suggests that four key components tend to define institutional health. In fact, as we reviewed those who had to close their doors, these calculations were consistent amongst each one. Recall that less than half of those who failed were under department of ed sanctions. We thus see this exercise as a need in a marketplace that is typified by those who struggle.

All the data needed for this scorecard comes from the most recent two-year comparison audited financial statements.

1. Change in Net Tuition Revenue (NTR) 20%

No singular statistic evidences longer term health than student NTR trends. Starting with gross tuition and fees, institutional aid is then subtracted, whether funded or unfunded, to arrive at this number. If it is rising each year, that's good. Either you are attracting more students or have the freedom to increase prices. If it is declining, that is not so good. A one-year drop off remains for the entire revenue life cycle for a student. Reversing a multi-year NTR deterioration is a tough assignment.

2. Change in Unrestricted Net Assets — 25%

At the end of the day, an institution should be bolstering its non-donor-restricted net assets. The baseline capital accumulated by the college needs to grow with inflation at least, if not at a greater rate. When a loss is sustained, resources are consumed, capital spending may be restricted and employees are left to cover cost of living increases on their own.

3. Operating Liquidity — 35%

The most common reason a school closes is due to cash running out. We thus assign the greatest weight to this component as a reflection. Our calculation strips away the restricted gifts that are being held in the checking account and also takes away the current balance of accounts payable. The idea is that a school should always have sufficient unrestricted cash to pay off their accounts payable and still have funds to operate with. Some are tempted to use their accounts payable as a funding mechanism, paying vendors in 90 or 120 days, if at all. Our calculation discourages such a strategy.

4. Capital Improvement — 20%

One of the operating expenses required to be reported since the mid 1990s is depreciation expense. This charge represents the attempt to match the decline in the viability of a permanent asset against the revenues it generates. A $5 million building depreciated over fifty years will cost $100,000 per year in depreciation expense. Over time, it is expected that renewal and renovation of that building will require spending that $5 million – at the least. With inflation, it can be assumed that more will have to be expended to keep the place up to snuff.

Besides the use of operating funds to renew and replace assets, many institutions borrow money to fund capital projects. In our calculation, an increase in long-term debt is considered a negative. Colleges can't borrow their way to health. Paying off debt is a positive, reducing risk and paying for (belatedly) capital improvements from yesteryear. Similarly, we see the use of leases to fund capital needs negatively. These are reflected on the statement of position as right of use liabilities.

On the positive side, beyond paying down debt, we view capital spending as a good thing, evidencing renewal activity that reduces or eliminates deferred maintenance. Cutting the capital budget is a kiss of death since we know that property, plant and equipment degrades over time and needs investment to be kept in good working order. Increases in right of use assets are also considered positively in this calculation, though they tend to match the lease liabilities associated with them.

The bottom line is that the positives should outweigh the negatives. Spending on capital items and reducing debt has to be a priority of institutions to avoid hiding deterioration and decline.

Here is where the federal ratio is a serious problem. The government actually encourages colleges to borrow for or lease capital items in calculating its primary reserve ratio. No wonder so many who are calling it quits are beset with enormous debt loads.

Putting it all together. Our four-part calculation yields a score between -1 and +1, with 0.0 representing the lowest passing score. We recommend some form of monitoring for those that land in the 0.0 to 0.2 range. Scoring below zero is a failure.

Armed with your most recent audited financial statements, you should be able to score yourself. You might be put at ease. You also may be spurred into action. Whatever the outcome, know that there are options and we'd be pleased to dialogue with you about them.

SUSTAINABILITY SCORECARD

Example College	2021	– Current FY

	(in 000s)	RAW	WEIGHT	WEIGHTED	RANGE	SCORE
Change in NTR	1,614	0.14	2.0	0.27	(-20) to 20	0.20
FY'24 Δ in Unrestricted Net Assets	(448)	0.03	-2.5	-0.07	(-25) to 25	-0.07
Operating Liquidity	289	0.02	3.5	0.06	(-35) to 35	0.06
Capital Improvement	(831)	-0.05	2.0	-0.10	(-20) to 20	-0.10
					(-40) to 10	**0.2**
						MONITOR

DATA INPUT	SOURCE	FY'21	FY'23	NUMERATOR
Net Tuition Revenue (NTR) Δ	SOA	11,782	10,168	1,614 NTR Δ
FY'24 Unrestricted, Operating Exp.	SOA	16,758		
FY'24 Δ in Unrestricted Net Assets	SOA	(448)		
Long Term Debt Δ	SOP	6,336	6,591	
Right of Use Assets Δ	SOP	127	120	
Right of Use Liabilities Δ	SOP	129	132	
Cash on Hand	SOP	3,027		
Restricted $ in Cash on Hand	SOTTLS	1,500		
Investments	SOP	6,306		
Pledges for Restricted Gifts	SOP	70		
Accounts Payable & Accruals	SOP	328		
Net Assets with Donor Restriction	SOP	6,068		
Amount of LOC Drawn Down	SOP	698		289 Operating Liquidity
CY Capital Spending	SCT	382		
CY Depreciation Expense	SCT	1,869		(831) Capital Improvement