

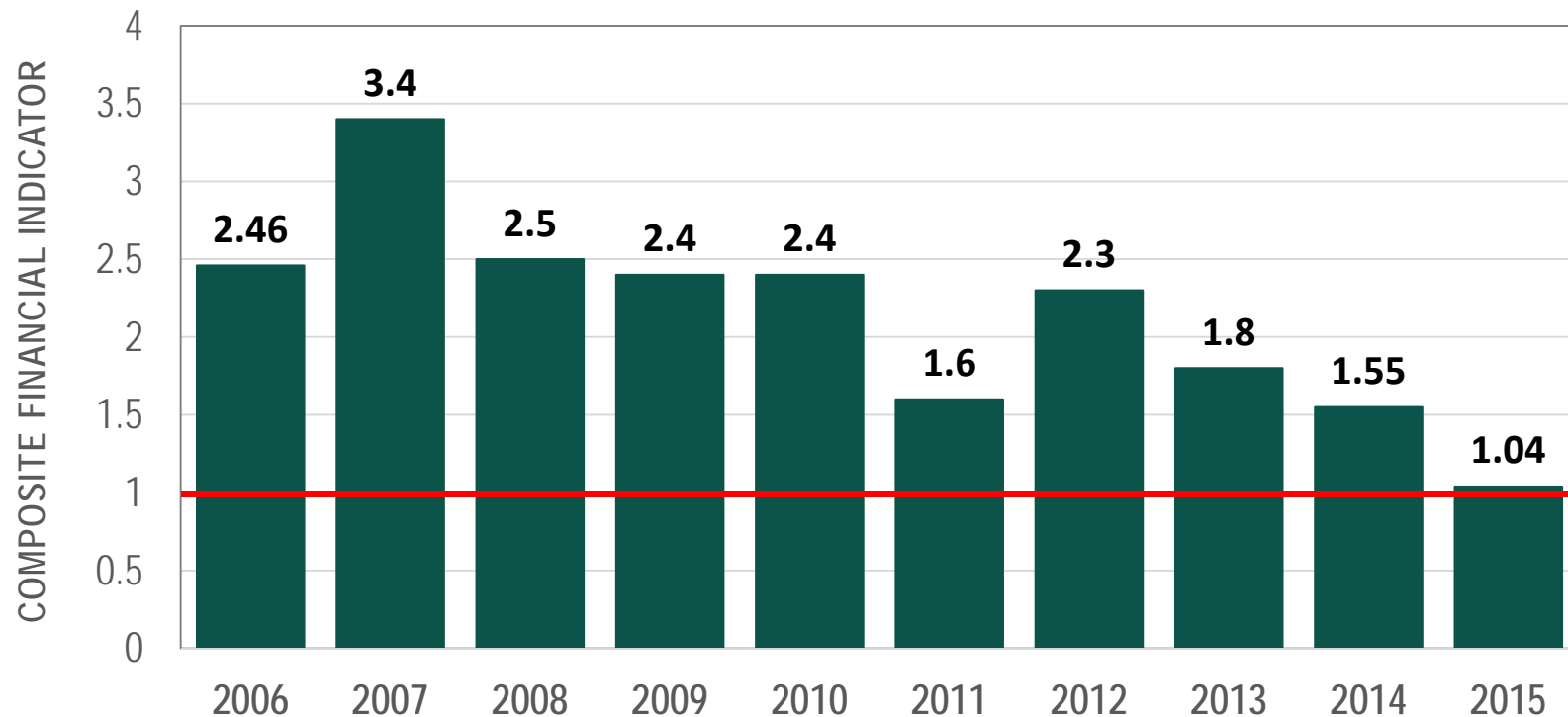
Wayne State University

HLC Composite Financial Indicator Trend, 2006-15

Criterion 5, Core Component A

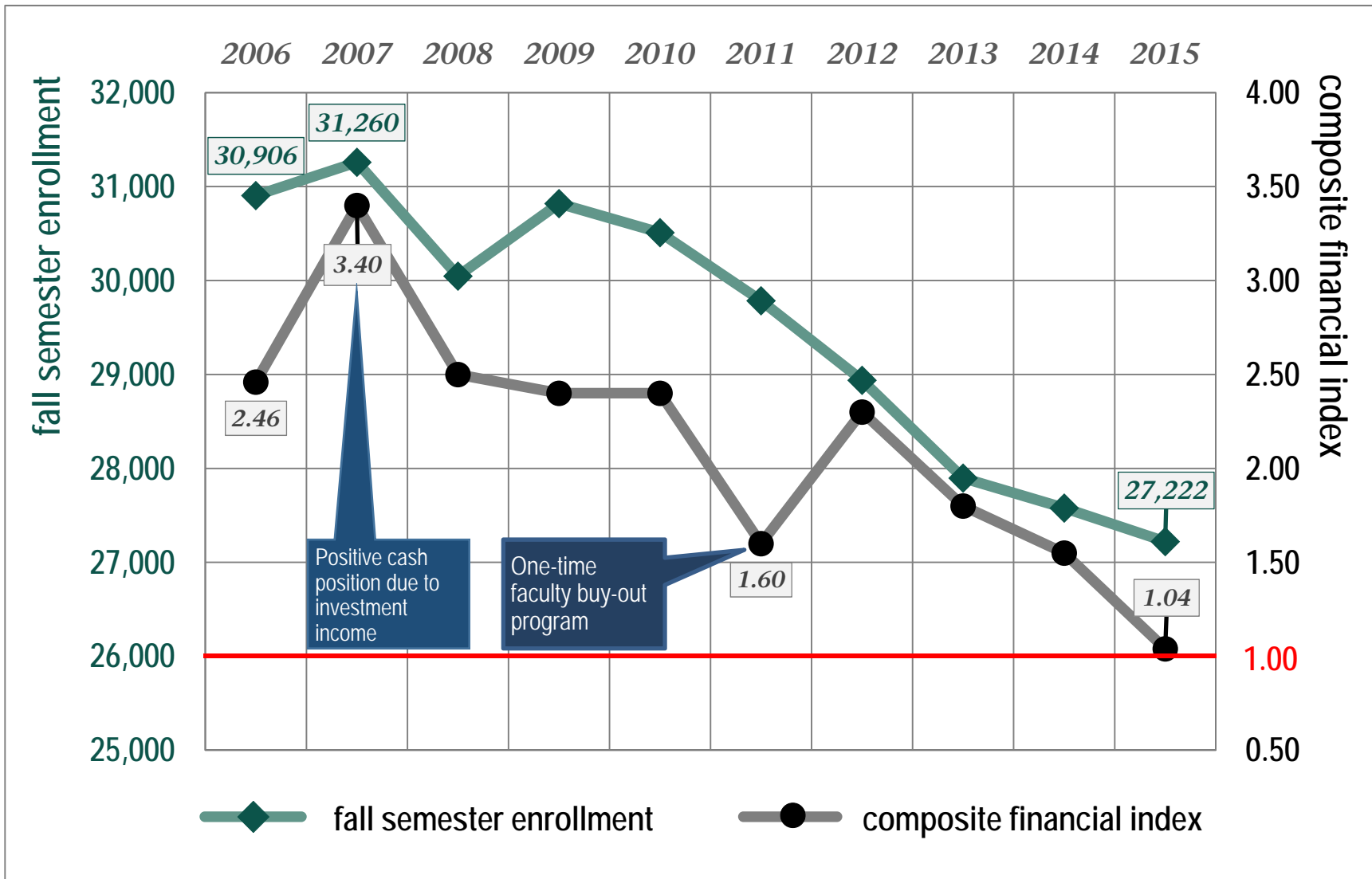
The institution's resource base supports its current educational programs and its plans for maintaining and strengthening their quality in the future.

Wayne State University CFI reported to HLC (<1.0 = beginning of the "zone")



— Institutions reporting a CFI of <1.0 receive a letter of concern; two or more consecutive years in the "zone" triggers a Financial Panel Review and other potential intermittent monitoring actions.

Enrollment Trend and Effect on HLC Composite Financial Index (CFI)



Introduction

- Financial health indicators reflect the ability of an institution to meet its mission
- Financial health indicators can point to problems related to:
 - Governance
 - Leadership
 - Educational effectiveness
- Consequently, it is essential for the Commission to have the ability to monitor our institutions annually
- Department of Education has an expectation that the Commission is monitoring institutions



Financial Ratio Screening Process

- Commission collects data annually
- Staff screens the information for accuracy
- The calculated financial score determines if the institution is “In the Zone” or “Below the Zone” (if “Above the Zone” no action needed)
- Staff reviews the recent and historical trends of an institution’s scores
- Financial Panel reviews Financial Recovery Plans and assists with determining any special cases or concerns



Financial Ratio Screening Process

- Institutions enter amounts from their most recent audited financial statements
- Public and Private institutions have their own unique set of ratios
 - Private institutions use US Department of Education ratios
 - Public institutions use ratios listed in Strategic Financial Analysis for Higher Education – 7th edition
 - HLC will use the “without GASB 68” scores as the official record. The “with GASB 68” scores will be retained in the HLC’s database



Calculation of the Composite Financial Index (CFI)

- Once the individual core ratios have been calculated, strength factors are applied to convert each ratio along a common scale. This scale has maximum and minimum scores as follows:
 - Private institution scores range from -1 to 3
 - Public institution scores range from -4 to 10
- These scores are then weighted to arrive at the CFI
- The CFI measures the overall financial health of an institution at a single point in time
- Composite Scores are compared to established benchmarks which dictate the course of action taken by HLC



CFI Results

Zones	Private Institution CFI Range (-1 to 3)	Public Institution CFI Range (-4 to 10)	Action
Above	1.5 to 3.0	1.1 to 10	No review
In	1.0 to 1.4	0 to 1.0	Financial Panel Review if In/Below for two or more consecutive years.
Below	-1.0 to 0.9	-4.0 to -0.1	Financial Panel Review if Below in any given year.

- Even though the actions noted above are based on a single fiscal year, HLC staff review four years of data at each Institutional Update cycle to examine trends
- CFI results are not foolproof. Each year institutions submit healthy ratios and then encounter financial difficulties within the next 12 months



Financial Review Process

- Letter of Concern – no action required unless it is the second or subsequent years “In the Zone”
- Report Required
 - Part of screening process to review institution’s history with HLC to see if recent or future financial consideration
 - If report required then must submit report plus supporting documentation



Financial Review Process

- Upcoming visit – comprehensive or other type, then the financial concern can be added to visit
- Required to write report then reviewed by panel
 - Three person panels with one panel lead and two members
 - Typically one panel receives three reports with supporting material at one time
 - Have four weeks to review the reports
 - Combine all feedback into one recommendation form that is returned to HLC



Financial Documents for Review

- Supporting documents that must accompany the report:
 - Audited financials for the past three years
 - Three-year budget (proposed, current and previous fiscal years)
 - Board/finance committee meeting minutes related to finances for the most recent three years
 - Audit Management Letter/Audit Communication Letter
 - Interim financial statement
 - Enrollment trends and plans (retention plan is optional)
 - Individual component ratios (please provide only the relevant ratios: primary reserve ratio, net operating revenue/net income ratio, return on net assets ratio, viability ratio, equity ratio)



Financial Panel Recommendations

- Panel Recommendation Options:
 - Accept Report
 - Accept Report with Qualifications
 - Recommend Commission Follow-up
 - Interim Report – due three months from the date of action – institution has not adequately addressed areas of financial concern
 - Focused Visit – to occur within six months of the date of action – panel concludes that the institution is in jeopardy of not being financially viable within the next 12-24 months. The institution must undergo a focused evaluation on its finances, with the emphasis on the institution’s viability over the next 24 months



Financial Panel Recommendations

- Panel recommendation is forwarded to the Institutional Actions Council (IAC) with all the information submitted for review
- Institutions have an opportunity to submit an institutional response to panel recommendation for IAC to consider
- Institutions can request a Hearing in place of IAC
- IAC takes action and the institution receives an action letter

