CLARK ATLANTA UNIVERSITY

Enhancing and Sustaining Institutional Financial Stability: Lessons from a Small Liberal Arts University

Presented by:

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**University**

- CAU, formed in 1988 as a result of the consolidation of two independent historically black institutions – Atlanta University (1865) and Clark College (1869), is a United Methodist Church-related, private, coeducational, residential, and comprehensive urban research university.
- The University, one of the largest of the 37-member UNCF colleges and the only private, independent graduate research institution in the HBCU community.
- Enrollment: 3,992 (Fall 2017)
- Faculty: 179 full-time (FY 2017)
- Total Assets: $223M (FY 2017)
- Total Operating Budget: $104M (FY 2017)

**Endowment**

Assets: $75M (FY 2017)

**Economic Impact**

$512M combined gross sales and labor producing 3120 full and part-time jobs.
Although missions vary among institutions, both a sound financial base and a pattern of financial stability provide the foundation for accomplishing an institution's mission. Adequate financial resources allow for deliberate consideration of the effective use of institutional resources to fulfill that mission. Adequate physical resources are essential to the educational environment and include facilities that are safe and appropriate for the scope of the institution's programs and services. It is reasonable that the general public, governmental entities, and current and prospective students expect sufficient financial and physical resources necessary to sustain and fulfill the institution's mission.

SOURCE: Principles of Accreditation: Foundation for Quality Enhancement
Institutional Financial Core Requirements

- Measure and track the Institution’s Financial Health
- Excellent Sustainable Budget Planning Process
- Excellent Monitoring of Approved Budget
- Balanced Budget
- Trained Staff
- Excellent Operational Processes and Technology
Are resources adequate and flexible enough to support the mission? – **Primary Reserve Ratio**

Are debt resources managed strategically to advance the mission? – **Viability Ratio**

Do Asset Performance and Management support the strategic direction? – **Return on Net Assets Ratio**

Do operating results indicate that the institution is living within available resources? – **Net Operating Revenues Ratio**

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**Measuring Institutional Financial Health**
Composite Financial Index
Core Ratios and Strength Factors (unweighted)

**Primary Reserve Ratio**

**Definition:** Measures financial strength by comparing expendable net assets to total expenses. The ratio represents the portion of a year the institution could meet financial obligations with assets readily available.

**Calculation:** Expendable net assets divided by total expenses.

**Threshold:** .40 -- Below .15 (15% of a year, or 1.8 months) indicates possible short-term borrowing and struggling to find reserves for reinvestments; .40 (40% of a year, or 4.8 months) indicates sufficient cash for short-term needs, facilities maintenance, and contingency reserves; 1.0 and greater, indicates reserves available to cover at least one year of expenses with no additional revenue.

**Return on Net Assets Ratio (%)**

**Definition:** Indicates whether the institution’s total assets, restricted and unrestricted, are increasing or decreasing.

**Calculation:** Change in net assets divided by total net assets at the beginning of the fiscal year.

**Threshold:** 3 to 4% above the inflation rate -- If, for example, the CPI is 3%, a healthy return on net assets ratio would be around 6 to 7%. Plant investment, a capital campaign, or a poor stock market can all affect this ratio in any given year, but a positive trend is desirable.

**Net Operating Ratio (%)**

**Definition:** Indicates whether institutional operations resulted in a surplus or a deficit for the year.

**Calculation:** Change in unrestricted net assets divided by total unrestricted revenue.

**Threshold:** 4% -- A deficit in a single year is not necessarily a problem, but deficits over a number of years indicate trouble and suggest the need for restructuring.

**Viability Ratio**

**Definition:** Measures the ability of the institution to meet its entire debt obligation with assets readily available.

**Calculation:** Expendable net assets divided by long-term debt.

**Threshold:** 1.25 -- A ratio of less than 1.0, where debt obligation and expendable assets are equal, is poor and may identify the institution as a credit risk; greater than 2.0 is a strong indicator of financial health.
Private Colleges & Universities Budget Planning

Budget Process

- Multi-year Budget
- Collaborative Budget Process
  - Budget Committee of University Senate
  - Engage the Campus Community
  - Communicate the process
- External Factors that impact the Budget
  - Inflation
  - Decline in traditional college age students
  - Higher Education Funding
- Traditional Revenue Assumptions
  - Enrollment
  - Fees
  - Government Grant Revenue
  - Private Gifts & Grants
  - Auxiliary Services
Private Colleges & Universities Budget Planning (continued)

Budget Process Non Traditional Revenue

- Real Estate Development
- Partnership with Corporations
- Retail Opportunities in the Community

Operating Expense Budget Requests

- Capital Expenditures
- Funding Priorities
- Operational Efficiency
- Outsourcing Partnerships

Balanced Budget
Training and Professional Development

**What**
- Lean Six Sigma
- IT and Other Governance Procedures
- CAU Mission & Aspirations
- Human Centered Design

**How**
- Project Management

**Why**
Improving Operations and Processes

Four Key Themes

- Improve Operating Procedures
- Increase Use of Technology
- Increase Empowerment & Accountability
- Improve Alignment across Processes
CONSTRUCTIVE CONVERSATION, QUESTIONS, OR THOUGHTS?
THANK YOU!
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