

NECHE Financial Screening Year 3 - 2021



NECHE: Financial Screening Background

April 2018: Mount Ida College's abrupt closure

June 2018-November 2019: Development of legislation in MA that requires an annual screening process to “assess each Institution's past, present, and future financial stability to identify any Institution potentially at Risk of Imminent Closure”

- Groups involved: the Governor; Secretary of Education; MA Board of Higher Education; Association of Independent Colleges and Universities in Massachusetts (AICUM); EY Parthenon; The Boston Consortium for Higher Education; NECHE
 1. **What model would be used (one metric vs. multiple metrics)?**
 2. **Confidentiality of data - Who would do the required annual screen? (Avoid self-fulfilling prophecy)**

NECHE: Financial Screening Background

January 2019-July 2019: The Boston Consortium for Higher Education, working with Yuba Group and NECHE, builds a multi-metric Financial Dashboard model as an alternative to the single-metric model proposed

November 2019 – March 2020: NECHE pilots the Financial Dashboard model with all Massachusetts independent institution

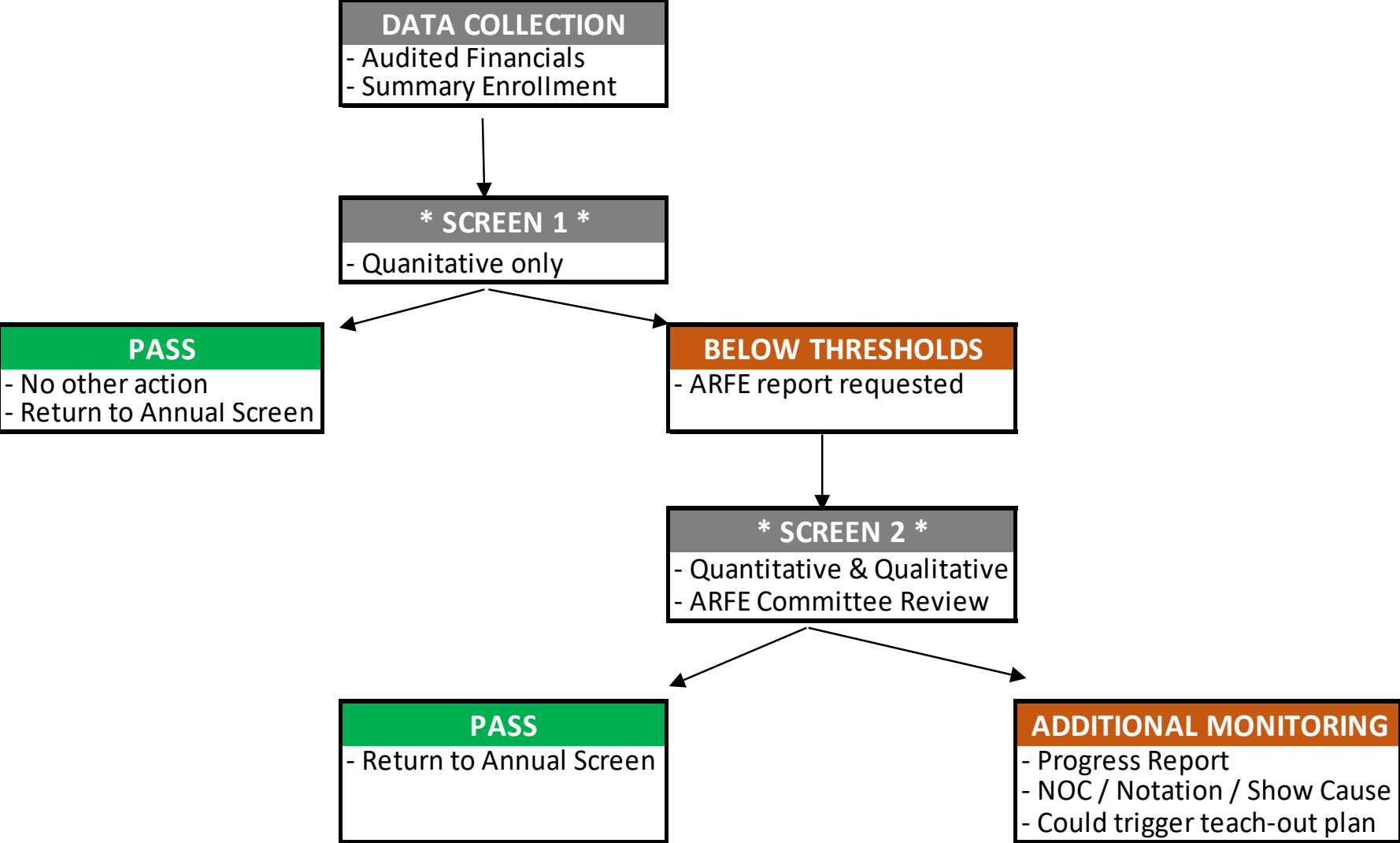
April 2020: As provided for in the legislation, NECHE and the Massachusetts Department of Higher Education sign an MOU whereby NECHE will conduct the annual financial screenings of those independent institutions in Massachusetts it accredits

June 2020: NECHE moves to expand the annual screening process to all private institutions in New England

NECHE: Financial Screening Process

- The Process:
 - Use NECHE's existing financial oversight process – the Annual Report of Finance and Enrollment (ARFE) – that has been in place for the past two decades.
 - Add a **quantitative** screen applied to all independent (non-public) institutions in a standardized manner. (Over time, expanded to public institutions.)
 - The consequence of not passing the screen is preparation of a report (3-5 pages) for **qualitative** review of the institution's circumstances by the Commission's ARFE committee.

NECHE Financial Screening Overview



NECHE Financial Screening Metrics

- Four key elements of financial health:
 - ✓ **Enrollment / Market Revenue – 4 metrics**
 - ✓ **Cash Flow Sufficiency – 3 metrics**
 - ✓ Liquidity – 2 metrics
 - ✓ Wealth – 3 metrics
- Thresholds for the metrics were developed by “back testing” actual data to avoid false-positives.
- ARFE report requested when four or more of the metrics fall below the set thresholds (“red flag”), with at least one red flag in the market or cash flow category.
- The requirement to have at least one red flag in enrollment/market revenue or cash flow sufficiency weights these factors more heavily than wealth or liquidity.

Sample Financial Dashboard

- Dashboard are used by ARFE committee members to observe trends over time of the key screening metrics.
- For governing boards, a similar approach could make sense in order to monitor performance against the screen.

SAMPLE	2021				
Market Revenue / Durability	2017	2018	2019	2020	2021
Market Index (100 - Selectivity + Matriculation)	51	45	52	42	41
3Y Change in Enrollment	0%	-6%	-6%	0%	-11%
3Y Change in Operating Revenue	15%	15%	4%	11%	-2%
3Y Change in Net Tuition Revenue	35%	22%	13%	8%	1%
Cash Flow Sufficiency	2017	2018	2019	2020	2021
3Y Average Free Cash Flow Margin	-11%	-11%	-7%	6%	7%
3Y Av Operating Flow Margin Excluding Gifts	-7%	-9%	-6%	-1%	1%
% of Revenue Received from Gifts	9%	10%	12%	13%	16%
3Y Av Debt Service Coverage	0.27	-0.50	1.65	4.24	5.98
Liquidity	2017	2018	2019	2020	2021
3Y Change in Cash & Investments	36%	25%	21%	105%	56%
Cash + Unres Endowment / Daily Operations	22	31	24	88	62
Wealth	2017	2018	2019	2020	2021
Cash & Investments to Debt	1.31	1.50	1.53	1.18	1.01
Cash & Investments per Student (\$000s)	6	7	7	13	11
Total Resources to Operations	0.31	0.31	0.34	0.60	0.59
Total	2017	2018	2019	2020	2021
Red Flags	6	6	6	4	5
Warnings	0	2	1	2	2
Market Revenue / Durability					
Red Flags	0	0	0	0	1
Warnings	0	2	1	1	1
Cash Flow Sufficiency					
Red Flags	3	3	3	1	1
Warnings	0	0	0	1	0
Liquidity					
Red Flags	1	1	1	1	1
Warnings	0	0	0	0	0
Wealth					
Red Flags	2	2	2	2	2
Warnings	0	0	0	0	1

Thresholds

Market Revenue / Durability	Warning	Red Flag			
Market Index (100 - Selectivity + Matriculation)	50	30			
3Y Change in Enrollment	-5%	-10%			
3Y Change in Operating Revenue	-5%	-15%			
3Y Change in Net Tuition Revenue	-5%	-15%			
Cash Flow Sufficiency	Warning	Red Flag			
3Y Average Free Cash Flow Margin	0%	-5%			
3Y Av Free Cash Flow Margin Excluding Gifts	0%	-5%			
3Y Av Debt Service Coverage	1.50	1.25			
Liquidity					
3Y Change in Cash & Investments	0%	-5%			
Cash + Unres Endowment / Daily Operations	180	90			
Wealth					
Cash & Investments to Debt	1.05	0.80			
Cash & Investments per Student (\$000s)	50	30			
Cash & Investments to Operations	1.10	0.85			
ARFE?	2017	2018	2019	2020	2021
Trigger: 4 Red Flags w/ At Least 1 Market or Cash Flow	YES	YES	YES	YES	YES
Data Errors (Insufficient Data)	0	0	0	0	0

NECHE Financial Screening Benefits

- Falling below the thresholds results in preparation of a 3-5 page report for additional analysis by NECHE's ARFE Committee and *no public notification*.
- Multi-year trend data, multiple flag triggers, and measures across different financial health categories help mitigate the risk of unusual financial reporting or one-time financial events.
- For the Commission: the screen is only one of several ways for an institution to be put into NECHE's ARFE process. Routine accreditation reviews, news events, qualified audit opinions, and covenant defaults can also trigger an ARFE review.

NECHE 2021 Financial Screening Issues

- Overall, most institutions were more familiar with process and only one year of financial data needed to be entered into NECHE's portal
- **TIMING:** Completion date of financial audits
- **PENSIONS** (defined benefit plans): Adjustments were made to the metrics to more accurately reflect the impact of pensions on institutions
- **OPERATING LEASES:** Started to collect data; application of ASC 842 has been twice delayed - now effective with annual reporting periods beginning after December 15, 2021

Fall 2021 Results

- Total of 129 institutions screened to date; 7 yet to submit (CT=17; ME=13; MA=65; NH=10; RI=9; VT=11; Int'l=11)
- 24 institutions (18.6%) screened into the ARFE review process;
- Most frequent red flags: **Market/Enrollment** (42.0%) and **Wealth** (30.2%)

Comparison: Red Flags 2019/2020/2021

Screen Year	Enrollment Red Flags	Cash Flow Red Flags	Liquidity Red Flags	Wealth Red Flags
% Institutions - 2019	17.1%	32.9%	22.9%	55.7%
% Institutions - 2020	36.6%	30.5%	27.5%	48.1%
% Institutions - 2021	42.0%	24.0%	16.3%	30.2%

- 2020 and 2021 were “perfect” lessons in why quantitative analysis alone is insufficient
 - FY20 & FY21 - unusual data trends due to COVID
- ARFE committee will need to evaluate one-time vs trend concerns and risks to an institution’s viability.

Going Forward: Financial Monitoring Advisory Group

- Commission's **Financial Monitoring Advisory Group** annually reviews the screening process: aggregate dashboard results / metrics performance / any new standards for financial statement preparation / comments from institutions
 - ✓ 2019 FMAG Review: Added a new metric for Fall 2020 to assess institutional reliance on gifts: **% of Income Received from Gifts** to track alongside **3Y Average Operating Flow Margin Excluding Gifts** that some viewed as too complex. No threshold set and the metric is not used to determine whether or not an institution passed the screen.
 - ✓ 2020 FMAG Review: Considered the impact of ASC 842 (Accounting for Leases) on the model. In Fall 2021, institutions are being asked to separately report their total operating leases.

Assumption University

Incorporating the NECHE financial dashboard into ongoing financial analysis

Peter Wells

Vice President for Finance and Administration

December 8, 2021

Ongoing Financial Analysis

Internal Assessments

- Interim and audited annual financial statements
- Financial ratios with deep dive related to debt covenant compliance
- Multi year financial projections identifying key variables and potential ranges of projected activity under different scenarios

External Assessments

- US Department of Education Financial Responsibility Composite Score
- Council of Independent Colleges Financial Indicators Tool (CIC FIT)
- NECHE Financial Dashboard

What do the dashboard metric scores mean? Did we miss by an inch or did we miss by a mile?

Assumption Administration has replicated the dashboard metric score calculations to identify and illustrate:

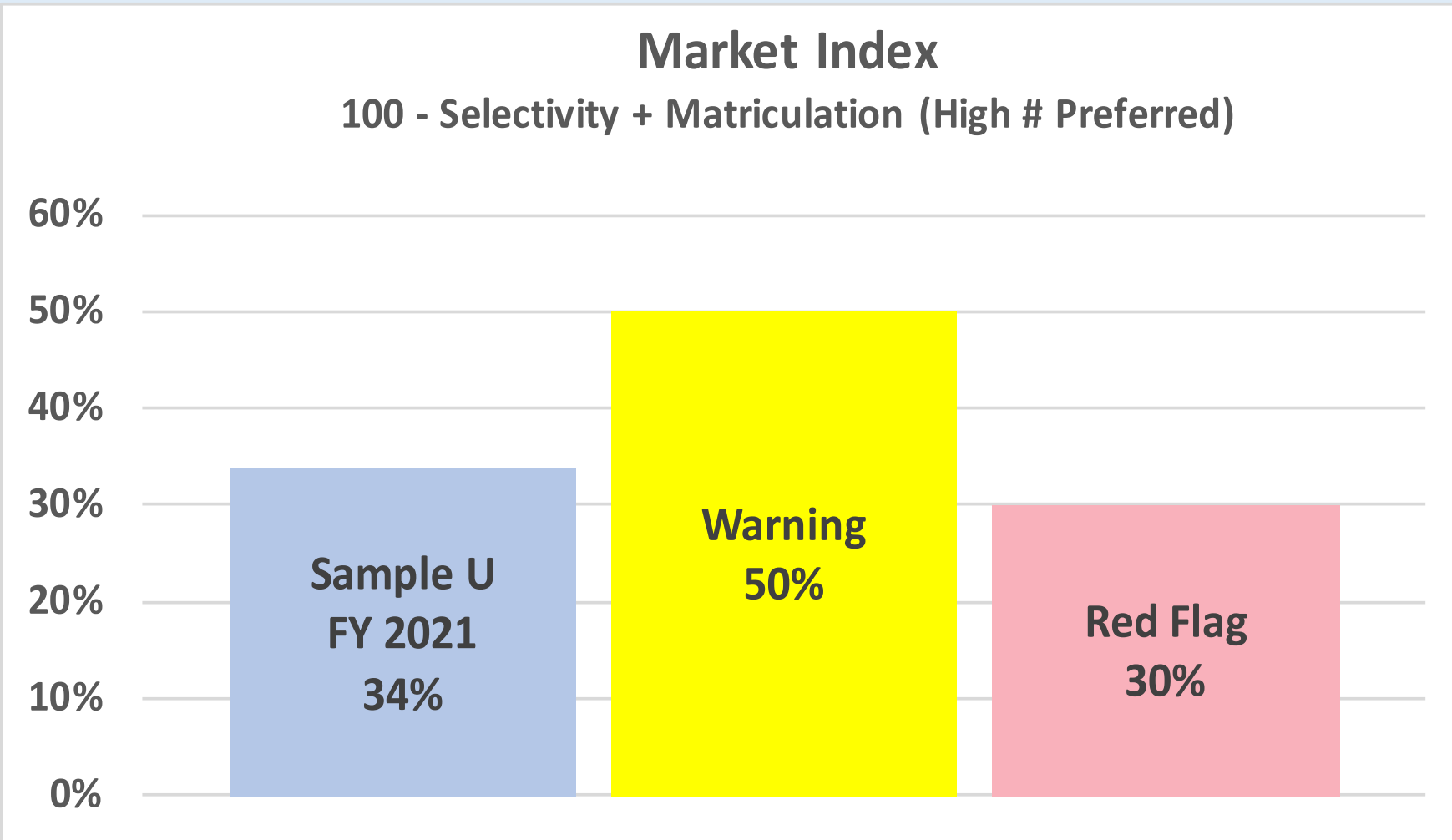
- ✓ Buffer amounts between Assumption's calculated scores compared to Warning and Red Flag thresholds**
- ✓ Key drivers in the NECHE metric calculations**
- ✓ Context and scale of the metric calculations**
- ✓ Potential estimated impact of financial decisions that have already been made and future decisions being considered**

Analysis Examples for Sample University

The NECHE dashboard metric examples included within this PowerPoint summary are illustrated to show the additional analysis format provided for Assumption's Administration.

The results within the examples shown are not related to Assumption University's metric scores.

The hypothetical metric data has been generated to illustrate the format of results for "Sample University".



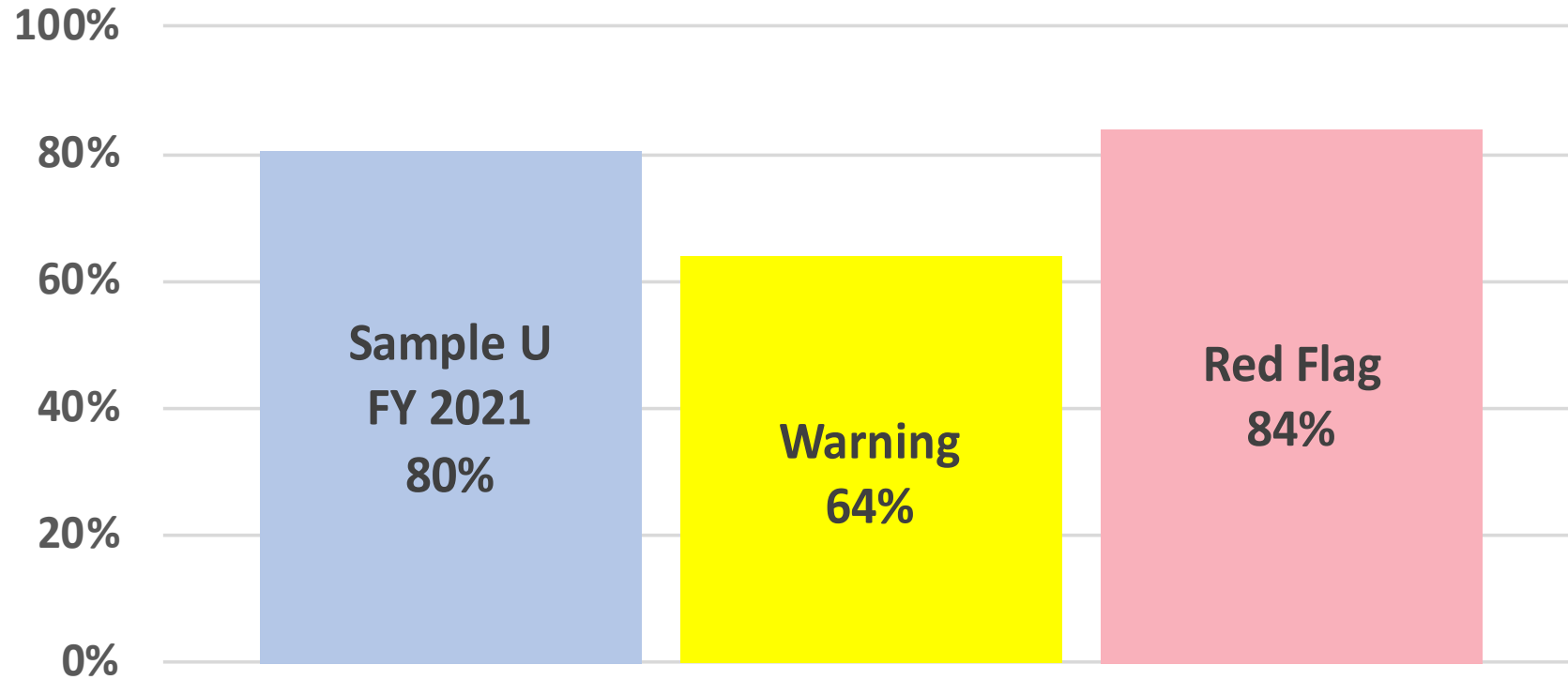
Institution's
calculated
dashboard metric
score compared to
the NECHE warning
and red flag
thresholds

Buffer to Warning **-16%**

Buffer to Red Flag **4%**

Market Index - Selectivity Variable

Buffer in Selectivity (Low # Preferred)

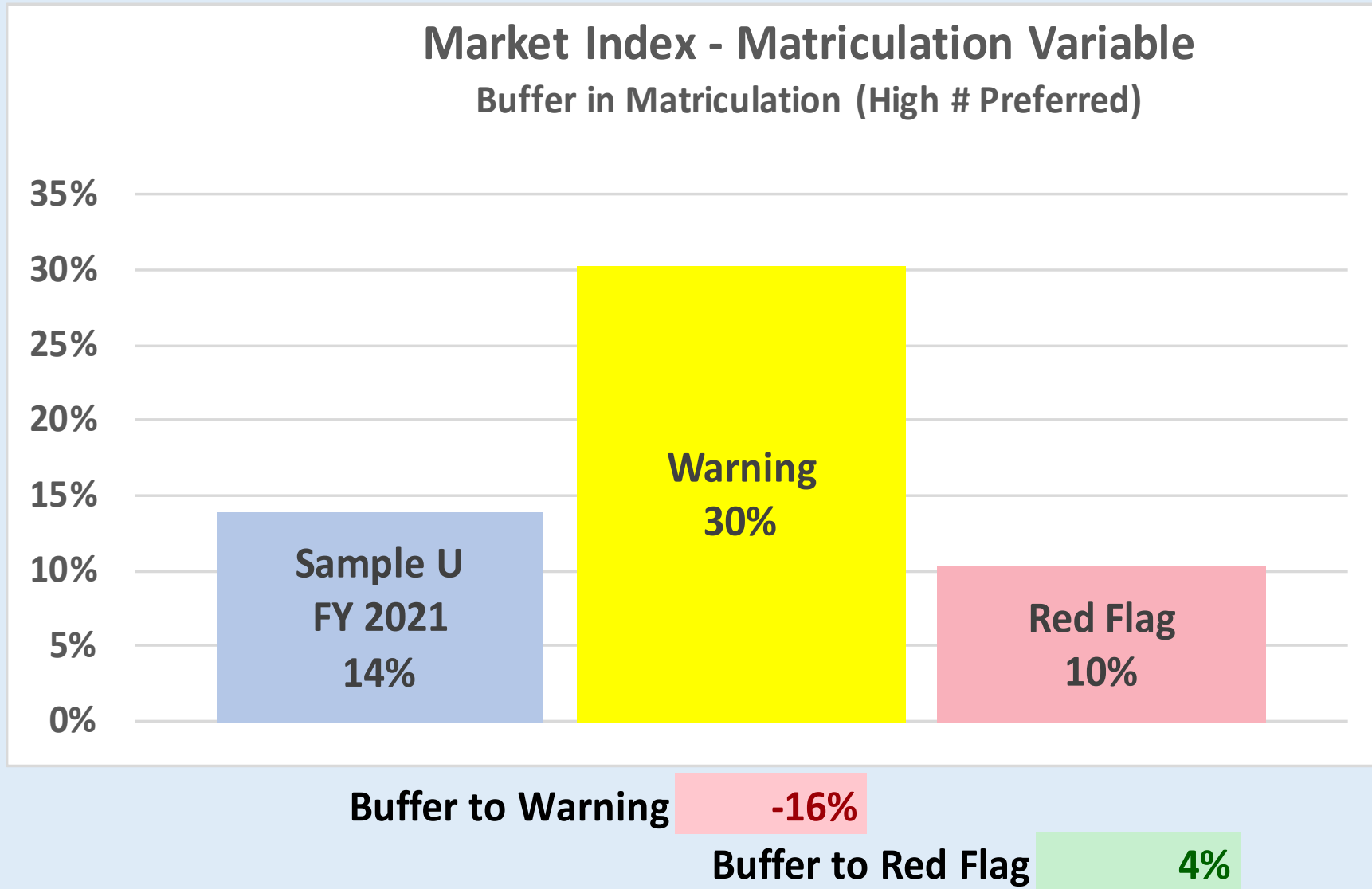


Buffer to Warning **-16%**

Buffer to Red Flag **4%**

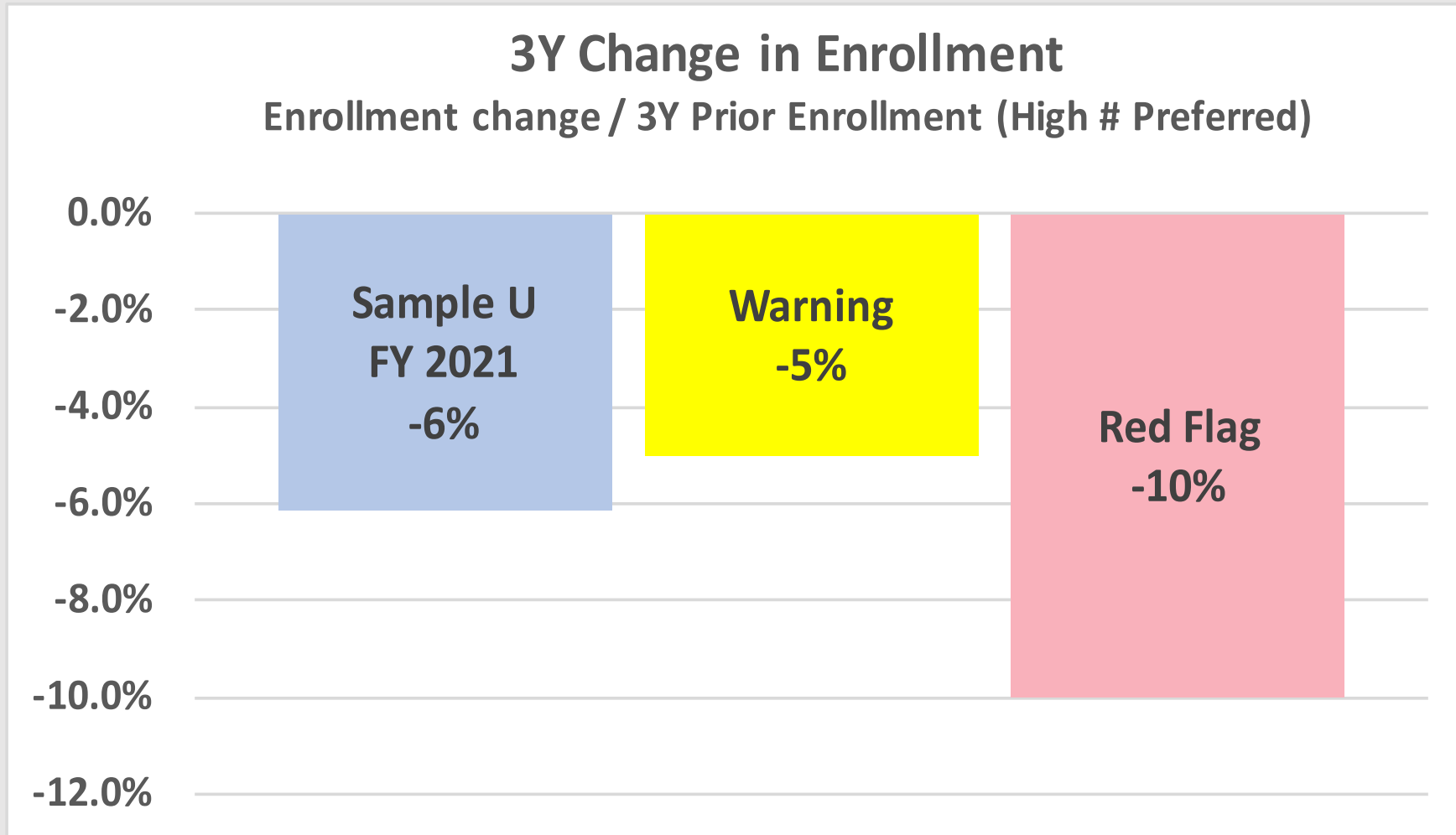
Selectivity driver
what % applicants
accepted?

Buffers to Warning
and Red Flag
thresholds with
changes in selectivity
variable



Matriculation driver
what % of accepted applicants enroll?

Buffers to Warning and Red Flag thresholds with changes in matriculation variable



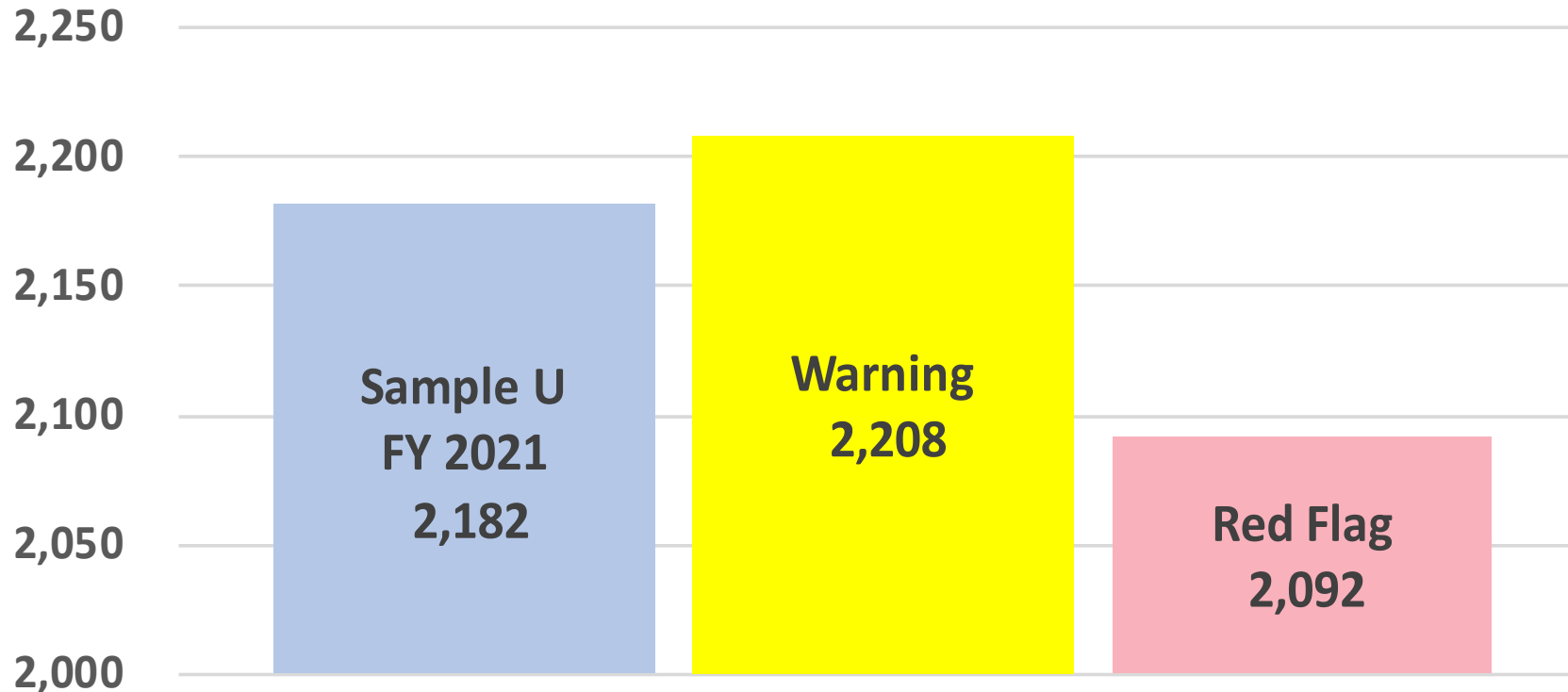
**Institution's
calculated
dashboard metric
score compared to
the NECHE warning
and red flag
thresholds**

Buffer to Warning **-1%**

Buffer to Red Flag **4%**

3Y Change in Enrollment - Enrollment Variable

Buffer in Enrollment (High # Preferred)



Enrollment driver
total undergraduate,
graduate and other
FTE's

Buffers to Warning
and Red Flag
thresholds with
changes in
enrollment variable

Buffer to Warning (26) FTE

Buffer to Red Flag 90 FTE

Fall 21 Enrollment in new programs include:

Program A 10 FTE vs 0 in Fall 18

Program B 15 FTE vs 0 in Fall 18

Program C 20 FTE vs 0 in Fall 18

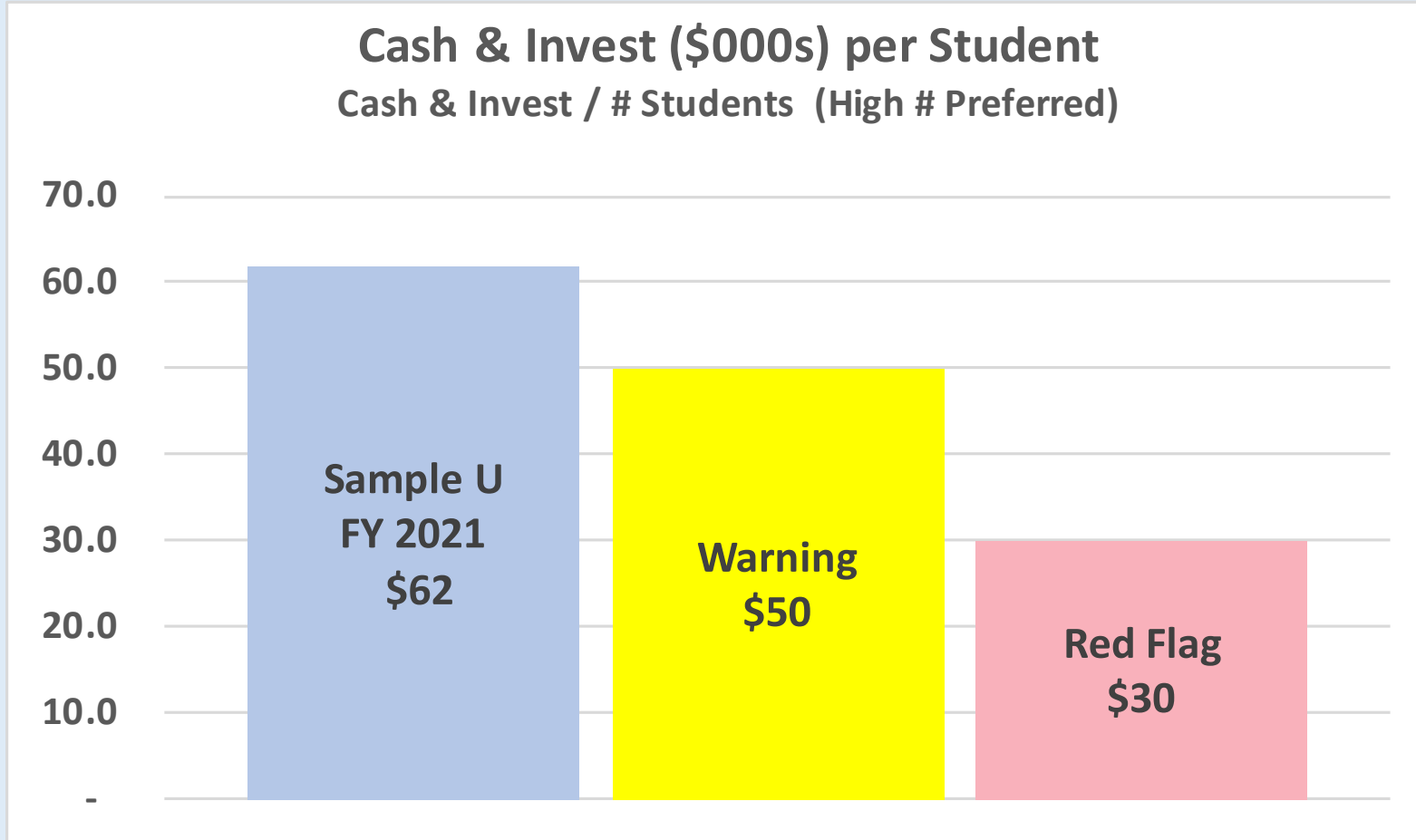
The FY 21 threshold warning is due, in part, to sunsetting the XYZ program (40 FTE in Fall 18 vs 0 FTE Fall 21). Program XYZ was eliminated because it was not financially viable.

**Additional relevant
information:**

**data to provide
context and scale**

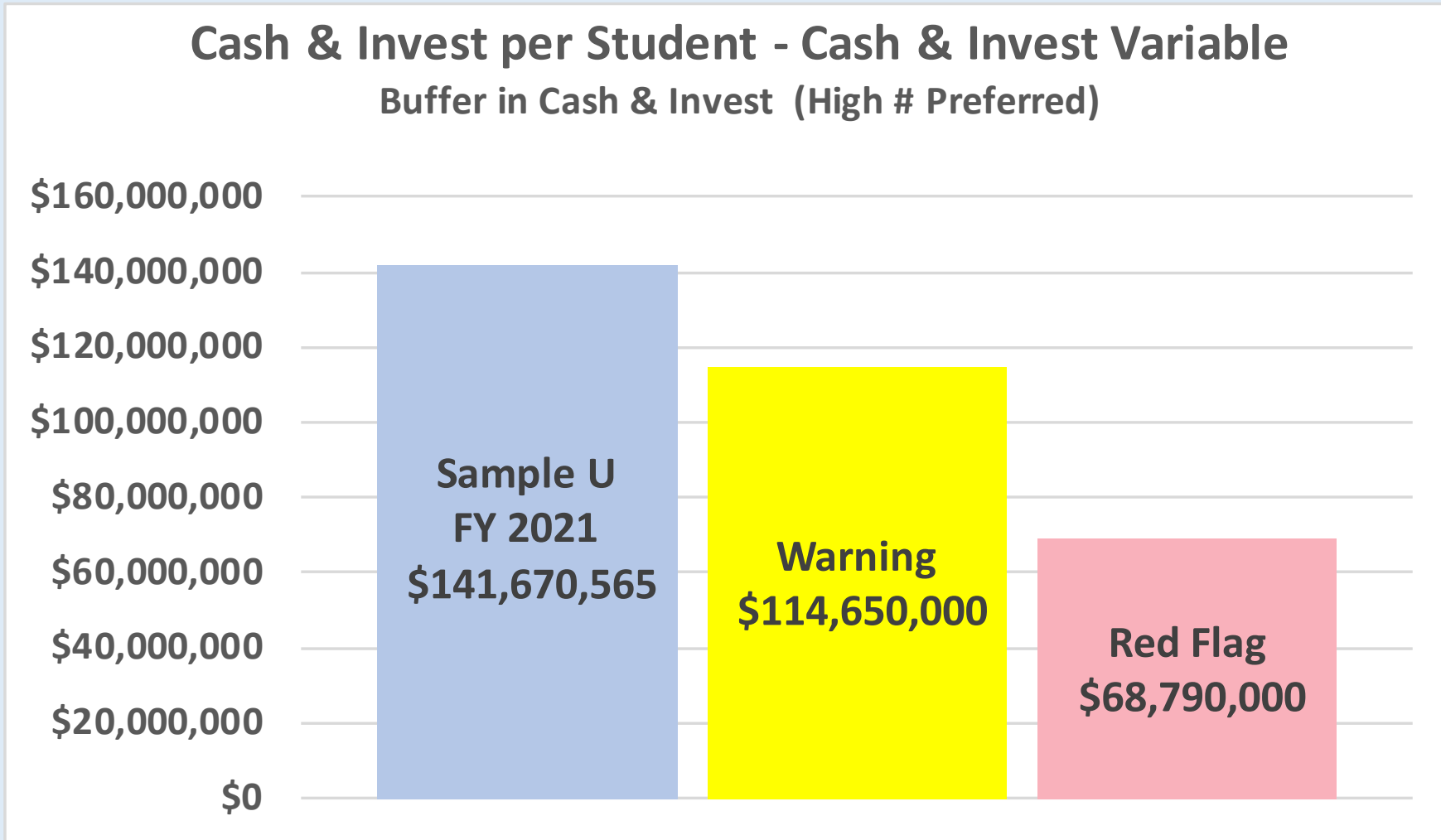
**actual impact of
decisions already
made**

**projected impact
of decisions being
considered**



Institution's
calculated
dashboard metric
score compared to
the NECHE warning
and red flag
thresholds

Buffer to Warning \$ 12 k per student FTE
Buffer to Red Flag \$ 32 k per student FTE



Cash & Invest driver
including cash, short-term investments and long-term investments

Buffers to Warning and Red Flag thresholds with changes in cash & investments variable

Buffer to Warning \$ 27.02 MM

Buffer to Red Flag \$ 72.88 MM

Wealth

Example 3: Cash & Invest (\$000) Per Student Addtl Info

Annual operating surpluses generating incremental cash

Implementation of new high demand programs projected to require use of \$X.X MM in FY 2022 & FY 2023

Considering completion of capital projects requiring use of \$X.X MM cash in FY 2022

Bequest in probate projected to result in \$X.X MM cash receipt in FY 2022

Additional relevant information:

Data to provide context and scale

Highlight decisions that will require the use of cash or investments.

Identify material transactions projected to provide cash.

Additional Considerations

- ❑ Assumption Administration does not change or shape decisions to impact the NECHE screening results. Decisions are made with the goal of achieving a strong long-term financial position. However, it is important to understand how the decisions that have already been made and/or are being considered will impact the NECHE screening results in the short-term and long-term.
- ❑ The additional dashboard analysis includes all 12 metrics with identified warning and red flag thresholds because there is not one metric that tells the entire story.
- ❑ In addition to the external purpose that the financial dashboard serves for NECHE, the dashboard can also be an effective internal tool to assist in evaluating the financial position of your college or university.

Emerson College

Paul Dworkis

VP for Finance & Administration and CFO

NECHE

2021 Annual Meeting



December 8-10, 2021 | Fairmont Copley Plaza

Refreshment Break
2:45 – 3:15 pm
Sponsored by

