



Ensuring the Financial Health of a Community College District

AACJC
COMPOSITE FINANCIAL INDEX



COMPOSITE FINANCIAL INDEX

ANALYSIS OF CC FINANCIAL HEALTH

Dr. Norv Wellsfry
Associate Vice President, ACCJC
ACBO, 2015



ORIGINS OF THE COMPOSITE FINANCIAL INDEX (CFI)

- **ACCJC Financial Task Force**
 - Revised Standard III.D (Financial Resources)
 - Develop “Early Alert” financial review outside of Accreditation Cycle
- **Federal Regulations- monitoring**
 - §602.16(a)(1) - Fiscal and Administrative capacity
 - §602.19(b) – Analysis of key indicators of fiscal information



ORIGINS OF THE CFI

- **ACCJC Financial Task Force**
 - Identified metrics for indicators of fiscal challenge
 - Developed rubric for review of Annual Financial Report (AFR)
 - Developed Review Process
 - Developed a refined Financial Data Set
 - Established a 3 year data set to facilitate longitudinal analysis



SOURCES OF THE CFI CRITERIA

- GASB factors for financial analysis
- KPMG – *Strategic Financial Analysis for Higher Education*, 7th edition
- Financial Monitoring in other regions:
 - HLC – Financial Panels
 - New England – ARFE
 - Southern Association – Composite Financial Index (CFI)



CFI CRITERIA

CRITERIA	THRESHOLD FOR RUBRIC
PRIMARY RESERVE RATIO* (Beginning Bal + Revenue – Expenditures)/ Expenditures)	< 5%
NET OPERATING REVENUE RATIO* (Income[Deficit]/Operating Revenue)	< 4%
OPERATING DEFICIT (3 Year Average)	< 0



CFI CRITERIA

CRITERIA	THRESHOLD FOR RUBRIC
SALARY/BENEFITS (3 Year Average)	>86% = 1
	>90% = 2
ENROLLMENT CHANGE	< Regional Avg
Contribution to ARC	< 50% of ARC



CFI CRITERIA

CRITERIA	THRESHOLD FOR RUBRIC
% Change in Unrestricted Cash Balance	> -5%
Audit Concerns (Material Weaknesses or multiple SD's)	yes
Financial Student Loan Default Rate (FSLD)-3 year rate	> 28%



CFI CRITERIA

CRITERIA	THRESHOLD FOR RUBRIC
Cash Flow	NO
Settlement in Excess of COLA - ongoing	Yes
Leadership Changes (Executive level)	≥ 2



USE OF THE CFI

- College AFR's analyzed using the CFI Criteria
- Colleges Assigned a "Risk" level
 - "R" – Referred to "Financial Reviewers"
 - "M" – Continued Monitoring of College
 - "N" – Normal Monitoring



CFI REFERRAL – “R”

- “Financial Reviewers” (like Financial Panel of HLC)
 - Peer group of financial experts
 - Conduct in-depth review of college financial conditions (311’s, audits, other reports)
 - Make recommendation to Commission
 - Continued Monitoring
 - Report of Financial Condition
 - Report of Financial Condition with visit



USE OF CFI ANALYSIS

- Analysis presented to Commission at June meeting
- NO Commission action results from Analysis
- Colleges advised of “at risk” status – “R” or “M”
- Financial Reviewer report could result in further action by Commission (based on recommendation of “Reviewers” – no action without institutional notice)