

# Financial Condition Report for Community Colleges

April 26, 2018



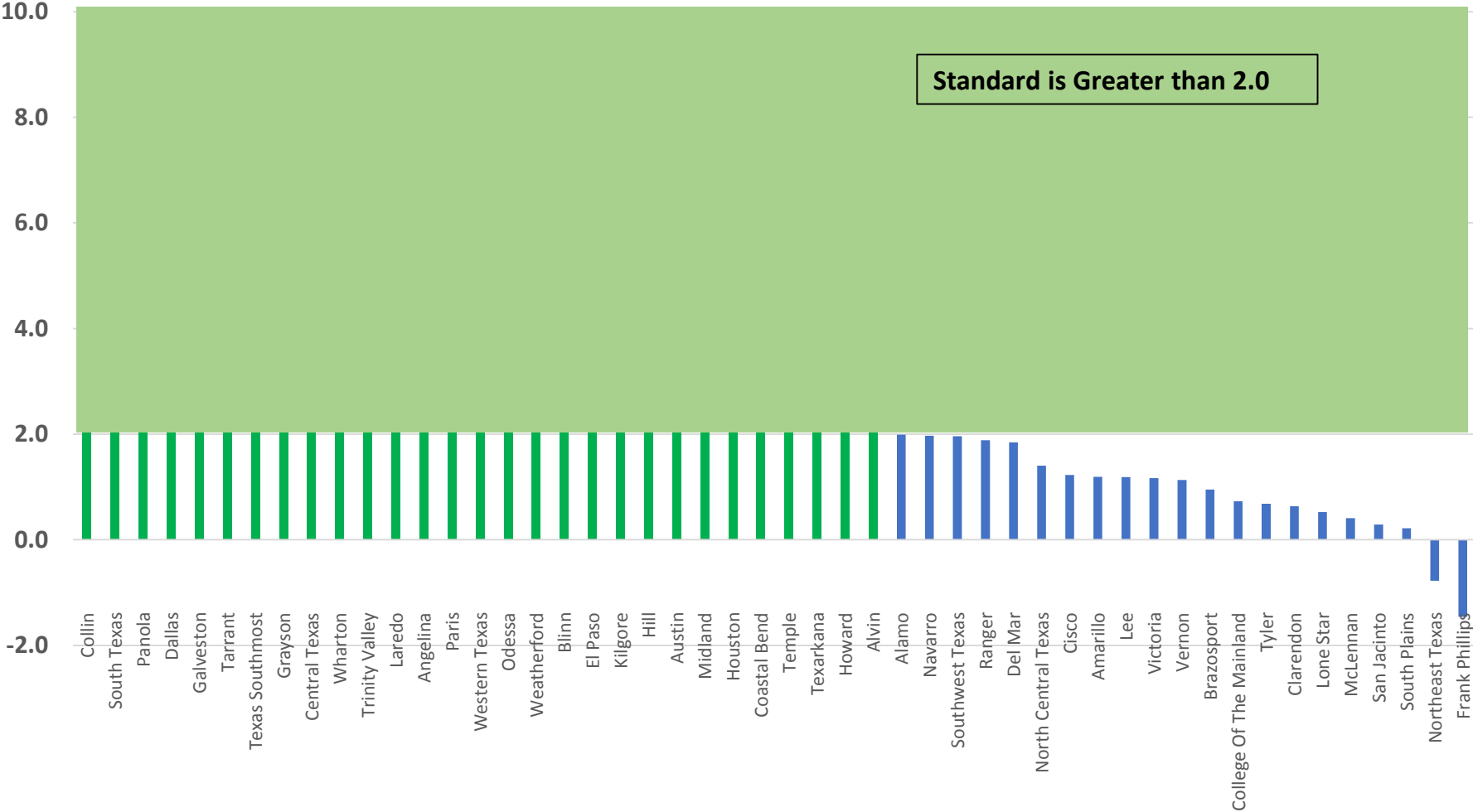
Texas Higher Education  
Coordinating Board

# Financial Condition Report

- Required by the General Appropriations Act
- Developed collaboratively with institutions and KPMG
- Overall metric is the Composite Financial Index (CFI), combining:
  - Return on Net Position
  - Operating Margin
  - Primary Reserve
  - Viability Ratio
- Report has been required since 2011

# Composite Financial Index standard was met by 29 districts

FY 2017 Composite Financial Index



# Ratio Calculations

- **Primary Reserve Ratio**

- Total expendable net position + unrestricted net position / operating expenses + interest expense on debt

(Interest expense on debt includes all debt, both tax and other revenue supported)

- **Viability Ratio**

- Total expendable net position + unrestricted net position / noncurrent liabilities, excluding general obligation (GO) debt.

- **Return on Net Position**

- Change in net position / Total net position (beginning of year)

- **Operating Margin**

Total income - total operating expense / Total income  
(Includes all operating revenue plus formula funding, property tax, and Title IV federal revenue)

- **Equity Ratio**

- Total expendable net position + unrestricted net position / operating expenses + interest expense on debt

- **Leverage Ratio**

- Long term debt / Total net position

- **Composite Financial Index (Sum the following four scores)**

<i>Core Ratio</i>	<i>Value</i>	<i>Strength Factor</i>	<i>Weight</i>	<i>Score</i>
Return on Net Position /	0.02 =	Factor	X 20%	= Score
Operating Margin /	0.007 =	Factor	X 10%	= Score
Primary Reserve /	0.133 =	Factor	X 35%	= Score
Viability Ratio /	0.417 =	Factor	X 35%	= Score

# Composite Financial Index results vary

Counts by community college accountability peer group suggest results are not tied to college size

*Number of colleges that met 2.0 CFI by group:*

- Very Large Colleges: 7 of 10 (70%)
- Large Colleges: 3 of 9 (33%)
- Medium Colleges: 15 of 22 (68%)
- Small Colleges: 4 of 9 (44%)

# The Composite Financial Index has a new use

- In response to the requirements of SB 2118, 85th Regular Legislative Session, the CFI is used in the approval process for new bachelor's degree programs at community colleges
- Institutional representatives and Coordinating Board staff participated in the negotiated rulemaking process to develop related rules, which are found in TAC sections 9.670 to 9.678
- As per the new rules, a CFI score of 2.0 is one of several finance-related requirements for program approval

**60x30TX**



Texas Higher Education  
Coordinating Board