BAY de NOC COMMUNITY COLLEGE BOARD OF TRUSTEES POLICIES

2000 BUSINESS AFFAIRS

2023 KEY FINANCIAL STANDARDS POLICY

It shall be the policy of the Bay de Noc Community College Board of Trustees to develop and monitor key financial standards.

PURPOSE:

The development of financial standards and monitoring of performance is critical for accreditation and participation in Title IV programs. While the Department of Education has exempted public colleges from the performance standards, it is critical for the College to maintain adequate financial resources to meet the needs of its students and the community and for accreditation standards.

PROCEDURE:

The College will develop key financial indicators as a tool to evaluate the current and future resources available to support strategic investments and to monitor performance targets set by the Higher Learning Commission , Department of Education, Title IV, and outside Rating Agencies;

2023.1 The Key financial indicators will follow the guidelines established by the Department of Education and the Higher Learning Commission. Each year the Vice President of Finance and Operations will review any changes identified under the Department of Education's Title IV regulation or by the Higher Learning Commission and present any revised financial indicators to the Board of Trustees for review.

Key Financial Indicators are as follows:

- The Higher Learning Commission:
  - Primary Reserve Ratio
  - Net Operating Revenue Ratio
  - Return on net assets
  - Viability Ratio
  - Composite Score

Key Financial Indicators are continued as follows:

- Department of Education- Title IV Financially Responsible Standards Ratio:
  - Primary Reserve Ratio
  - Net Operating Ratio
  - Equity Ratio

- Rating Agencies:
  - Days Cash On Hand

2023.2 Prior to the development of the annual operating budget, Administration will establish key performance targets as part of the budget process.

2023.3 A financial ratio assessment will be performed as part of the financial audit and included in the management section of the report.

2023.4 An annual assessment will be compiled and will include several appropriate financial ratios, which have been selected to develop trend lines and comparisons with other similar size colleges.

2023.5 These selected ratios will be utilized by the President and the Board of Trustees to further guide institutional change and future resource allocation.

DEFINITIONS:

Resource Sufficiency:

Primary Reserve Ratio measures financial strength by comparing expendable net assets to total expenses. This ratio represents the portion of a year the institution could meet financial obligations with assets readily available.

For example, a ratio of .40 = 12 x .4 + 4.8 months. Below .15 indicates possible short term borrowing. Day cash on hand also measures available resources and is actually a better measurer.

Debt Management:

Viability Ratio measures the ability of the institution to meet its entire debt obligation with assets readily available. A ratio of less than 1.0 where debt obligations and expendable assets are equal, is poor and may identify the institutions as a great risk. Target >1.5

The **equity ratio** is a financial ratio indicating the relative proportion of equity used to finance a company's assets. Higher equity ratio or a higher contribution of shareholders to the capital indicates a company's better long-term solvency position. A low equity ratio, on the contrary, includes higher risk to the creditors. Target >.55

Asset Performance:

Return on Net Assets Ratio indicates whether the institution's total assets, restricted and unrestricted are increasing or decreasing. Target 3 to 4% greater than inflations

Operating Results:

Net Operating Revenue Ratio indicates whether institutional operations resulted in a surplus or a deficit for the year. Target 4%; a deficit in a single year is not necessarily a problem, but deficits over a number of years indicates trouble and suggest the need for re-structuring.

Days Cash on Hand indicates the number of days that the institution can continue to pay its expenses without new or additional sources of revenue.

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