Regular Meeting
Agenda Item 4E
May 18, 2021
Information Item

Higher Learning Commission Financial Ratios

Summary:

The Higher Learning Commission (HLC) uses specific financial ratios to track institutional health as part of an overall strategic financial analysis. The model adopted by the HLC uses the concept of a Composite Financial Index (CFI), which is intended to give a quick snapshot of overall financial health.

Well-managed institutions use their mission to drive success and use financial metrics to determine affordability. The ratios assist in the development of the answers to the following questions and other key questions of strategic financial importance.

- Are resources sufficient and flexible enough to support the mission?
- Are resources managed strategically to advance the mission, such as debt?
- Does asset performance and management support the strategic direction?
- Do operating results indicate the institution is living within available resources?

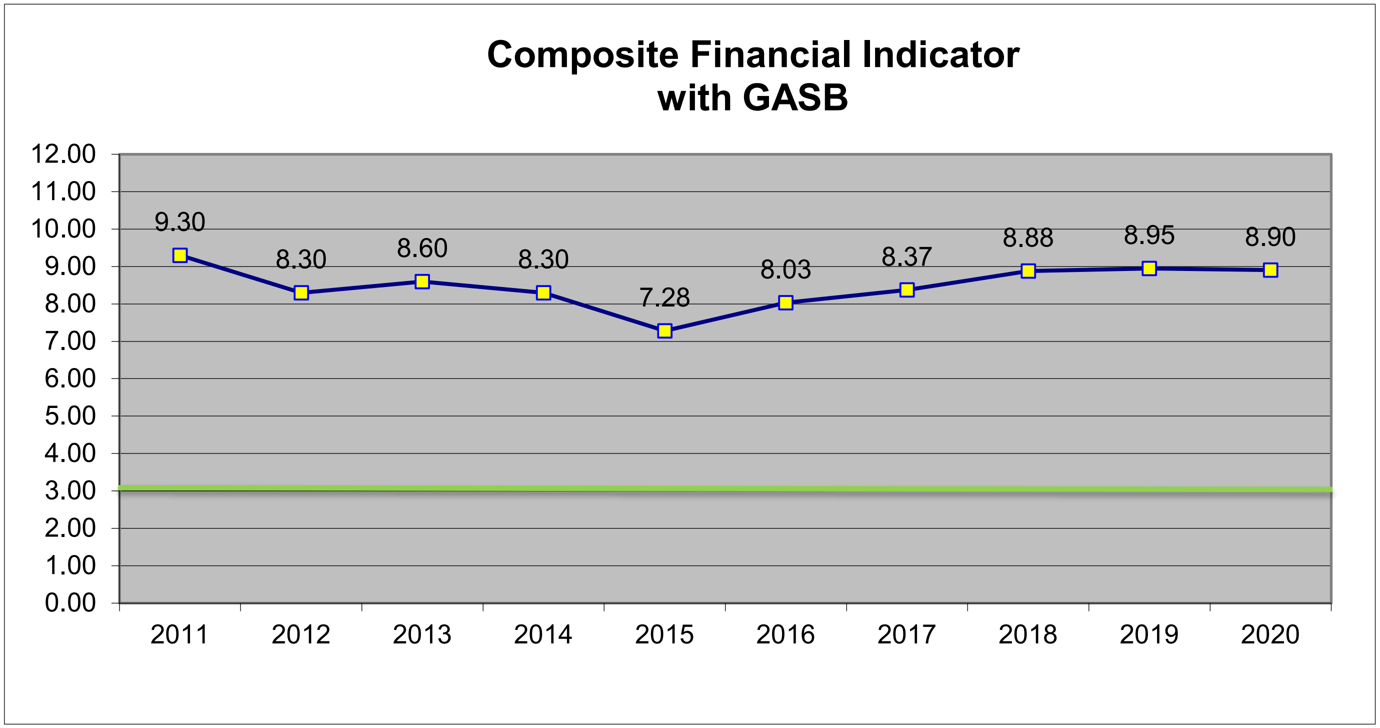
Data for **fiscal year 2019-20** along with historical and comparative information is presented with and without the change in accounting principle related to GASB Statements No. 68 and No. 75.

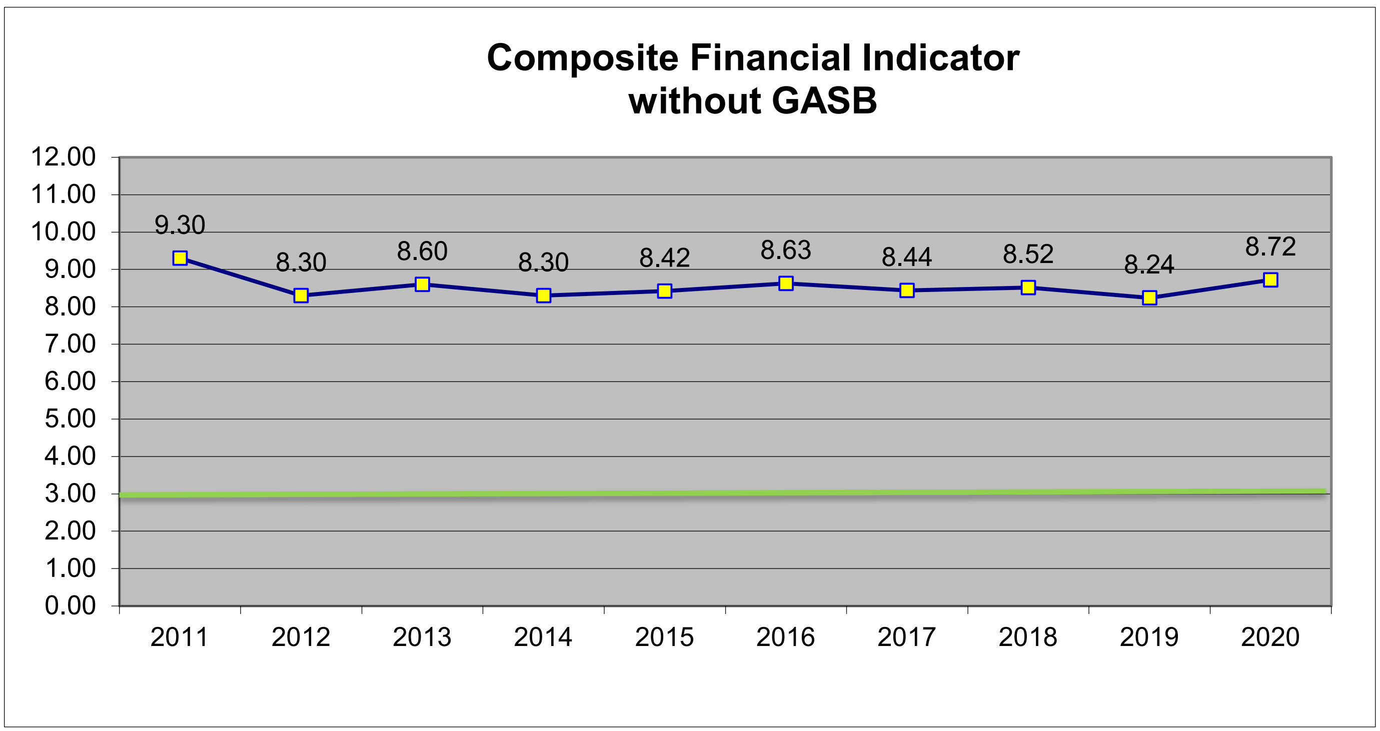
- GASB 68 Accounting and Financial Reporting for Pensions adopted in fiscal year 2014-15.
- GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions adopted in fiscal year and 2017-18 respectively. This is immaterial for NPC.

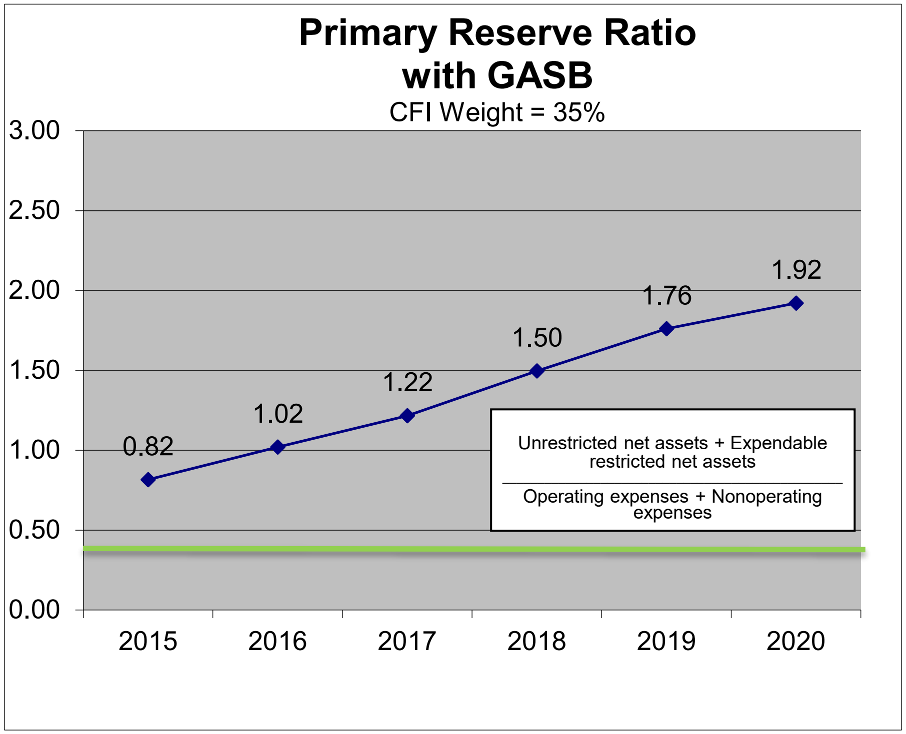
The CFI measures the overall financial health of the institution based on the sufficiency and flexibility of resources, the management of debt, the performance of assets, and the results of operations. A score of 3.0 is considered the threshold for financial health. NPC's score is well above the threshold and has been for years.

The financial ratios that make up the CFI include:

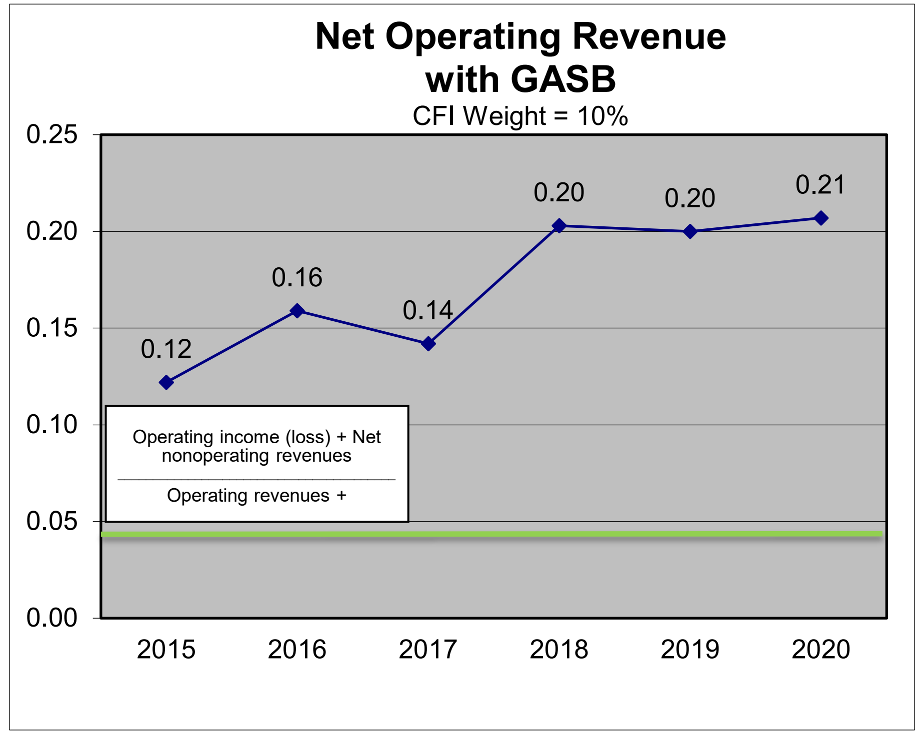
- **Primary Reserve Ratio** *(CFI weight = 35%)* – measures financial strength by comparing expendable net assets to total expenses. The ratio represents the percent of a year the institution could meet financial obligations with assets readily available. A **ratio of .40 is considered the threshold for financial health**. NPC's score is well above the threshold.
- **Net Operating Revenues Ratio (%)** *(CFI weight = 10%)* **-** measures whether the institutional operations resulted in a surplus or a deficit for the year. The ability of an institution to operate within available resources in basic day-to-day functions. The threshold for financial health is **4 percent**. NPC's score is well above the threshold.
- **Return on Net Assets (%)** *(CFI weight = 20%)* - measures whether the institution's total assets (restricted and unrestricted) are increasing or decreasing. **A ratio that is 3-4% above inflation is considered the threshold for financial health**. A higher return on net assets means that the institution is using its assets and working capital efficiently and effectively. NPC's score is above the threshold.
- **Viability Ratio** *(CFI weight = 35%)* - measures the ability of an institution to meets its entire debt obligation with expendable assets. A ratio of 1.25 is considered the threshold for financial health. NPC has **no long term debt or bonds,** so this ratio is not applicable.


Composite Financial Indicator
with GASB
12.00
11.00
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
9.30
8.30
8.60
8.30
7.28
8.03
8.37
8.88
8.95
8.90
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020

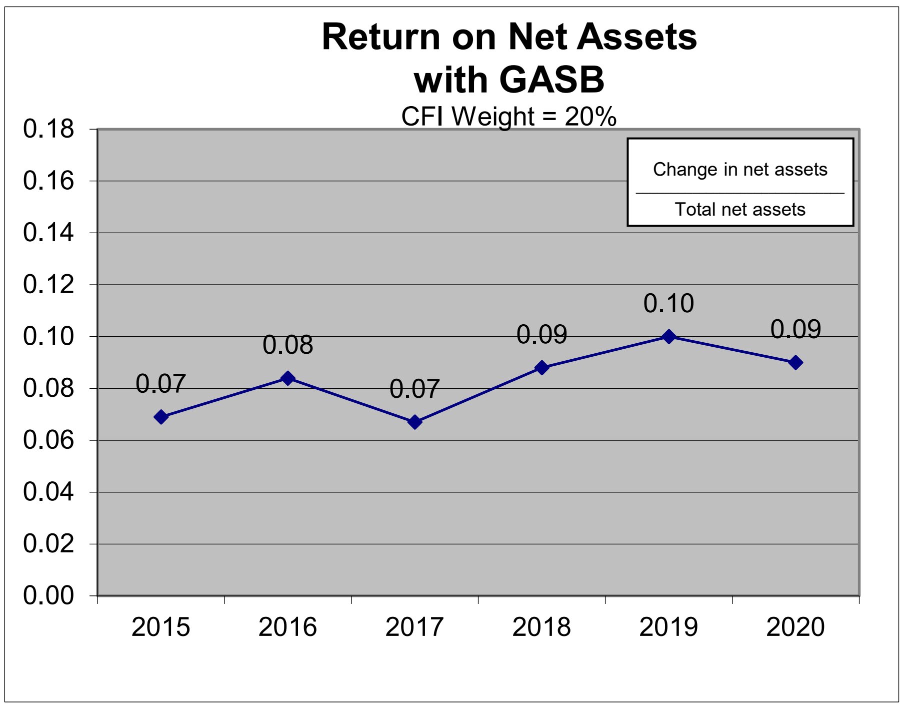

Composite Financial Indicator
without GASB
12.00
11.00
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
9.30
8.30
8.60
8.30
8.42
8.63
8.44
8.52
8.24
8.72
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020



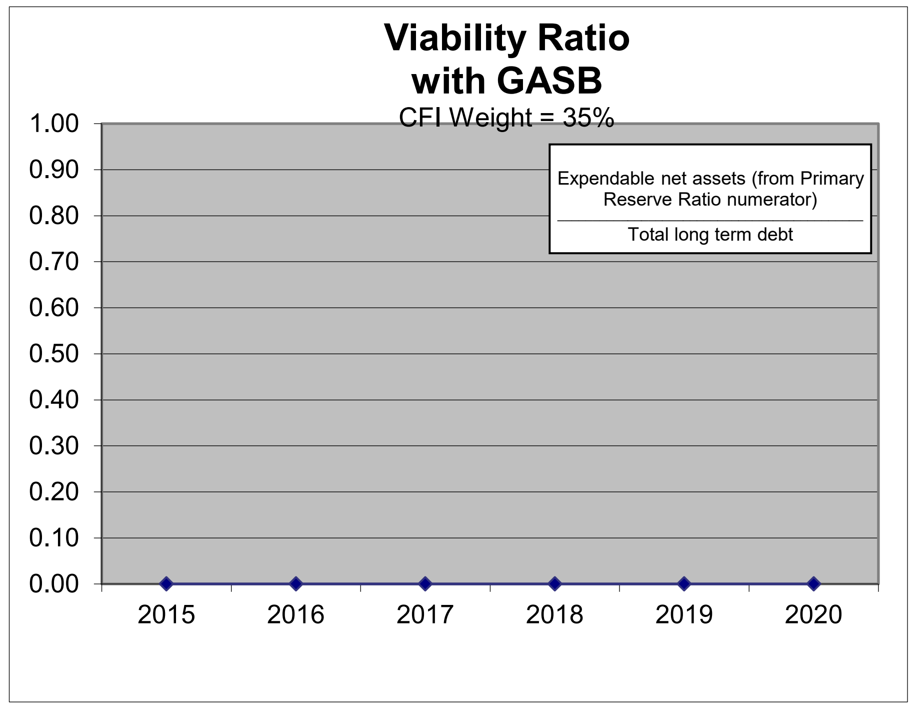
Primary Reserve Ratio
with GASB
CFI Weight = 35%
3.00
2.50
2.00
1.50
1.00
0.50
0.00
0.82
1.02
1.22
1.50
1.76
1.92
Unrestricted net assets + Expendable restricted net assets
Operating expenses + Nonoperating expenses
2015
2016
2017
2018
2019
2020



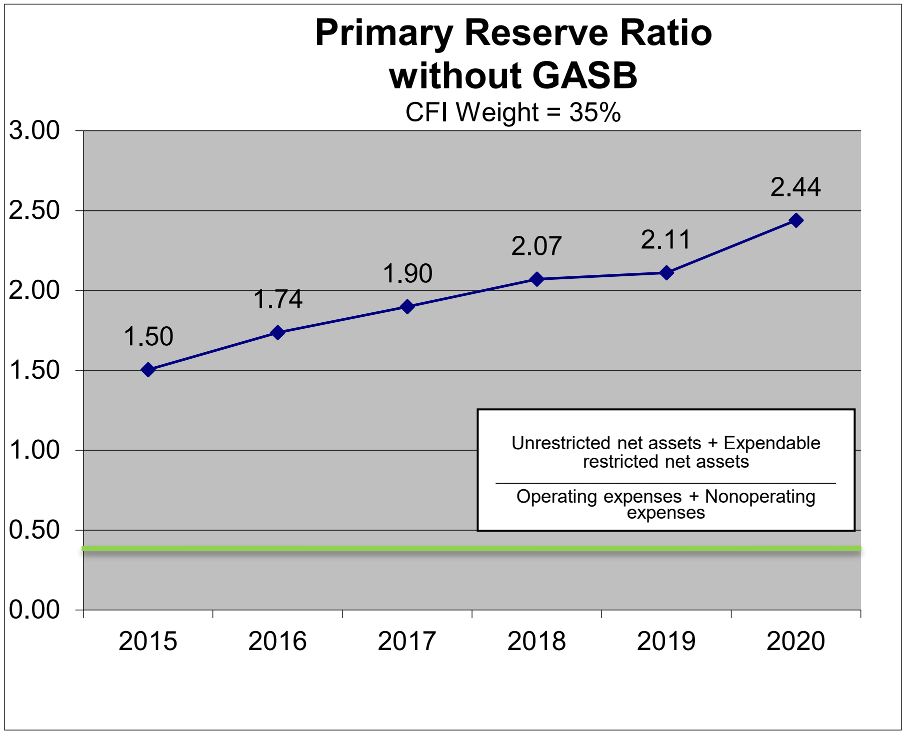
Net Operating Revenue
with GASB
CFI Weight = 10%
0.25
0.20
0.15
0.10
0.05
0.00
0.12
0.16
0.14
0.20
0.20
0.21
Operating income (loss) + Net nonoperating revenues
Operating revenues +
2015
2016
2017
2018
2019
2020



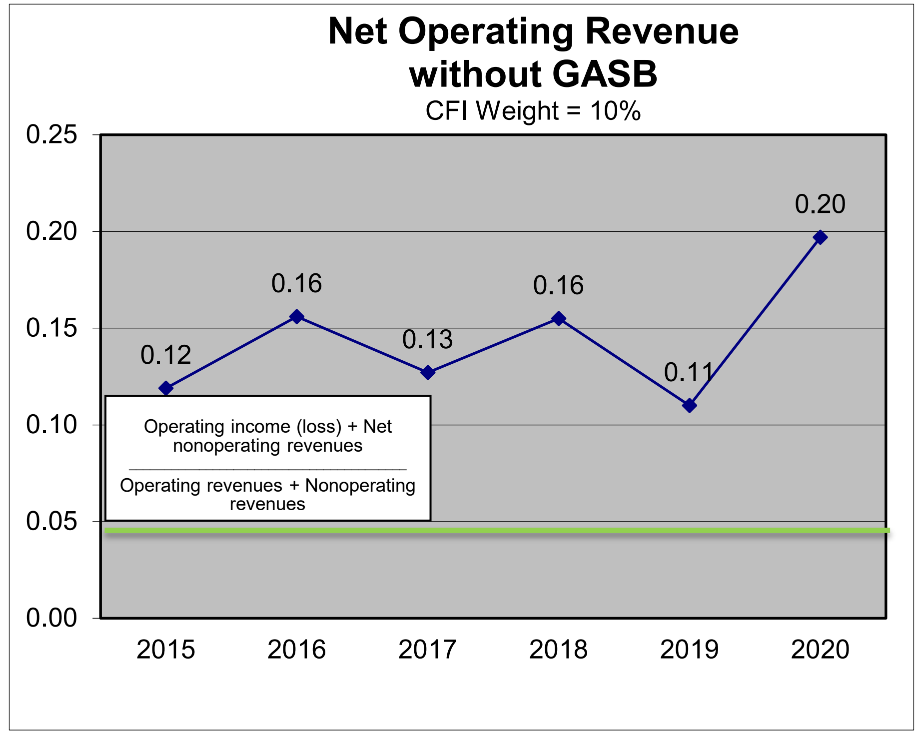
Return on Net Assets
with GASB
CFI Weight = 20%
0.18
0.16
0.14
0.12
0.10
0.08
0.06
0.04
0.02
0.00
Change in net assets
Total net assets
0.07
0.08
0.07
0.09
0.10
0.09
2015
2016
2017
2018
2019
2020



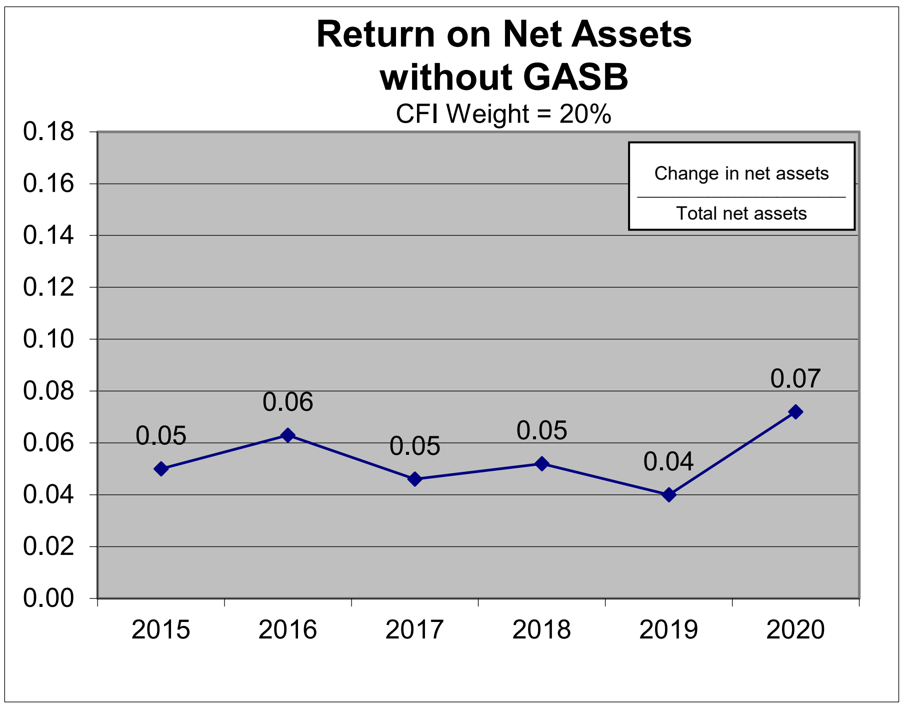
Viability Ratio
with GASB
CFI Weight = 35%
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Expendable net assets (from Primary Reserve Ratio numerator)
Total long term debt
2015
2016
2017
2018
2019
2020



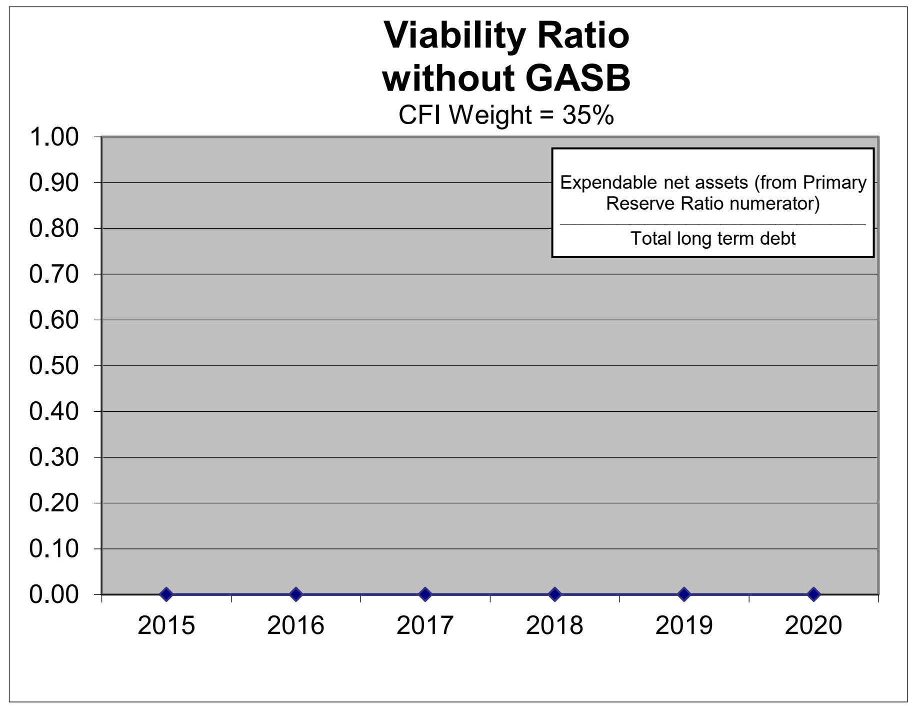
Primary Reserve Ratio
without GASB
CFI Weight = 35%
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1.50
1.74
1.90
2.07
2.11
2.44
Unrestricted net assets + Expendable restricted net assets
Operating expenses + Nonoperating expenses
2015
2016
2017
2018
2019
2020



Net Operating Revenue
without GASB
CFI Weight = 10%
0.25
0.20
0.15
0.10
0.05
0.00
0.12
0.16
0.13
0.16
0.11
0.20
Operating income (loss) + Net nonoperating revenues
Operating revenues + Nonoperating revenues
2015
2016
2017
2018
2019
2020



Return on Net Assets
without GASB
CFI Weight = 20%
0.18
0.16
0.14
0.12
0.10
0.08
0.06
0.04
0.02
0.00
0.05
0.06
0.05
0.05
0.04
0.07
Change in net assets
Total net assets
2015
2016
2017
2018
2019
2020



Viability Ratio
without GASB
CFI Weight = 35%
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Expendable net assets (from Primary Reserve Ratio numerator)
Total long term debt
2015
2016
2017
2018
2019
2020