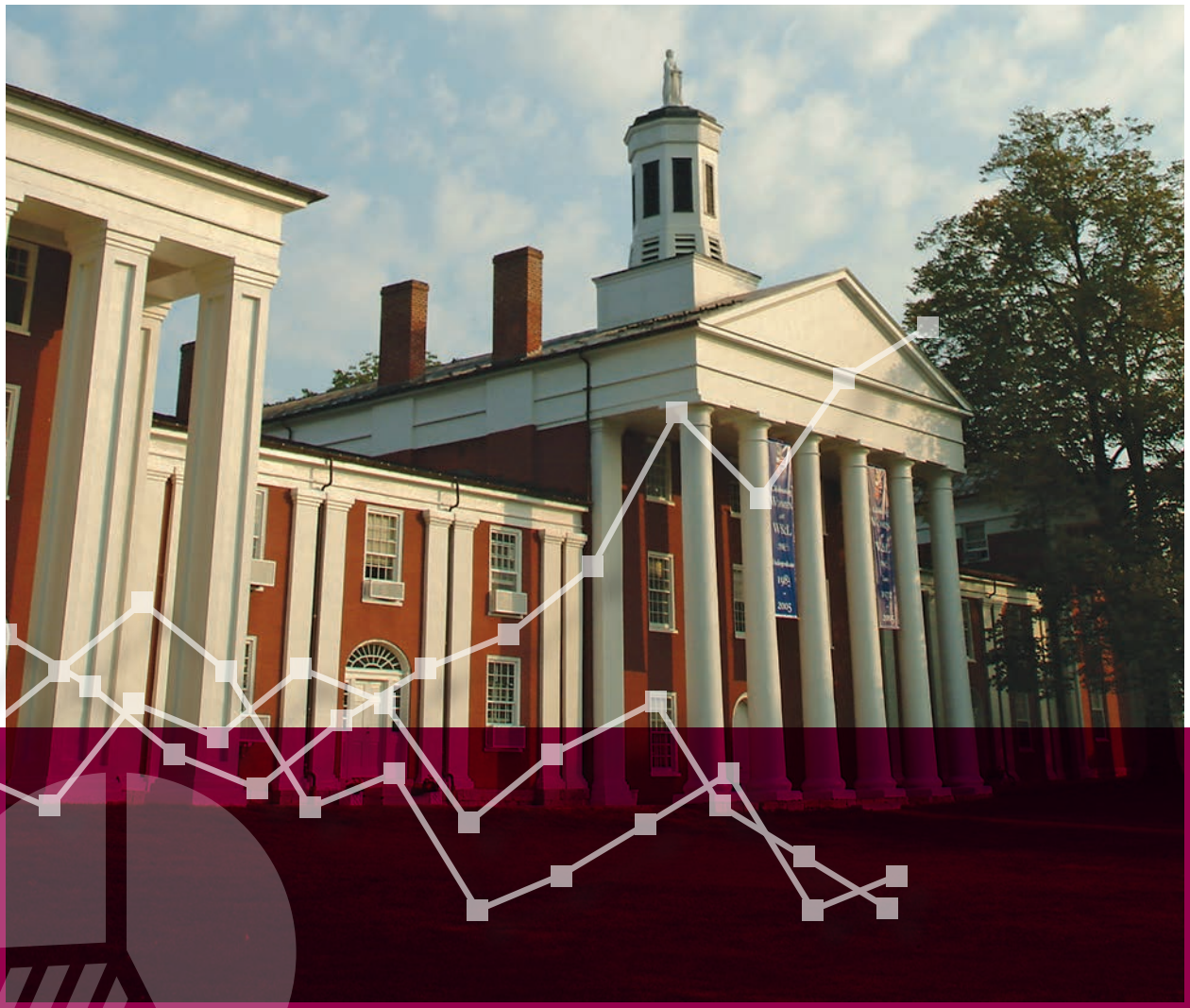

The Financial Resilience of Independent Colleges and Universities

A REPORT BY

THE COUNCIL OF INDEPENDENT COLLEGES

CIC's *Securing America's Future* Initiative

This report was prepared as a component of the Council of Independent Colleges' (CIC) *Securing America's Future* initiative, which extends elements of both the Project on the Future of Independent Higher Education and the Power of Liberal Arts Education public information campaign. The projects have been guided by steering and advisory committees comprised of leaders of CIC member institutions (see page 41). The *Securing America's Future* initiative works to provide accurate and compelling information about the value of the liberal arts and independent higher education and to ensure continued educational excellence by fostering mission-driven innovation at CIC member institutions.

Generous support for this report has been provided by the TIAA Institute.

The Financial Resilience of Independent Colleges and Universities

A Report by the Council of Independent Colleges

August 2017

The Council of Independent Colleges is an association of 767 nonprofit independent colleges and universities, as well as state-based councils and other higher education affiliates, that works to support college and university leadership, advance institutional excellence, and enhance public understanding of independent higher education's contributions to society. CIC is the major national organization that focuses on services to leaders of independent colleges and universities and state-based councils. CIC offers conferences, seminars, publications, and other programs and services that help institutions improve educational quality, administrative and financial performance, student outcomes, and institutional visibility. It conducts the largest annual conferences of college and university presidents and of chief academic officers. Founded in 1956, CIC is headquartered at One Dupont Circle in Washington, DC.

About the TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts and supports in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies, and maximize opportunities for success. To learn more, visit *www.tiaainstitute.org*.

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Foreword

As a long-time partner with the Council of Independent Colleges—including supporting its *Securing America's Future* initiative—the TIAA Institute is pleased to help make this report available. The TIAA Institute supported this work because it is committed to enhancing the financial well-being of individuals and institutions in the higher education and broader nonprofit sectors. Core to its mission is building and sharing knowledge that helps leaders make better decisions and informs their strategic plans, which the TIAA Institute believes is the most powerful way to influence the financial fate of academic and nonprofit institutions.

Access to meaningful data is essential to the success of academic institutions. From securing financing to planning investments to attracting high-quality faculty members, virtually all aspects of an institution's operations can be enhanced through data analytics, particularly benchmark comparisons that put results in context.

To that end, the authors of this report analyzed 14 years of financial data from hundreds of private nondoctoral institutions. Their research, supported by the TIAA Institute, examines the financial viability of independent colleges and universities, provides a comprehensive look at their financial health, and finds that most independent colleges and universities are in generally good health.

We are pleased to share these conclusions about the strength of the nonprofit college sector with readers of this report. To learn more about the TIAA Institute's research and initiatives for higher education leaders, please visit *www.tiaainstitute.org*.

Stephanie Bell-Rose
Head of the TIAA Institute

Preface

Many headlines in recent years have questioned the financial resilience of small and mid-sized private colleges and universities. A handful of colleges has closed each year, and this pattern has remained the same for more than three decades, little influenced by cataclysmic events as headlines suggest. More significantly and less heralded, many private colleges and universities are adapting to economic and demographic challenges by introducing innovations that contain costs or create new sources of revenue.

This report, prepared by the Council of Independent Colleges with generous support from the TIAA Institute, demonstrates through analysis of data spanning 14 years (2000–2014) that the majority of small and mid-sized private colleges and universities are financially stable. A large majority (88 percent) of these institutions have maintained or improved their financial standing, no small feat through the 2007–2009 recession. As the report explains, today's financial outlook for independent colleges and universities is not dire.

For more than a decade, CIC has provided its member colleges and universities with annual benchmarking reports that make use of comparative data and that help enhance institutional effectiveness and improve decision making. With assistance from the Austen Group, now a division of Ruffalo Noel Levitz, CIC began preparing the Key Indicators Tool (KIT) in 2004 and the Financial Indicators Tool (FIT) in 2007 for the exclusive use of CIC member presidents. In earlier days, the William Randolph Hearst Foundations and later TIAA both supported the preparation of these annual reports. The financial metrics used in the annual FIT benchmarking reports provide college leaders with an easy-to-understand picture of financial health.

All of us at CIC hope that this report, drawing on the wealth of data in the FIT and KIT reports over 14 years, will put to rest the image of the ailing private college and help readers understand the impressive financial resiliency of these institutions.

Richard Ekman
President
Council of Independent Colleges

The Financial Resilience of Independent Colleges and Universities

Executive Summary

Each time a liberal arts college or university closes its doors, predictions abound that many more smaller private colleges will close soon as well. The challenges faced by independent colleges are well documented and contribute to this outlook (Townsley 2009; Marcus 2013). These include economic pressures, rising operating costs, and market competition, as well as concerns about college affordability, demographic shifts, and high discount rates. All of these factors combine to raise questions about the financial resilience of the independent sector of higher education.

This report seeks to answer the following questions:

1. Are small and mid-sized private colleges at risk financially?
2. Do the financial trends over the last several years provide insight into the financial condition of private colleges?
3. What characteristics influence the financial resilience of these institutions?

The analysis is based on 14 years of financial data (from fiscal years 2000–2001 through 2013–2014) from 559 private baccalaureate and master's-level colleges and universities. Using the methodology developed by Tahey, Salluzzo, Prager, Mezzina, and Cowen (2010) in *Strategic Financial Analysis for Higher Education*, institutional financial health is measured by four core financial ratios and a Composite Financial Index (CFI). The four ratios are the Primary Reserve Ratio that measures resource sufficiency; the Viability Ratio that measures debt management; the Return on Net Assets Ratio that measures overall change in assets, including investments; and the Net Operating Revenues Ratio that measures operating results. These ratios are combined into a fifth, comprehensive measure of financial health, the CFI.

The long-term trends of the four ratios and the CFI indicate that while private nondoctoral colleges and universities have experienced fluctuations due to the impact of macroeconomic conditions, their overall

financial health remains stable. The ratios and the CFI indicate that institutions have successfully weathered the 2007–2009 recession. Two-thirds (67 percent) of small and mid-sized private colleges and universities had achieved a level of financial health at or above the 3.0 CFI threshold of viability by 2013–2014, the most recent year studied.

Institutional characteristics such as student enrollment, tuition and fees, discount rates, and endowments offer no clear indication of whether an institution gains, maintains, or loses financial stability (see Table 4 on p. 21). Further examination of institutions that increased, maintained, or decreased financial performance as measured by the CFI over the 14 years shows small differences by region, financial resources, Carnegie Classification, and enrollment size. Yet none of the institutional characteristics is systematically related to financial condition over time.

In order to maintain or improve financial stability, institutions have had to execute purposeful strategies in the midst of market fluctuations. A recent CIC report supported by the TIAA Institute and the Lumina Foundation reveals that private baccalaureate and master's institutions have implemented a variety of innovations and approaches to position their institutions for the future (Hearn and Washaw 2015).

The long-term trends of the four ratios and the CFI indicate that while private nondoctoral colleges and universities have experienced fluctuations due to the impact of macroeconomic conditions, their overall financial health remains stable.

The results of this new analysis of institutional financial conditions demonstrate several points:

- The majority of small and mid-sized private colleges and universities are not financially at risk;
- The trends for key financial indicators, including the CFI, have been largely on an upward trajectory since the 2007–2009 recession, indicative of increasing financial health; and
- A combination of strong institutional leadership and multiple institutional factors are likely to be more determinant of institutional financial resilience than any single characteristic.

Introduction

The need for accurate information about the financial resilience of the nation's small and mid-sized private colleges and universities could not be more acute. The utility of a liberal arts course of study is viewed with increasing skepticism in public discourse. The closure or merger of a few small colleges each year has led to increased speculation about whether *all* liberal arts colleges are in financial jeopardy. Misperceptions about the price of higher education and the level of student debt are widespread. Questions abound: Are small and mid-sized private colleges at risk financially? Do the financial trends over the last several years provide insight into the financial condition of private colleges? What characteristics influence the financial resilience of these institutions?

This report explores the financial resilience of independent colleges and universities through an analysis of 14 years (fiscal years 2001–2014) of financial data from 559 private nondoctoral institutions. The financial methodology was first developed by Salluzzo, Prager, Tahey, and Cowen (1999) and updated by Tahey, Salluzzo, Prager, Mezzina, and Cowen (2010) to examine the financial health of small and mid-sized private institutions. Through analysis of financial performance in several domains, the data reveal that the majority of independent baccalaureate and master's-level colleges and universities have maintained financial stability, health, and viability.

Background

Small and mid-sized private colleges and universities are known for small class sizes, close and frequent student-faculty interactions, and a curriculum that encourages critical thinking and civil discourse. These institutions provide students with distinctive opportunities for learning, self-discovery, and personal growth. Economic pressures, increased operating costs, and greater market competition have been on the rise for these institutions (Hearn and Warshaw 2015) and have affected their financial health. Does the financial resilience of these institutions support their important role in American higher education?

A recent survey by the *Chronicle of Higher Education* found that a majority of college and university board chairs and presidents (77 percent) said that the financial stability of higher education is moving in the wrong direction (Regan 2016).

Long-established private colleges such as Burlington College and St. Catherine College closed their doors in 2016 and made headlines. In fact, on average five similar institutions closed each year between 2003 and 2013, according to a study by higher education researchers at Vanderbilt University (Lyken-Segosebe and Shepard 2013). In 2013, Moody's predicted the number of closures would triple in four years, which would mean that 15–18 independent institutions would close by the 2017–2018 academic year (Schwarz and Kedem 2013). Compared with nearly every other commercial sector, however, these bankruptcy and closure rates are extremely small. Moody's also suggested that the number of institutional mergers to avoid closures would double from the ten-year average of two to three a year to four to six a year by the 2017–2018 academic year (Schwartz and Kedem 2013; Woodhouse 2015).

Perceptions of college affordability, demographic shifts, and rising discount rates all impact small and mid-sized colleges and universities. Since the 2007–2009 recession, incomes have stagnated for middle class families and student debt has become a primary concern (Askin and Shea 2016a; Schwartz and Kedem 2013; Townsley 2009). In a recent survey of college admissions officers, 75 percent of respondents attributed missed enrollment targets to applicants' increasing concerns about student debt (Askin and Shea 2016a). In the face of record-breaking national student debt at $1.3 trillion, many of these tuition-dependent colleges and universities are even more concerned about missing tuition discounting and enrollment targets (Federal Reserve Bank of New York 2017).

In addition, the number of high school graduates is expected to decline between 2014 and 2030, with the Midwest and Northeast seeing declines of 12 percent and 11 percent, respectively (Bransberger and Michelau 2016). By the early 2030s, the number of white and African American public high school graduates is expected to decline by 17 percent and 7 percent, respectively, though the number of Hispanic and Asian Pacific Islander high school graduates is projected to climb by as much as 30 percent (Bransberger and Michelau 2016). Many of the projected gains are in regions of the country, such as the Southwest, with relatively few independent colleges and universities.

While smaller private colleges and universities struggle with affordability and the challenges associated with demographic shifts, they also are trying to curb tuition discounting. According to the most recent data available, the National Association of College and University Business Officers (NACUBO 2017) estimated that in 2016–2017 tuition discounting would reach approximately 45 percent for small institutions and that 91 percent of first-time, full-time entering students would receive institutional grants. Ten years earlier the discount rate was almost 10 percentage points lower, and first-time, full-time students received almost 7 percentage points less in institutional grants. Higher tuition discounting frequently results in smaller revenue gains (Ortiz et al. 2016).

In light of these challenges, college and university leaders have remained vigilant in monitoring financial health and are engaged in aggressive change initiatives on multiple fronts (Hearn and Washaw 2015). In most cases, the innovations they have implemented in both cost savings and revenue enhancement have been consistent with longstanding institutional missions (Hearn and Warshaw 2015). For example, Benedictine University in Lisle, Illinois, "adopted a 'go where they are' approach, embracing new and diverse student populations, establishing branch campuses, developing adult education programs, and introducing new models for graduate education" (Hearn, Warshaw, and Ciarimboli 2016, p. 7). Houghton College in Houghton, New York, has exemplified mission-driven sustainability through diversifying sources of enrollment, adding new programs, and controlling costs with faculty and key stakeholder buy-in.

Overall, Hearn and Warshaw (2015) found that "not only do these institutions intentionally adapt to new challenges, but they do so by embracing—not abandoning their historic missions" (p. 1).

To help contextualize institutional financial stability and viability, Tahey et al. (2010) offer institutions a method to gauge institutional finances over time. The authors of *Strategic Financial Analysis for Higher Education* identify four basic financial ratios that combine into an overall "Composite Financial Index" (CFI). The next section explains the methodology, how to interpret the financial trends in baccalaureate and master's-level higher education institutions, and how the CFI illuminates institutional financial stability in different contexts.

Overview of the Methodology

Overview of Ratios and the Composite Financial Index

The four ratios developed by Tahey et al. (2010) measure resource sufficiency, debt management, financial assets, and operating results. The ratios compare the institution's operating commitments (Primary Reserve Ratio) and its outstanding long-term obligations (Viability Ratio) against its expendable wealth; measure the short-term ability of the institution to live within its means (Net Operating Revenues Ratio); and display the ability of the institution to generate overall return of its net resources (Return on Net Assets Ratio). All four ratios should be considered individually and in addition to the Composite Financial Index to assess the financial stability of an institution. College and university leaders should monitor each ratio consistently to ensure the financial well-being of the institution. Table 1 displays the question that each ratio addresses, the financial component it measures, its threshold for financial viability, and how it is weighted when combined to form the CFI.

Each ratio has a recommended threshold based on Tahey et al.'s (2010) extensive analysis of institutional financial performance. For example, a college or university with a Primary Reserve Ratio's recommended 0.4 threshold indicates an institution has enough reserves to cover expenses for about 40 percent of the year (4.8 months) without additional revenue. The Viability Ratio should be at least 1.25, which indicates an institution has expendable funds to cover its debt

TABLE 1

Composite Financial Index (CFI) Ratio Descriptions

Ratio	Question	Financial Aspect	Threshold for Financial Health	Weight in the CFI
Primary Reserve Ratio	Are resources sufficient and flexible enough to support the mission?	Resource sufficiency and flexibility	0.4	35%
Viability Ratio	Is debt managed strategically to advance the mission?	Debt management	1.25	35%
Return on Net Assets Ratio	Does financial asset performance support the strategic direction?	Asset performance (i.e., endowment and investment returns)	3% to 4% above the rate of inflation	20%
Net Operating Revenues Ratio	Do operating results indicate that the institution is living within its available resources?	Operating results (i.e., surplus or deficit from operations)	4%	10%

Adapted from Tahey et al. (2010), *Strategic Analysis in Higher Education,* p. 134.

The FIT—A Planning Tool

Before the height of the 2007–2009 recession, the Council of Independent Colleges and the Austen Group developed an annual benchmarking report called the Financial Indicators Tool (FIT) that uses the CFI methodology established by Salluzzo et al. (1999). This tool was introduced in 2007 to CIC member colleges and universities as a robust set of financial metrics that could easily be interpreted by presidents, trustees, faculty members, and others. Each annual report draws upon six years of data, which allows leaders of independent colleges and universities to see trends in institutional financial health and provides a tool for planning and decision making. College leaders can benchmark their institution's performance against the performance of other institutions by geographic region, Carnegie Classification, financial resources, and enrollment size.

To develop the FIT reports, the Austen Group collects data drawn from publicly available sources, including GuideStar (from IRS Form 990) and the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS). In order to relieve the reporting burden for its member institutions, CIC relies on these public data sources. To create the most accurate report and benchmarking comparison, however, institutions are invited to correct their data and provide missing information.

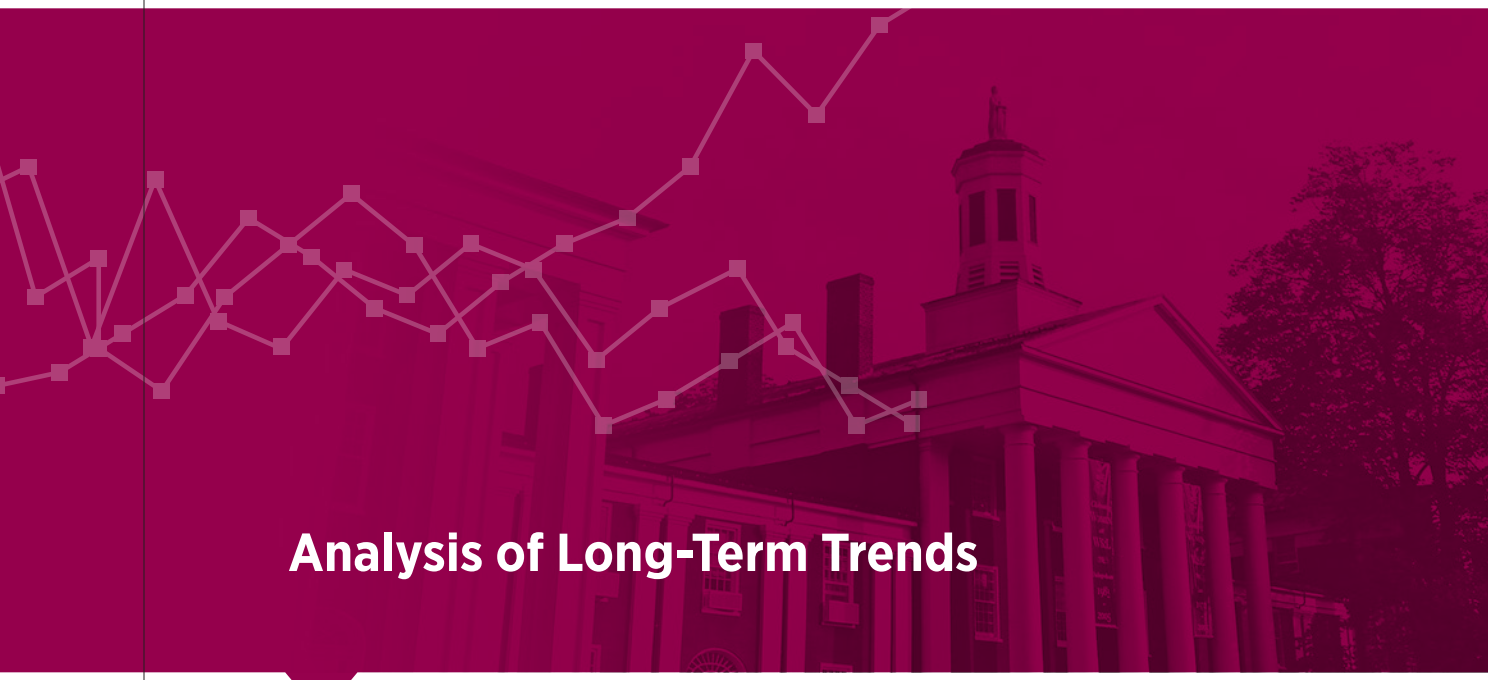
adequately. The Return of Net Assets Ratio should fall between 3 to 4 percent above inflation, which indicates a healthy return on net assets. The Net Operating Revenues Ratio of 4 percent shows that an institution is living within its means. A ratio that meets or exceeds its designated threshold is usually an indicator of solid financial health. Finally, the Composite Financial Index threshold is 3.0, which represents a relatively strong financial position (Tahey et al. 2010).

The four ratios listed in Table 1 are combined to create the Composite Financial Index. Four steps are used to calculate the CFI: (1) the values of the four core ratios are computed; (2) these values are converted into strength factors creating a common scale with 10 as the ceiling and -4 as the floor; (3) the strength factors are then multiplied by the specific weighting percentage; and (4) the resulting four numbers are totaled to create a single CFI score (Tahey et al. 2010, p. 133). Specific data sources for the ratios and the formulas used to calculate them are provided in Appendix A.

Data

The data in this report come from 559 baccalaureate and master's-level private nonprofit colleges and universities. This profile comprises the majority of CIC member institutions. Fourteen years of financial data (fiscal years 2000–2001 to 2013–2014) have been collected from the U.S. Department of Education's Integrated Postsecondary Education System (IPEDS) and IRS Form 990 (available via GuideStar). These publicly available data comprise the data set used for CIC's Financial Indicators Tool (FIT) report (see Box above for more information). The dataset includes the financial variables necessary to calculate the four ratios and the CFI described in this report. Data were initially collected for 754 private nonprofit nondoctoral colleges and universities, but institutions with missing data for any single year covered by the report were removed from the trend analysis.

Throughout the report, median values (the 50th percentile) are used as the measure of central tendency, since medians are not as sensitive to extreme high and low values in the data.



Analysis of Long-Term Trends

Assessing the ratio values over time can inform institutional planning and decision making. Although the ratios measure the financial health of an institution at one point in time, they are most helpful when viewed over a period of three to five years. A ratio that falls below a threshold for one year does not necessarily indicate a financial problem but rather may reflect market volatility or a short-term strategic decision by the institution. Consistent performance below a threshold over several years is cause for concern that should be addressed by the institution. This section provides an overview of all four ratios and the CFI over a 14-year period for private nondoctoral colleges and universities.[1]

Trends in the Primary Reserve Ratio

The Primary Reserve Ratio (PRR) measures an institution's resource sufficiency and flexibility (Tahey et al. 2010). Figure 1 shows that the national median PRR for private nondoctoral colleges and universities has exceeded the threshold for financial stability of 0.4 in all but one year. In the 2008–2009 academic year, the national median dipped below the threshold to 0.37, the result of significantly decreased expendable net assets. The PRR median of these colleges and universities, however, has trended upward since then, and most institutions have returned to the levels of financial strength seen prior to the recession. Generally, private nondoctoral institutions have been able to maintain their PRR above 0.4 for the most recent five years studied—indicating that institutions have sufficient financial resource flexibility to ensure operations for five months or more.

Trends in the Viability Ratio

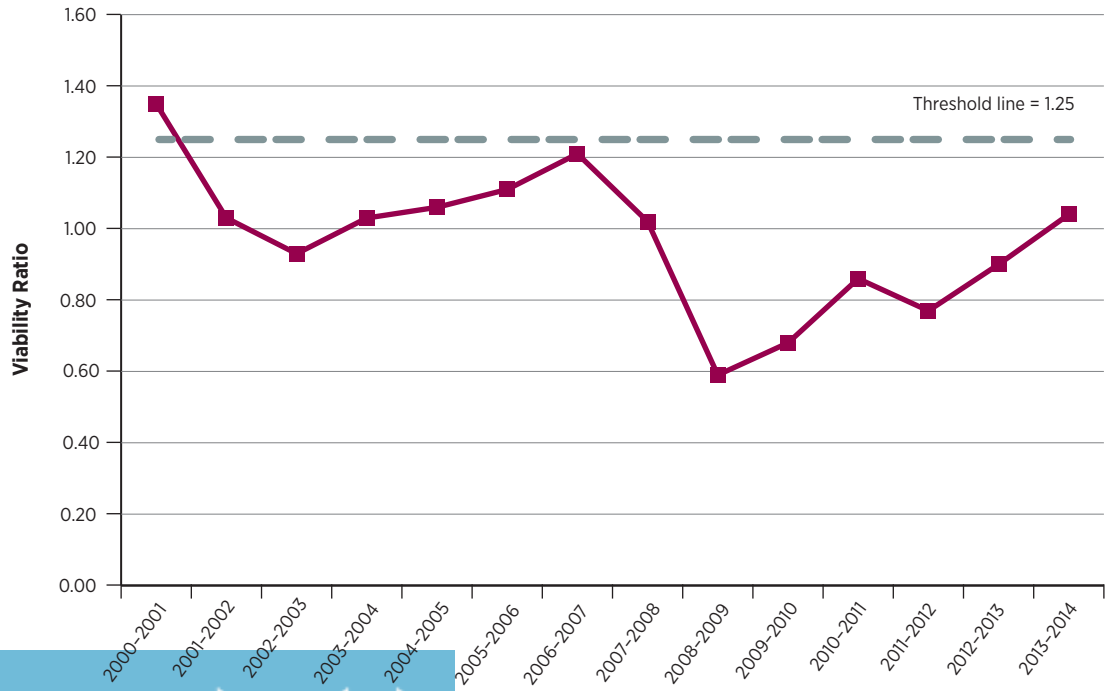
The Viability Ratio (VR) measures an institution's ability to manage debt (Tahey et al. 2010). Figure 2 indicates that the median VR values consistently trended below the 1.25 threshold, suggesting that private colleges and universities have lacked sufficient expendable funds since 2000–2001 to manage their debt adequately. When expendable funds equal

FIGURE 1

Median Primary Reserve Ratio of the Sample Private Colleges and Universities, 2000–2014

FIGURE 2

Median Viability Ratio of the Sample Private Colleges and Universities, 2000–2014



long-term debt, the VR ratio is 1.0, yet the median ratio dropped steeply below 1.0 in 2008–2009, when it hit a historic low of 0.60 during the recession. Some institutions, however, took advantage of historically low interest rates during the downturn in the economy and acquired additional debt in order to invest in strategic opportunities, such as new academic programs and campus facilities. Since 2008–2009, the Viability Ratio has risen steadily as institutions increased the availability of expendable net assets to meet debt obligations.

Trends in the Return on Net Assets

The Return on Net Assets Ratio (RNAR) measures endowment and investment performance (Tahey et al. 2010). Figure 3, which plots the median RNAR over the 14 years, shows that institutions' net assets have increased or decreased with the rise and fall of the financial markets. The gray dashed threshold line is set at the rate of inflation plus 3.5 percent. Because the RNAR is influenced by the performance of financial markets, the 2007–2008 and 2008–2009 academic years saw a significant decline caused by the collapse of the stock market and the large losses in the market value of endowments. The following year the ratio rebounded and continued an upward trend except for a slight downturn in 2011–2012. This ratio, like the others, is best analyzed over an extended period in part because broader economic forces beyond institutional control can influence the return on investments. In addition, it is helpful to look at the rolling average of these scores because market performance in one year can significantly affect the numerator of the ratio (Tahey et al. 2010).[2]

Trends in the Net Operating Revenues Ratio

The Net Operating Revenues Ratio (NORR) indicates whether an institution is operating within its existing resources (Tahey et al. 2010). Figure 4 illustrates the trend in the median NORR over 14 years. As with the previous ratios, the basic operating surplus

FIGURE 3

Median Return on Net Assets Ratio of the Sample Private Colleges and Universities, 2000–2014

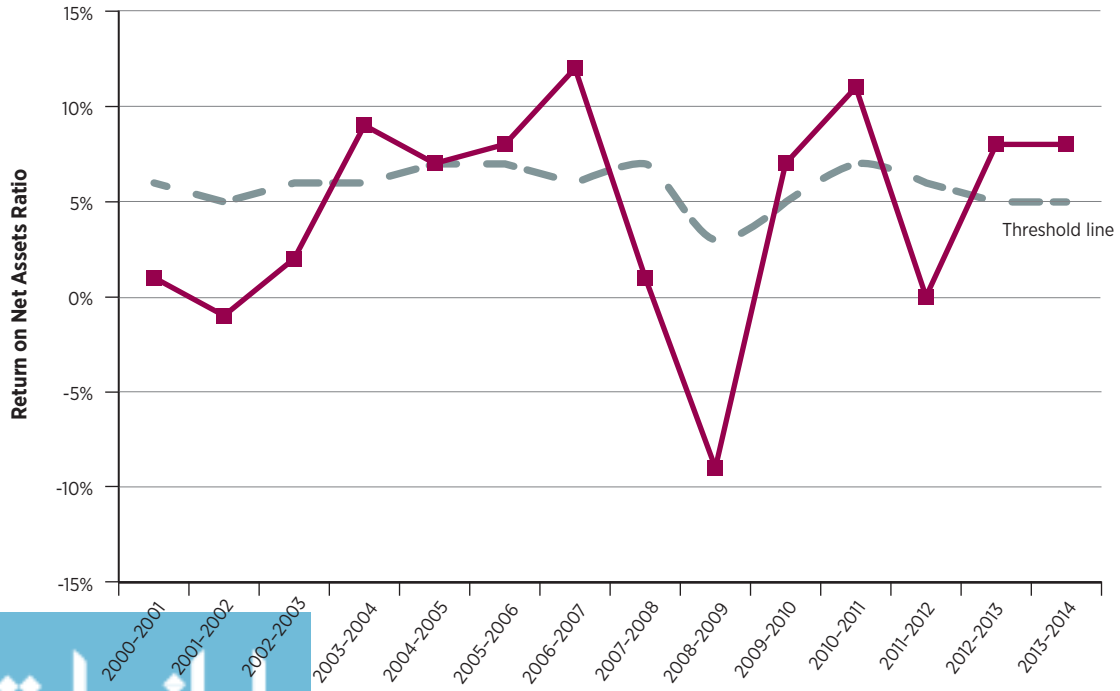
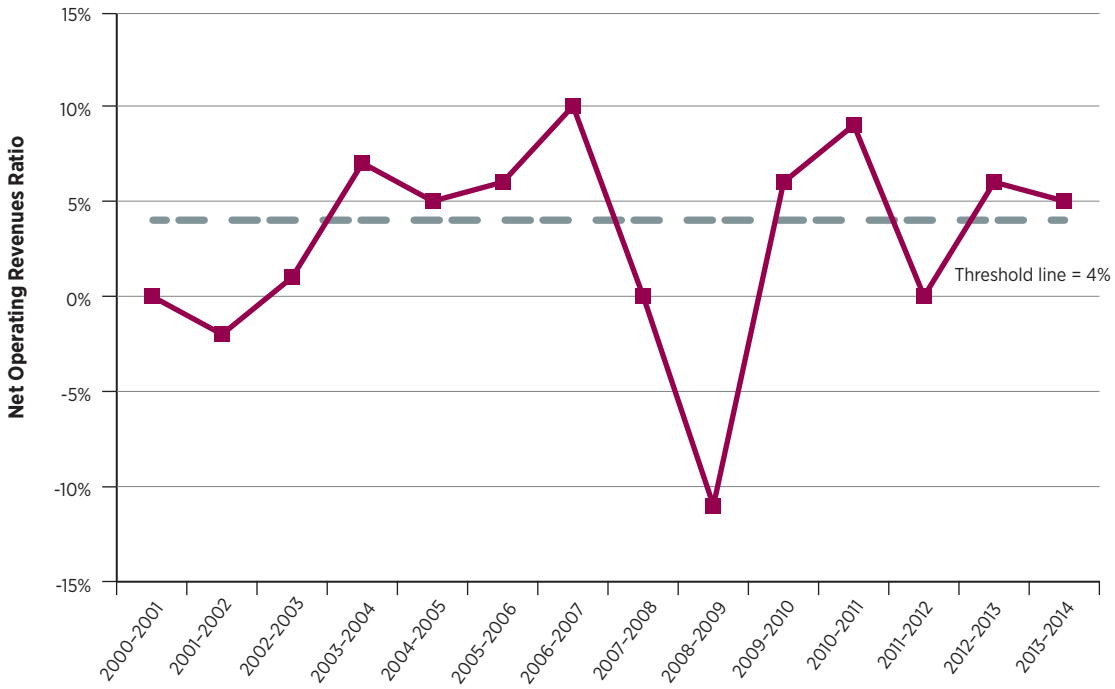


FIGURE 4

Median Net Operating Revenues Ratio of the Sample Private Colleges and Universities, 2000–2014



of independent colleges and universities saw a dip in 2007–2008 and 2008–2009. Although far below the recommended threshold of 4 percent growth, the downturn in the NORR can be explained by the impact of broader economic conditions on operations. The challenge in calculating this ratio is to determine what constitutes "normal annual operations" for an institution.[3] For example, faculty salaries and routine campus maintenance would be considered basic financial operations, but building a new residence hall would not. Tahey et al. (2010) emphasize that it is important to define normal operations when considering the NORR.

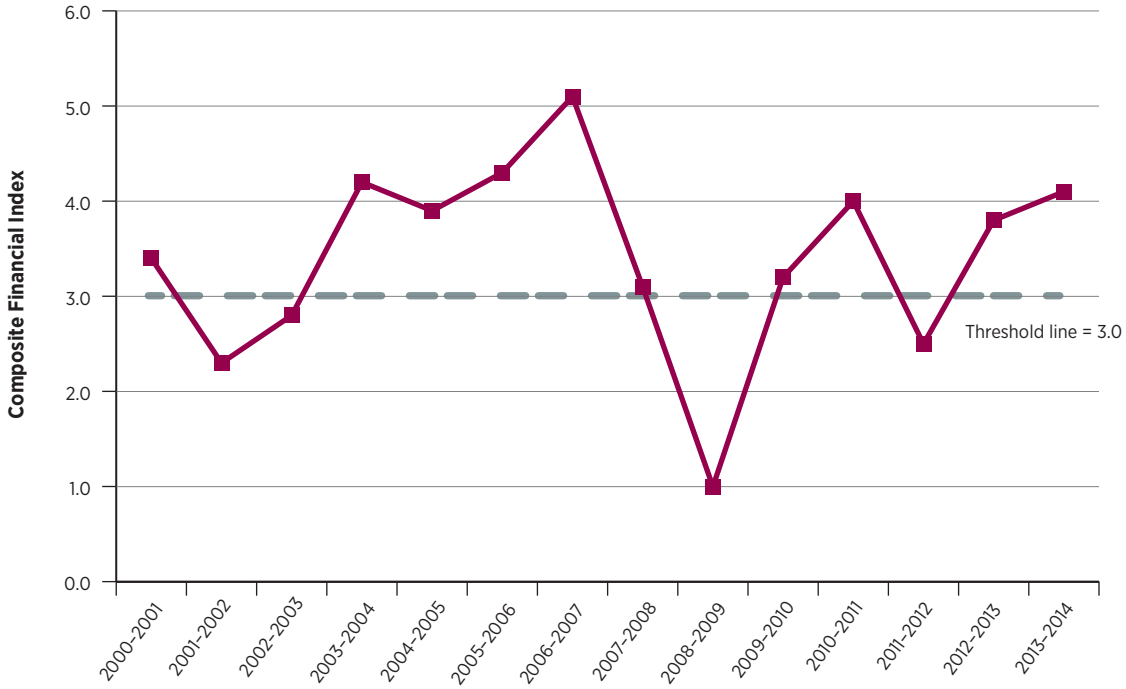
Trends in the Composite Financial Index

The trend of the median Composite Financial Index (CFI) over the last 14 years contains positive news for private nondoctoral colleges and universities (see Figure 5). In fact, 67 percent of the colleges and universities in the sample are at or above the threshold of financial viability for the most recent year analyzed. Because the CFI is a product of the other four ratios, the drop below the 3.0 threshold in 2008–2009 is unsurprising. Small to mid-sized private institutions struggled that year because of the significant impact of broader economic trends on endowments, enrollments, increases in discount rates, and declines in private giving (Chabotar 2010).

Although there was a significant impact on the CFI in fiscal year 2008–2009, there was an increase above the 3.0 threshold the following year. The drop in the CFI may have come at an institutional cost, as the average discount rate for first-time, full-time students increased from about 39 percent in fall 2007 to almost 42 percent in fall 2008 (Chabotar 2010) and to 44 percent by fall 2011 (NACUBO 2017). NACUBO estimated that the discount rate would rise as high

FIGURE 5

Median Composite Financial Index of the Sample Private Colleges and Universities, 2000–2014



as 49 percent for first-time, full-time students in 2016–2017. While net tuition revenues increased by nearly 2 percent in 2009–2010 and more than 5 percent in 2010–2011, net revenue rose at lower annual rates after 2012 (NACUBO 2017). Stated differently, the steady increase in discount rates puts financial pressure on tuition-dependent institutions by lowering the net return on tuition. These factors may explain the uneven performance of the Net Operating Revenues Ratio and the CFI since 2009.

HIGHLIGHTS: Analysis of Long-Term Trends

- The Primary Reserve, Viability, Return on Net Assets, and Net Operating Revenues Ratios featured in this section comprise the Composite Financial Index.
- Broader economic conditions such as financial market performance can dramatically influence the ratios, especially the Return on Net Assets and the Net Operating Revenues Ratios.
- After the 2007–2009 recession, the national trends for the ratios and the Composite Financial Index indicate that the financial health for most small and mid-sized private colleges and universities has returned or is returning to pre-recession levels.
- Two-thirds (67 percent) of the private colleges and universities in the sample are at or above the threshold of financial viability in the most recent year analyzed.

Institutional Characteristics Related to the Financial Stability of Independent Colleges and Universities

The Composite Financial Index provides a valuable gauge of the financial stability of small and mid-sized private colleges and universities. Among this set of institutions, how might the CFI be affected by key institutional characteristics such as geographic region, financial resources, Carnegie Classification, and enrollment size?[4] This approach provides the ability to compare one geographic region's CFI to another (such as New England to the Midwest), or one Carnegie Classification's CFI to another, and allows for comparisons within financial and enrollment categories as well. The next several figures demonstrate how financial health varies among the small and mid-sized private nondoctoral colleges and universities according to specific institutional characteristics.

Geographic Region

Location can affect an institution's financial viability. According to Townsley (2009), the chief source of college tuition revenue at small and mid-sized private institutions is the enrollment of recent high school graduates. In fact, many private nondoctoral colleges and universities draw most of their students from their particular region and compete for students within this region. Institutions in the same region face common economic and demographic conditions. For example, falling high school graduation rates in one region are likely to impact most private colleges in the region equally as they compete for the same students. This has been the case in the Midwest in recent years (Schwartz and Kedem 2013; Ortiz et al. 2016). A November 2016 report from Moody's predicted that fall enrollment will continue to increase modestly for the next several years, but the Midwest will continue to face the greatest challenge, with more than half of the institutions already reporting enrollment declines (Ortiz et al. 2016). The southern region will graduate almost 47 percent of the nation's high school students by 2025 (Bransberger and Michelau 2016). By 2029–2030, the Midwest is projected to generate 93,000 fewer high school graduates, a decline of 12 percentage points compared with 2012–2013 (Bransberger and Michelau 2016). To examine regional influences, states were grouped by the schema outlined in Table 2.

TABLE 2

The Composition of Geographic Regions by States

Region	States
Far West	Alaska, California, Hawaii, Nevada, Oregon, Washington
Mid East	Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania
Midwest	Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Southeast	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia
West	Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming

Regional differences are visible in Figure 6. The Far West, Mid East, and New England track consistently at higher levels, while the West and Southeast consistently display the lowest CFI scores. The median CFI in the Midwest typically tracks in the middle of these regions. While variations in institutional financial health as measured by the CFI may be seen across colleges and universities in different regions of the country, the overall trends are consistent, suggesting that location by itself is not a determinant of financial performance. As high school graduation rates continue to fall over the next several years in some regions, private nondoctoral institutional leaders will need to adjust their enrollment strategies and financial practices to maintain financial viability (Williams 2014).

Financial Resources

Since the CFI measures financial health, it is reasonable to expect that the financial resources of an institution —revenues, donations, endowments, and other investments—would influence the CFI score. To test this, the institution's financial resources were calculated by equally weighting the three-year average of net tuition revenue per student and the three-year average of endowment assets per student (CIC 2016). Using this calculation, institutions were placed into a financial resources quartile.[5] The endowment and net tuition revenue are the two primary sources of income for institutions.

Trends by financial resources as shown in Figure 7 generally follow the national pattern of the CFI as displayed in Figure 5. The variation by financial resources is logical; institutions that have more resources tend to have higher CFI scores. Note that half of the institutions in the third quartile have maintained a consistent level of financial health near or above the 3.0 threshold in the two most recent years analyzed. That is, the fact that an institution is ranked in the third or fourth quartile of financial resources does not necessarily mean it is financially at risk.

Carnegie Classification

This report focuses specifically on private, nonprofit bachelor's and master's-level colleges and universities and uses the most recent (2015) Basic Carnegie Classification for analysis. The Carnegie "framework has been widely used in the study of higher education, both as a way to represent and control for institutional differences, and also in the design of research studies to ensure adequate representation of sampled institutions, students or faculty" (Indiana University Center for Postsecondary Research 2016). The analysis examined whether there were differences in financial health as measured by the CFI across five Carnegie groupings: Baccalaureate Colleges: Arts and Sciences; Baccalaureate Colleges: Diverse Fields; Master's Colleges and Universities: Larger Programs; Master's

FIGURE 6

Composite Financial Index by Geographic Region, 2000–2014

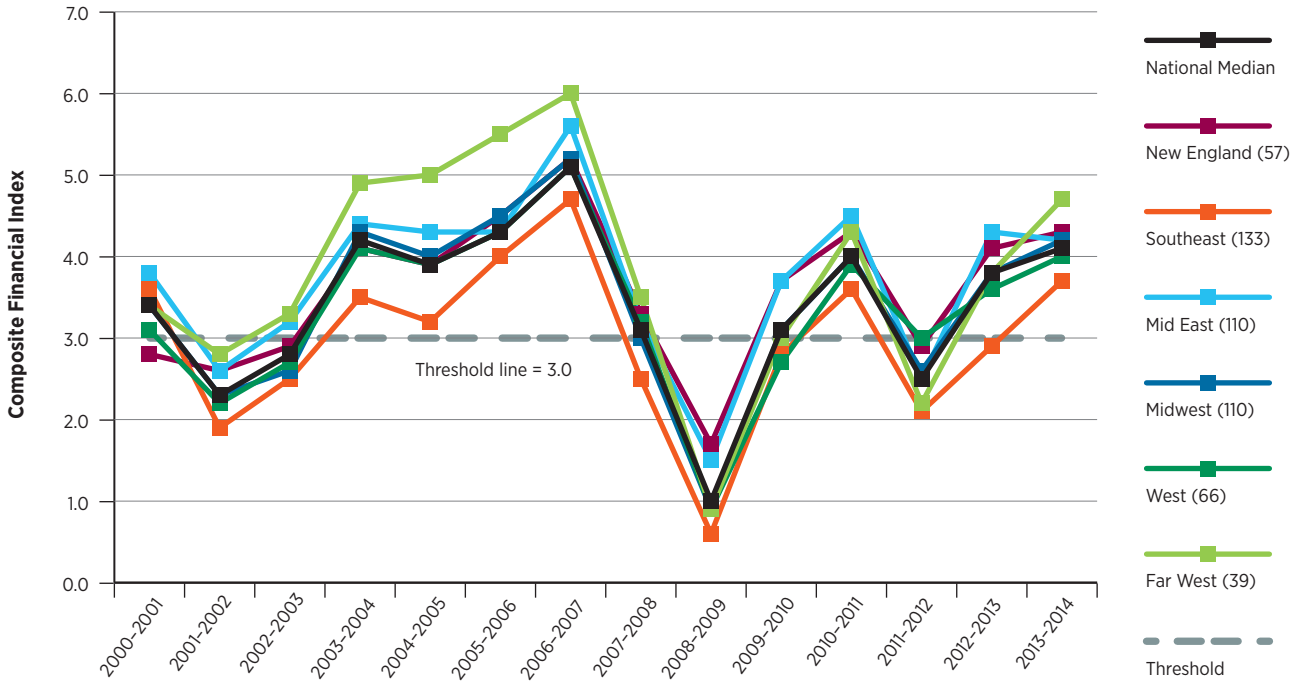
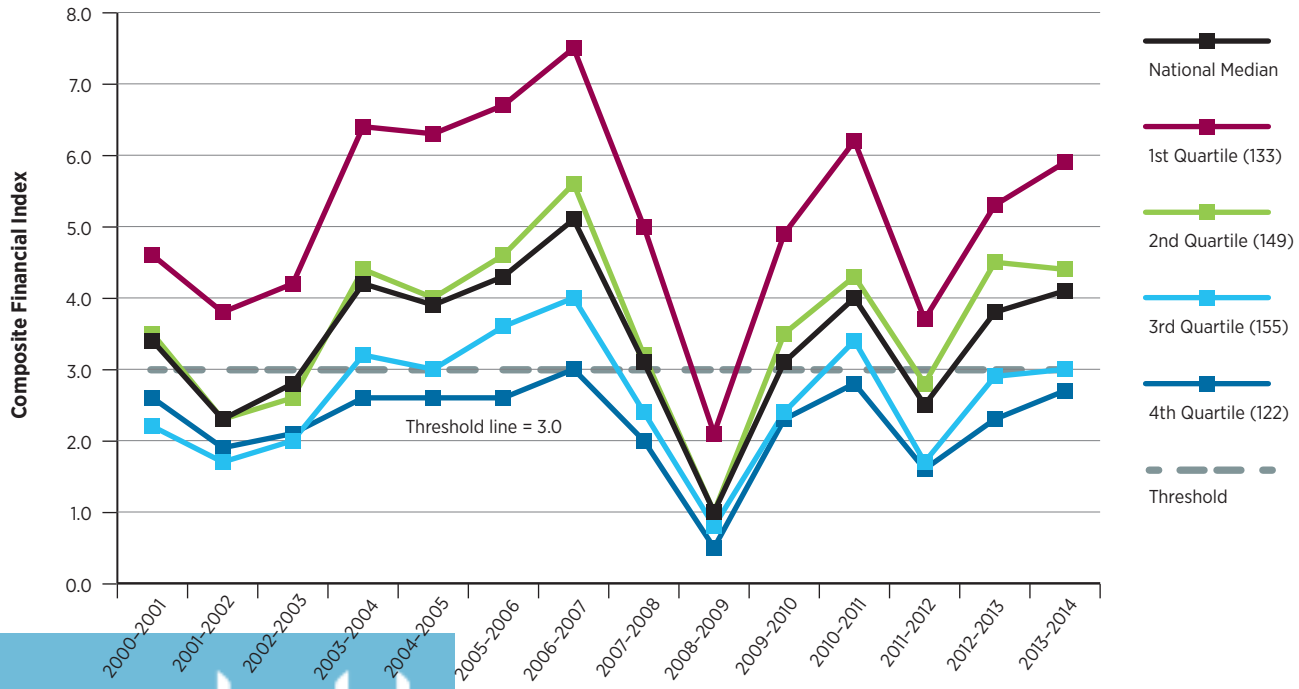


FIGURE 7

Composite Financial Index by Financial Resources, 2000–2014



Colleges and Universities: Medium Programs; and Master's Colleges and Universities: Smaller Programs.

Baccalaureate colleges with an arts and sciences focus had the highest CFI scores across the 14 years studied. The institutions included in this category are typically well-resourced, highly-selective, mission-centered liberal arts colleges. Conversely, the baccalaureate colleges with diverse fields of study had the lowest CFI scores even during the 2007–2009 recession. Institutions in the diverse fields classification offer a wider range of academic programs, including some in the professional fields, and they are typically less selective, more tuition dependent, and have more modest endowments.

The CFI scores of Master's Colleges and Universities: Larger Programs ranked second behind the Baccalaureate Colleges: Arts and Sciences. Master's Colleges and Universities: Medium Programs were the next highest followed by Master's College and Universities: Smaller Programs. Across the 14 years, the differences in CFI scores among Master's Larger, Medium, and Smaller classifications were slight. Overall, the pattern of CFI scores across the five Carnegie groupings mirrored the national trend. The 2007–2009 recession affected institutions in all classifications, but the CFI has been on a largely upward trajectory since then, indicating improved financial health across all Carnegie Classifications.

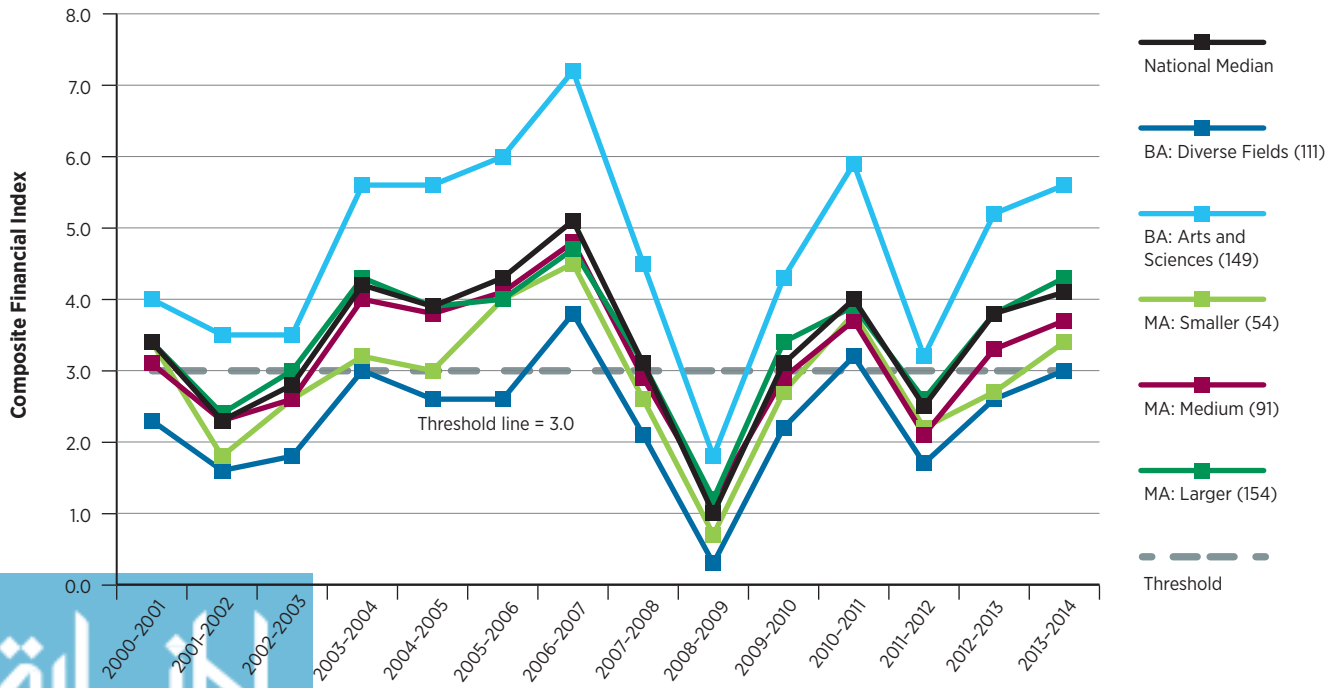
Enrollment Size

Since many small and mid-sized private colleges and universities are tuition dependent, it is vital that they maintain sufficient student enrollment. As Figure 9 shows, colleges with fewer than 1,000 students are least likely to maintain a CFI at the 3.0 threshold. In 2008–2009 these smallest colleges reached a CFI low. Fortunately, these institutions experienced a recovery from the recession.

Institutions with enrollments between 2,001 and 3,000 students maintained the highest CFI scores. This counters the assumption that more students (e.g., greater than 3,000) correlates with a more financially-stable institution. Campuses with 2,001 to 3,000 students displayed scores of 3.0 or above,

FIGURE 8

Composite Financial Index by Carnegie Classification, 2000–2014



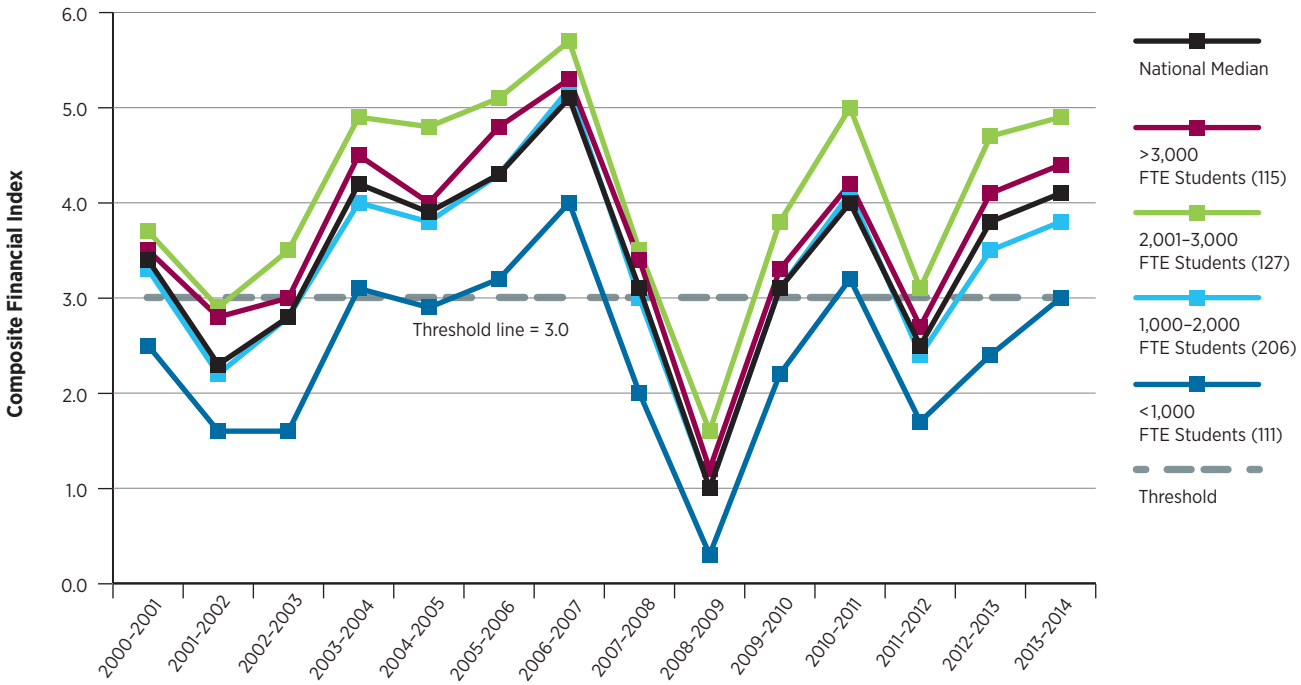
except during the 2007–2009 recession. The median CFI scores for all enrollment size groupings had regained the threshold score of 3.0 or higher by the most recent year analyzed, 2013–2014.

Summary

Although the financial resilience of independent colleges over the last 14 years has been buffeted by the economy, the overall picture shows a healthy recovery from the 2007–2009 recession. Clearly, the economic downturn in 2008–2009 had a negative impact on many campuses, as shown in all the trend analyses. The decline in 2011–2012 can be attributed to the fall of the stock market following a soft post-recession recovery. While significant, these dips in the CFI were short-lived, providing more evidence of the limitations of a single-year snapshot of an institution's financial health. Given the fluctuations in the economy, and especially returns on institutional investment and their influence on institutional financial performance, it is better to view the CFI over several years for a more accurate picture of financial well-being (Tahey et al. 2010).

FIGURE 9

Composite Financial Index by Enrollment Size, 2000–2014



HIGHLIGHTS: Trends Related to Institutional Characteristics

- Fourteen-year trends of CFI performance across geographic region, financial resources, Carnegie Classification, and enrollment size are consistent with the overall national trends.
- Declines in financial viability during 2007–2009 and 2011–2012, as measured by the CFI, can be attributed to adverse financial markets, reinforcing the limitations of a single-year snapshot of institutional financial performance.

Institutional Financial Resilience over Time

To understand changes in the financial health of private nondoctoral colleges and universities over time, the four-year average CFI scores from 2000–2004 were subtracted from the four-year average CFI scores from 2010–2014. Through this calculation, the analysis identified which institutions had gained, maintained, or declined in their CFI over the 14-year period. The institutions were classified into three groups: "Gainers" are institutions that saw increases of at least two full points in their CFI scores over the period; "Decliners" lost at least two points on the CFI; and institutions that neither gained nor lost at least two points were classified as "Maintainers."

Maintainers and Gainers were further refined to include only institutions that had an average CFI score of 3.0 for the 2010–2014 period. Conversely, Decliners were limited to institutions that fell below the 3.0 CFI threshold on average during the same limited period. The intent was to limit the consideration of institutions by three groupings in relationship to the established threshold of financial viability. For example, if an institution had gained more than two points on the CFI over the period but had not achieved a 3.0 or higher average score in the final four-year period, it was excluded from the analysis. Similarly, if an institution lost more than two CFI points over the period, but ended with a four-year average score of 3.0 or higher it was eliminated from the analysis. By combining change in the CFI over the 14-year period with the 3.0 CFI threshold of viability, the analysis yielded three discrete groups. The results indicate that the majority (88 percent) of this subset of small and mid-sized private colleges and universities have maintained or increased financial stability over the 14-year period—despite enormous economic and market volatility.

Table 3 displays the distribution of these institutions in each of the three groups. The largest group is Maintainers (213 institutions), followed by Gainers (104 institutions), and Decliners (43 institutions).

TABLE 3

Definition and Distribution of Institution Grouping by Changes in CFI, 2000–2014

Group	Definition	n=360
Gainers	Gained two points or more and ended at 3.0 or above on CFI	104 (29%)
Maintainers	Lost or gained less than two points and ended at 3.0 or above on CFI	213 (59%)
Decliners	Lost two or more points and ended below 3.0 on CFI	43 (12%)

TABLE 4

Key Indicators of Financial Performance Groupings

Variable (definitions in Appendix C)	Gainers n=104	Maintainers n=213	Decliners n=43
Beginning Four-Year Average CFI (2000–2004)	2.33	4.73	4.17
Ending Four-Year Average CFI (2010–2014)	5.69	5.05	0.72
FTE Enrollment	1,873	1,668	1,716
FTFT (First-Time Full-Time)	360	344	377
Graduation Rate (Six-Year Cohort Rate)	56%	54%	58%
Percent Part-Time Faculty	22%	24%	23%
Tuition and Fees	$29,362	$27,560	$28,730
Total Institutional Aid Per Student	$8,739	$8,995	$9,363
Unfunded Institutional Aid Per Student	$8,164	$7,683	$8,303
Average Amount of Institutional Aid for First-Year Students	$14,745	$14,111	$16,418
Net Tuition Revenue Per Student	$14,692	$13,887	$15,310
Discount Rate	38%	38%	40%
Tuition Dependency	61%	60%	64%
Endowment Per Student	$22,098	$21,413	$24,686
Total Expenditures Per Student	$23,505	$23,536	$24,157

Note: Unless noted, values are medians for each variable in 2013–2014. All characteristics reflect the 2013–2014 academic year; data are from the CIC 2015 Key Indicator Tool dataset derived from IPEDS and institutional reports.

Table 4 shows the institutional characteristics of the three groups, including graduation rate, tuition and fees, discount rate, and tuition dependency. These metrics derived from IPEDS are routinely tracked in CIC's annual Key Indicators Tool report. Gainers as a group started with an average CFI of 2.3 for the initial four years (2000–2004), but by the end of the 14-year period the final four-year average CFI rose over three points to 5.7. Decliners started above the 3.0 threshold with a four-year mean of 4.2 but fell over three points to a four-year average of 0.7. Maintainers started with a four-year mean CFI of 4.7 and ended the period with a 0.4 increase to a four-year average CFI of 5.1.

Table 4 tells an interesting story: Among the three groupings, the key performance metrics are fairly similar. Surprisingly, Decliners have slightly higher net tuition revenue per student and also have higher endowment rates per student, challenging the assumption that greater financial resources ensure better financial health of the institution.

HIGHLIGHTS: Institutional Financial Resilience over Time

- For in-depth analysis, institutions were classified as Gainers, Maintainers, or Decliners based on their CFI performance from 2000–2014. Gainers were those institutions that moved above the 3.0 CFI threshold; Maintainers stayed at or above the threshold; and Decliners fell below the threshold over the period.
- A large majority (88 percent) of private colleges and universities maintained or increased their financial health at or above the 3.0 CFI threshold over the 14 years studied.
- Decliners had slightly higher net tuition revenues per student and larger endowments per student, which challenges the assumption that greater financial resources ensure better financial health.

Distribution of Gainers, Maintainers, and Decliners by Specific Characteristics

This section of the report explores differences among Gainers, Maintainers, and Decliners across key characteristics of geographic region, financial resources, Carnegie Classification, and enrollment size. Table 5 displays the number and percentage of institutions in each group by characteristics. Comparisons are made to see how the composition of the groups vary from one another and from the national sample. A difference of more than 5 percentage points from the total national sample was determined to be of interest. On Table 6, boxes designated with a "+" indicate the number is overrepresented by more than 5 up to and including 10 percentage points compared with the national total. Boxes designated with a "++" indicate the number is overrepresented by more than 10 percentage points. Boxes designated with a "–" indicate the number is underrepresented by more than 5 up to and including 10 percentage points compared with the national total. Boxes designated with a "– –" indicate the number is underrepresented by more than 10 percentage points from the national total.

Gainers

The distribution of Gainers across the four characteristics of interest mirrors the national sample, with a few notable exceptions. Despite declining numbers of high school graduates in the Midwest, Gainers are more likely to be located in the region by 6 percentage points. Perhaps unsurprisingly, Gainers are less likely to be institutions in the lowest quartile of financial resources by 10 percentage points. By Carnegie Classification, Gainers are 10 percentage points more likely to be Baccalaureate: Arts and Sciences institutions, and they are 6 percentage points less likely to be Baccalaureate: Diverse Fields institutions. The distribution among the three levels of master's classifications followed the national pattern. Finally, Gainers are 7 percentage points less likely to be represented among the institutions with enrollments of more than 3,000 students, suggesting that very large enrollments are less likely to yield sizable gains in financial health.

Maintainers

The representation of institutions that have maintained a stable fiscal condition over the period follows the national distribution by region of the country and Carnegie Classification. But notable variations are seen by financial resources and enrollment size. Maintainers are overrepresented in the top quartile and underrepresented in the third quartile, both by large margins (16 and 11 percentage points, respectively). Maintainers also were underrepresented by 8 percentage points in the fourth quartile. This distribution supports the reasonable assumption that more robust financial resources contribute to maintaining institutional financial health. Maintainers are

TABLE 5

Distribution of Groups by Key Characteristics

Geographic Region	Gainers n=104	Maintainers n=213	Decliners n=43	National Sample n=559
Far West	7 (7%)	16 (8%)	4 (9%)	39 (7%)
West	14 (13%)	21 (10%)	4 (9%)	66 (12%)
Midwest	35 (34%) +	58 (27%)	13 (30%)	154 (28%)
Mid East	16 (15%)	53 (25%)	6 (14%) –	110 (20%)
Southeast	20 (19%)	41 (19%)	14 (33%) +	133 (24%)
New England	12 (12%)	24 (11%)	2 (5%)	57 (10%)
Financial Resources				
1st Quartile	25 (24%)	86 (40%) ++	2 (5%) – –	133 (24%)
2nd Quartile	33 (32%)	61 (29%)	7 (16%) – –	149 (27%)
3rd Quartile	34 (33%)	37 (17%) – –	19 (44%) ++	155 (28%)
4th Quartile	12 (12%) –	29 (14%) –	15 (35%) ++	122 (22%)
Carnegie Classification				
MA: Larger	26 (25%)	67 (31%)	10 (23%)	154 (28%)
MA: Medium	14 (13%)	30 (14%)	8 (19%)	91 (16%)
MA: Small	11 (11%)	16 (8%)	5 (12%)	54 (10%)
BA: Arts and Sciences	38 (37%) +	68 (32%)	12 (28%)	149 (27%)
BA: Diverse Fields	15 (14%) –	32 (15%)	8 (19%)	111 (20%)
Enrollment Size (FTE Students)				
>3,000	15 (14%) –	58 (27%) +	6 (14%) –	115 (21%)
2,001–3,000	26 (25%)	60 (28%)	5 (12%) – –	127 (23%)
1,000–2,000	37 (36%)	76 (36%)	15 (35%)	206 (37%)
<1,000	26 (25%)	19 (9%) – –	17 (40%) ++	111 (20%)

Note: + denotes greater than 5 and up to 10 percentage points; ++ denotes greater than 10 percentage points; – denotes less than 5 and up to 10 percentage points; – – denotes less than 10 percentage points

overrepresented among institutions with enrollments of more than 3,000 students by 6 percentage points, and they are underrepresented among institutions with fewer than 1,000 students by a large 11 percentage point margin, suggesting that larger enrollments contribute to stable financial conditions.

Decliners

Private colleges and universities that experienced declines in financial health as measured by the CFI reflect the national sample only by Carnegie Classification. Decliners are underrepresented in the Mid East region by 6 percentage points and are overrepresented in the Southeast by 9 percentage points. Among the financial resource quartiles, Decliners are considerably underrepresented in the top two quartiles (19 and 11 percentage points, respectively), and are similarly overrepresented in the institutions in the bottom two quartiles (16 and 13 percentage points, respectively). Decliners are less likely among institutions with enrollments above 3,000 students (by 7 percentage points) and enrollments between 2,001–3,000 students (by 11 percentage points). Decliners are even more likely to be among the smallest institutions—those with fewer than 1,000 students—by 20 percentage points. Thus, institutional size seems to play an important role in financial condition over time, with smaller institutions more likely to experience decline.

Notable Differences among Groups

The examination of these groupings by long-term financial condition—Gainers, Maintainers, and Decliners—reveals some differences by region, financial quartile, Carnegie Classification, and enrollment size. It is important to note, however, that there are variations in these patterns. For example, Decliners are more likely to be represented in the Southeast, but the majority of institutions in this region are Gainers and Maintainers. The third quartile of financial resources has a large share of the Decliners but a greater number of Gainers and Maintainers. The smallest institutions with enrollments under 1,000 are overrepresented among the Decliners and underrepresented among the Maintainers, but most of these institutions are among the Gainers.

The most consistent pattern is found among institutions with the least financial resources, which are overrepresented among the Decliners and underrepresented among the Gainers and Maintainers. Even so, nearly three times as many institutions in the bottom quartile are Gainers and Maintainers compared with Decliners. Despite the patterns noted, none of these institutional characteristics—size, region, or financial resources—are systematically related with financial condition over time.

HIGHLIGHTS: Distribution of Gainers, Maintainers, and Decliners by Specific Characteristics

- Differences among Gainers, Maintainers, and Decliners vary by region, financial resources, Carnegie Classification, and enrollment size.
- Decliners are more likely to be represented in the Southeast, but most institutions in this region are Gainers and Maintainers.
- Institutions in the third financial resources quartile comprise the largest share of Decliners, but greater numbers are Gainers and Maintainers.
- The smallest institutions with enrollments under 1,000 students are overrepresented among Decliners and underrepresented among Maintainers, but most of these institutions are Gainers.

Summary of Findings

While small and mid-sized private colleges and universities face many challenges, a review of their financial health over the last 14 years provides ample reason for optimism about their future. Overall, the data analyzed for this report show that the private nonprofit baccalaureate and master's-level sector is operating within the financial standards outlined in *Strategic Financial Analysis for Higher Education* (Tahey et al. 2010). An examination of four key financial ratios and the resulting Composite Financial Index shows that most of these institutions were financially stable before the 2007–2009 recession and have rebounded since. In fact, 67 percent of the colleges and universities in the sample are at or above the threshold of financial viability in the most recent year analyzed.

An important finding of this report is that the long-term financial resilience of small and mid-sized independent colleges and universities is not dictated by particular institutional characteristics, such as geographic region, level of available financial resources, Carnegie Classification, or enrollment size. That is, financial resilience is not limited to institutions with large enrollments or access to greater financial resources. In fact, data show that the typical institution with an enrollment over 3,000 students had a lower CFI score than an institution with 2,001 to 3,000 students. Similarly, some institutions in the bottom half (third and fourth quartiles) distribution by financial resources have higher CFI scores than those in the top half of the distribution. In addition, institutions located in geographic regions where the number of high school graduates is declining are finding ways to maintain financial stability.

Analysis of the characteristics of institutions that gained, maintained, or declined over time in the Composite Financial Index found that they did not differ significantly across a number of attributes. The results countered expectations, with the Decliners

on the whole showing higher net tuition per students and higher endowment per student than the Gainers or Maintainers. Patterns related to region, financial resources, Carnegie status, and enrollment size were present, but none of the characteristics analyzed here can be definitively associated with the long-term financial resilience of a given college or university. This suggests that other factors—such as strong institutional leadership or thoughtful fundraising and investment strategies—may be more important in distinguishing between financially stable and less healthy colleges.

The analysis also suggests further areas for study. For example, 17 institutions with enrollments of fewer than 1,000 students are classified as Decliners. Do they share other commonalities? What do the 34 Gainers in the third financial resources quartile have in common beyond similar financial resources? These questions, among others, remain for further examination.

While small and mid-sized private colleges and universities face many challenges, a review of their financial health over the last 14 years provides ample reason for optimism about their future.

HIGHLIGHTS: Summary of Findings

- Two-thirds (67 percent) of colleges and universities in the sample are at or above the CFI threshold of 3.0 for the most recent year analyzed.
- The long-term financial resilience of small and mid-sized independent colleges and universities is not tied to particular institutional characteristics, such as region of the country, financial resources, or enrollment size.
- Institutions that gained, maintained, or declined over time did not differ significantly across a number of attributes. Contrary to what might be expected, Decliners on the whole showed higher rates of net tuition revenue per student and higher endowments per student than Gainers or Maintainers.
- Because none of the characteristics analyzed in the report can be definitively associated with long-term financial resilience, other factors such as strong institutional leadership may be more important in determining financially healthy institutions.

Strategies for Financial Health

While the sector of small and mid-sized private nonprofit colleges and universities has been challenged by a volatile economic climate, many of these institutions have preserved their financial viability through a recession and other external threats (Hearn and Warshaw 2015). Private nondoctoral colleges and universities have found ways to adapt to these considerable challenges rather than simply operate as usual (Townsley 2009). Institutions have relied on sound principles of financial management, budgetary discipline, prudent investments, and keen entrepreneurial strategies to expand programs and develop new revenue streams (Hearn and Warshaw 2015). Institutional survival has hinged on whether their governance systems have allowed for rapid changes in operational and strategic plans (Townsley 2009). Institutional financial success has depended on the "strengths, talents and commitments of the entire team—in this case, the institutional leadership team of the president, chief academic officer and chief business officer" (Askin and Shea 2016b, p. 33).

The notable financial resiliency and stability of small and mid-sized independent colleges and universities in an era of economic volatility may be traced to the extraordinary current of innovation documented in two major studies co-sponsored by the TIAA Institute and Lumina Foundation. Both reports highlight the steps that these institutions have taken to contend with the volatile financial climate and related factors (Hearn and Warshaw 2015; Hearn, Warshaw, and Ciarimboli 2016).

Through a survey of CIC member institutions, the researchers found that college and university leaders implemented a variety of innovations and initiatives to strategically position their institutions for the future. Strategies implemented included:

- Leaving open faculty positions unfilled, freezing salaries, and reducing other staff;
- Restructuring academic programs, including closing some courses and programs, and creating new undergraduate and graduate programs;

- Offering online courses or programs;
- Changing fundraising strategy;
- Renting out campus facilities and classroom space;
- Changing admissions strategy and financial aid practices;
- Expanding athletics programs and increasing international-student recruitment.

All institutions surveyed by Hearn and Warshaw (2015) reported pursuing either "cost containment and reduction" or "revenue enhancement and diversification" strategies, and one-third of colleges and universities reported pursing both strategies aggressively. Even with the challenges facing these institutions, most small and mid-sized private college and university presidents hold a positive outlook for the financial future and express widespread confidence in the mission-centeredness of their innovations and reforms (Hearn and Warshaw 2015).

Hearn, Warshaw, and Ciarimboli (2016) followed the initial report on mission-driven institutional innovation with a second report that presented nine case studies of institutions that found ways to expand and adapt within the changing higher education marketplace. They identified six overarching themes to help institutional leaders map strategies for stronger financial futures at their own institutions. These themes include: a bias for action; a drive to connect locally, regionally, and beyond; realistic self-assessment and adaptation; structure for innovation; assertive leadership within shared governance traditions; and alignment of mission and innovation. These reports outline concrete strategies for institutional leaders who seek to improve or maintain the financial resilience of their college or university.[6]

Conclusion

This report began with several questions: Are small and mid-sized private colleges financially at risk? Do financial trends over the last several years provide insight into the financial condition of private colleges? What characteristics influence the financial resilience of these institutions? While significant challenges continue to face this sector of higher education, the answers are clear:

- The majority of small and mid-sized private colleges and universities are not financially at risk;
- The trends for key financial indicators, including the CFI, have been largely on an upward trajectory since the 2007–2009 recession, indicating increasing financial health; and
- A combination of strong institutional leadership and multiple institutional attributes are likely to be more determinant of institutional financial resilience than any single characteristic.

The challenges facing independent higher education are not likely to subside, but institutions continue to adapt. For the foreseeable future, cohorts of students will continue to have the opportunity to benefit from the unique environments of these teaching-centered and mission-focused institutions.

HIGHLIGHTS: Strategies for Financial Health

Two CIC reports offer in-depth analysis of how institutions are innovating during the volatile financial climate to remain financially resilient:

- The 2015 report, *Mission-Driven Innovation: An Empirical Study of Adaptation and Change among Independent Colleges,* written by James C. Hearn and Jarrett B. Warshaw; and
- The 2016 report, *Strategic Change and Innovation in Independent Colleges: Nine Mission-Driven Campuses*, written by Hearn, Warshaw, and Erin B. Ciarimboli.

Endnotes

1 Nondoctoral institutions are those that grant baccalaureate and master's degrees; with few exceptions, they do not award doctoral degrees.

2 For example, to determine a three-year average in FY 2013, one would add the ratios from 2011 (0.11), 2012 (0.00), and 2013 (0.08) and divide by three to give the average of 0.06. This method is helpful in projecting the ratio for future assumptions (Tahey et al. 2010).

3 The Net Operating Revenues Ratio (NORR) gauges the outcome of institutional operations, indicating whether normal operations resulted in a surplus or a deficit. In other words, is the institution operating within available resources in its basic day-to-day function of educating students? The developers of the CFI offer two methods for calculating the NORR (Salluzzo et al. 1999). This report uses the change in unrestricted net assets method that can be calculated using data publicly available from IPEDS and GuideStar (IRS Form 990). The ratio is calculated by dividing the change in unrestricted assets, from the beginning to the end of the year, by the total unrestricted revenue for the year. Restricted assets are not included in the calculation. While Tahey et al. (2010) prefer an alternate method of calculating the NORR, comparable data needed for this method are not available from public sources.

4 These are the same characteristics used in CIC's annual Financial Indicators Tool report for benchmarking purposes.

5 The quartiles are not evenly distributed because only the institutions that had complete data for all 14 years were included in the final sample. See Table B2, Appendix B.

6 These reports are available on the CIC website at *www.cic.edu/ResearchFuture* and the TIAA Institute website at *www.tiaainstitute.org*.

Appendix A: In-Depth Review of Financial Ratios

Data Sources

The data sources for this report came from the U.S. Department of Education's Integrated Postsecondary Education System (IPEDS) and IRS Form 990 (available via GuideStar). IPEDS is accessible at *https://nces.ed.gov/ipeds,* and GuideStar is available at *www.guidestar.org*. The same data are available to the public. The Austen Group, a division of Ruffalo Noel Levitz, gathered data from 739 baccalaureate and master's-level institutions; 549 of them had 14 years of complete financial data. Institutions were given an opportunity to verify their data. The data used in this report are the same data used to create the Financial Indicators Tool (FIT). The FIT is shared with member presidents of the Council of Independent Colleges (CIC) to benchmark performance against other institutions grouped by geographic region, financial quartile, Carnegie Classification, and enrollment size (see Box on page 9). The William Randolph Hearst Foundation supported the initial development of the FIT, and TIAA supported the FIT from 2008 to 2015. Since 2016, Ruffalo Noel Levitz has supported the creation of the FIT reports.

The Detailed Methodology: A Method for Monitoring Financial Health

In *Ratio Analysis in Higher Education*, Salluzzo et al. (1999) introduced the Composite Financial Index (CFI) as a single indicator of overall institutional financial stability. The CFI serves as a tool to assist in assessing and forecasting institutional finances. The CFI is comprised of four ratios: the Primary Reserve Ratio, which measures financial flexibility and resource sufficiency; the Viability Ratio, which measures debt management; the Return on Net Assets Ratio, which measures overall asset return and performance; and the Net Operating Revenues Ratio, which measures operating results.

The Ratios

Primary Reserve Ratio

The Primary Reserve Ratio (PRR) addresses the question: Are resources sufficient and flexible enough to support the mission of the institution (Tahey et al. 2010)? The PRR measures the sufficiency and flexibility of financial resources by comparing expendable net assets to total expenses. In other words, the total available resources that an institution could spend on operations are divided by the total expenses for the year. This ratio indicates how long an institution could meet financial obligations with the assets readily available. Table A1 shows the calculations to arrive at this ratio.

TABLE A1

Primary Reserve Ratio Calculation for Private Institutions

Numerator = Expendable net assets
+ Unrestricted net assets
+ Temporarily restricted net assets
– Property, plant, and equipment, net
+ Long-term debt
Denominator = Total Expenses

Adapted from Tahey et al. (2010), *Strategic Financial Analysis for Higher Education,* p. 113.

For example, if funds that could be spent equal $4 million and total expenses equal $2 million, the ratio would be 2.0. In this scenario an institution could operate at the same level for two years with no additional revenue before all the expendable resources were depleted. If the reverse were true, and the funds that could be spent were $2 million and total expenses over the year were $4 million, the ratio would be 0.5 (CIC 2016). Under this scenario an institution could operate for six months without additional revenue.

The recommended threshold for the Primary Reserve Ratio is 0.4 (i.e., reserves to cover 40 percent of a year, or 4.8 months). This would include all resources that could be converted into cash within three to six months to meet short-term needs, facilities maintenance, and contingency reserves (Tahey et al. 2010). A ratio below 0.15 (15 percent of a year, or 1.8 months) would indicate a possible issue with short-term borrowing and

insufficient reserves for reinvestments. A ratio of 1.0 or greater would indicate reserves available to cover at least one year of expenses with no additional revenue (Tahey et al. 2010).

Viability Ratio

According to Townsley (2014), the Viability Ratio (VR) represents the institutions' safety net in the event of extraordinarily adverse conditions. It addresses the question: Is debt being managed strategically enough to advance the mission (Tahey et al. 2010)? It measures the ability of an institution to manage debt, indicating whether the institution can meet its entire debt obligation with its expendable assets. According to Tahey et al. (2010), the VR is a basic determinant of financial health—the availability of expendable net assets to cover debt should the college or university need to settle obligations as of the balance sheet date.

Table A2 shows how this ratio is calculated. The numerator is the same as the numerator for the PRR discussed earlier. But since this ratio determines what could be spent toward long-term debt, instead of total expenses, the denominator differs.

TABLE A2

Viability Ratio Calculation for Private Institutions

Numerator = Expendable net assets
+ Unrestricted net assets
+ Temporarily restricted assets
– Property, plant, and equipment, net
+ Plant-related debt
Denominator = Plant-related debt

Adapted from Tahey et al. (2010), *Strategic Financial Analysis for Higher Education,* p. 116.

When expendable funds equal long-term debt, the ratio is 1.0. When the expendable funds are twice the amount of long-term debt, the ratio is 2.0.

The recommended range for the VR is 1.25 to 2.0 (Tahey et al. 2010). CIC used 1.25 as the target threshold for smaller private colleges (CIC 2016). Dropping below a ratio of 1.0 would limit an institution's ability to fund new initiatives through debt and may identify the institution as a credit risk. A VR greater than 2.0 indicates robust debt management. Strategic debt can be valuable to an institution, but excessive or extended levels of debt jeopardize an institution's ability to achieve its mission (CIC 2016). The leadership of the college or university needs to make its own determination of debt level in line with its strategic objectives and mission.

Return on Net Assets Ratio

The Return on Net Asset Ratio (RNAR) addresses the question: Do asset performance and management support the institution's strategic direction (Tahey et al. 2010)? This ratio measures total return on assets to determine if an institution's financial stability is improving in comparison with the previous year (Tahey et al. 2010). A decline or rise in this ratio should be viewed over a three- to five-year timeframe. A decline in one year may not be a negative occurrence if the institution is investing resources to further its mission or strategic plan. A rise in this ratio may indicate the institution has assets set aside to use toward future financial investments and flexibility (Tahey et al 2010).

The RNAR ratio is calculated by dividing the change in total net assets, from the beginning of the year to the end, by the total net assets at the beginning of the year as illustrated in Table A3.

TABLE A3

Return on Net Assets Calculation for Private Institutions

Numerator = Change in net assets (from beginning of the year to the end)
Denominator = Total net assets (beginning of the year)

Adapted from Tahey et al. (2010), *Strategic Financial Analysis for Higher Education,* p. 122.

Although there is no hard threshold for this particular ratio, as there is for the PRR, institutions are recommended to establish a target rate of return in the range of approximately 3–4 percent above the rate of inflation (Tahey et al. 2010). In this report, the threshold is calculated as the rate of inflation for the year plus 3.5 percent. Therefore, this threshold fluctuates based on economic conditions. The ratio is dependent on the volatility underlying the assets of the institution as well as the mix of endowment to plant assets (Townsley 2014), so a poor stock market (like that of 2007–2009) or a successful capital campaign can impact this ratio.

Net Operating Revenues Ratio

The Net Operating Revenues Ratio (NORR) addresses the question: Do operating results indicate that the institution is living within available resources (Tahey et al. 2010)? This ratio describes how a surplus or deficit from operating activities affects the net assets of the institution and thus the behavior of the other three ratios already covered in this report.

Salluzzo et al. (1999) offer two ways to calculate the NORR; this report uses the change in unrestricted net assets method that can be derived from publicly available data. Note that this ratio is sometimes called the Net Income Ratio (see endnote 3, p. 30). As shown in Table A4, the ratio is calculated by dividing the change in unrestricted assets, from the beginning of the year to the end of the year, by the total unrestricted revenues for the year. Restricted assets are not included in the calculation.

TABLE A4

Net Operating Revenues Ratio Calculation

Numerator = Change in unrestricted net assets
Denominator = Total unrestricted revenues

Adapted from Salluzzo et al. (1999), *Ratio Analysis in Higher Education,* p. 41.

There is an inherent challenge in calculating this ratio, that is, to define "normal operations." While the similar RNAR explained above includes everything that happened throughout the fiscal year—expected, unexpected, stock market gains/losses, operations, and so on—the NORR is limited to just basic institutional operations.

The threshold for the NORR is 4.0 percent, meaning that an institution should end the year with a 4.0 percent operational surplus. A year below 4.0 percent is not cause for alarm and does not necessarily indicate a problem, but several years below 4.0 percent may be cause for concern and may suggest that a restructuring of institutional finances is needed. A continuing decline in this ratio may indicate that the institution is reaching a point where it is too late to make changes in operations to turn finances around (CIC 2016). One of the main purposes of this ratio is to warn institutional leaders of impending campus financial distress.

Composite Financial Index

The four ratios described above are combined to create the CFI. Each ratio assesses some unique financial factor at the institution. Once these ratios have been computed they are divided by strength factors along a common scale to standardize the scores as outlined in Table A5.

TABLE A5

Ratio Strength Factor Conversions for the Composite Financial Index

Ratio	Strength Factor Conversion
Primary Reserve Ratio	Primary Reserve Ratio/.133
Viability Ratio	Viability Ratio/.417
Return on Net Assets Ratio	Return on Net Assets Ratio/.02
Net Operating Revenues Ratio	Net Operating Revenues Ratio/.013

Adapted from Tahey et al. (2010), *Strategic Financial Analysis for Higher Education,* p. 135.

After the ratios are standardized, they are multiplied by a specific weighting factor as outlined in Table A6.

TABLE A6

Ratio Weighting for the Composite Financial Index

Ratios	What They Assess	Weight
Primary Reserve Ratio	Available reserves	35%
Viability Ratio	Debt in relationship to available reserves	35%
Return on Net Assets Ratio	Overall change in wealth	20%
Net Operating Revenues Ratio	Effectiveness of operations	10%

Adapted from Tahey et al. (2010), *Strategic Financial Analysis for Higher Education,* p. 136.

As Tahey et al. (2010) indicate, "…a reasonable weighting plan, allows a weakness or strength of a specific ratio to be offset by another ratio result, thereby allowing a more holistic approach to understanding the institution's total financial health" (p. 133).

The CFI measures only the financial component of a college or university's well-being (Tahey et al. 2010). The CFI must be analyzed alongside the institution's strategic plan and other performance factors to achieve an assessment of overall health, not just financial health. For example, it is possible for two institutions to have the same CFI score, and yet one institution could be meeting its goals and mission because of previous investments, while the other institution is ailing and requires substantial investment to meet its goals. Tahey et al. (2010) caution: "When put in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution" (p. 133).

With institutional context in mind, the CFI score can be easily interpreted by institutional stakeholders. Table A7 indicates the diagnostic and strategic direction of a CFI score as outlined by Tahey et al. (2010).

TABLE A7

CFI Performance Strategies

CFI Range	Strategy
7.5 to 10	Deploy resources to achieve robust mission
6.5 to 9	Allow experimentation with new initiatives
4.5 to 7	Focus resources to compete in future states
2.5 to 5	Direct resources to allow transformation
1 to 3	Re-engineer the institution
−1 to 2	Consider substantive programmatic adjustments
−2 to 1	Assess debt and Department of Education compliance and remediation
−3 to 0	Consider structured programs to conserve cash
−4 to −2	Consider whether financial exigency is appropriate

Adapted from Tahey et al. (2010), *Strategic Financial Analysis for Higher Education,* p. 87.

Institutional leaders, trustees, and other stakeholders can use the above table as a reference and guide to interpreting their college or university's CFI score. The specific strategy applicable to the institution's financial situation will depend upon the unique circumstances for each campus.

Appendix B: Composite Financial Index Data Tables

TABLE B1

Composite Financial Index Median Scores by Geographic Region

REGION (2016)		2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
Far West	N	39	39	39	39	39	39	39	39	39	39	39	39	39	39
	Median	3.4	2.8	3.3	4.9	5.0	5.5	6.0	3.5	0.9	3.0	4.3	2.2	3.8	4.7
West	N	66	66	66	66	66	66	66	66	66	66	66	66	66	66
	Median	3.1	2.2	2.7	4.1	3.9	4.3	5.1	3.2	0.9	2.7	3.9	3.0	3.6	4.0
Midwest	N	154	154	154	154	154	154	154	154	154	154	154	154	154	154
	Median	3.4	2.3	2.6	4.3	4.0	4.5	5.2	3.0	0.9	3.1	4.0	2.6	3.8	4.2
Mid East	N	110	110	110	110	110	110	110	110	110	110	110	110	110	110
	Median	3.8	2.6	3.2	4.4	4.3	4.3	5.6	3.2	1.5	3.7	4.5	2.5	4.3	4.2
Southeast	N	133	133	133	133	133	133	133	133	133	133	133	133	133	133
	Median	3.6	1.9	2.5	3.5	3.2	4.0	4.7	2.5	0.6	2.8	3.6	2.1	2.9	3.7
New England	N	57	57	57	57	57	57	57	57	57	57	57	57	57	57
	Median	2.8	2.6	2.9	4.1	3.9	4.5	5.2	3.3	1.7	3.7	4.3	2.9	4.1	4.3
Total	N	559	559	559	559	559	559	559	559	559	559	559	559	559	559
	Median	3.4	2.3	2.8	4.2	3.9	4.3	5.1	3.1	1.0	3.1	4.0	2.5	3.8	4.1

TABLE B2

Composite Financial Index Median Scores by Financial Quartile

NATIONAL Q (2016)		2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
1st Quartile	N	133	133	133	133	133	133	133	133	133	133	133	133	133	133
	Median	4.6	3.8	4.2	6.4	6.3	6.7	7.5	5.0	2.1	4.9	6.2	3.7	5.3	5.9
2nd Quartile	N	149	149	149	149	149	149	149	149	149	149	149	149	149	149
	Median	3.5	2.3	2.6	4.4	4.0	4.6	5.6	3.2	1.0	3.5	4.3	2.8	4.5	4.4
3rd Quartile	N	155	155	155	155	155	155	155	155	155	155	155	155	155	155
	Median	2.2	1.7	2.0	3.2	3.0	3.6	4.0	2.4	0.8	2.4	3.4	1.7	2.9	3.0
4th Quartile	N	122	122	122	122	122	122	122	122	122	122	122	122	122	122
	Median	2.6	1.9	2.1	2.6	2.6	2.6	3.0	2.0	0.5	2.3	2.8	1.6	2.3	2.7
Total	N	559	559	559	559	559	559	559	559	559	559	559	559	559	559
	Median	3.4	2.3	2.8	4.2	3.9	4.3	5.1	3.1	1.0	3.1	4.0	2.5	3.8	4.1

TABLE B3

Composite Financial Index Median Scores by Carnegie Classification

CARNEGIE (2016)		2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
MA: Larger	N	154	154	154	154	154	154	154	154	154	154	154	154	154	154
	Median	3.4	2.4	3.0	4.3	3.9	4.0	4.7	3.1	1.2	3.4	3.9	2.6	3.8	4.3
MA: Medium	N	91	91	91	91	91	91	91	91	91	91	91	91	91	91
	Median	3.1	2.3	2.6	4.0	3.8	4.1	4.8	2.9	1.2	2.9	3.7	2.1	3.3	3.7
MA: Smaller	N	54	54	54	54	54	54	54	54	54	54	54	54	54	54
	Median	3.4	1.8	2.6	3.2	3.0	4.0	4.5	2.6	0.7	2.7	3.8	2.2	2.7	3.4
BA: Arts and Sciences	N	149	149	149	149	149	149	149	149	149	149	149	149	149	149
	Median	4.0	3.5	3.5	5.6	5.6	6.0	7.2	4.5	1.8	4.3	5.9	3.2	5.2	5.6
BA: Diverse Fields	N	111	111	111	111	111	111	111	111	111	111	111	111	111	111
	Median	2.3	1.6	1.8	3.0	2.6	2.6	3.8	2.1	0.3	2.2	3.2	1.7	2.6	3.0
Total	N	559	559	559	559	559	559	559	559	559	559	559	559	559	559
	Median	3.4	2.3	2.8	4.2	3.9	4.3	5.1	3.1	1.0	3.1	4.0	2.5	3.8	4.1

TABLE B4

Composite Financial Index Median Scores by Enrollment

ENROLLMENT SIZE (2016)		2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014
>3,000 FTE Students	N	115	115	115	115	115	115	115	115	115	115	115	115	115	115
	Median	3.5	2.8	3.0	4.5	4.0	4.8	5.3	3.4	1.2	3.3	4.2	2.7	4.1	4.4
2,001–3,000 FTE Students	N	127	127	127	127	127	127	127	127	127	127	127	127	127	127
	Median	3.7	2.9	3.5	4.9	4.8	5.1	5.7	3.5	1.6	3.8	5.0	3.1	4.7	4.9
1,000–2,000 FTE Students	N	206	206	206	206	206	206	206	206	206	206	206	206	206	206
	Median	3.3	2.2	2.8	4.0	3.8	4.3	5.2	3.0	1.0	3.1	4.1	2.4	3.5	3.8
<1,000 FTE Students	N	111	111	111	111	111	111	111	111	111	111	111	111	111	111
	Median	2.5	1.6	1.6	3.1	2.9	3.2	4.0	2.0	0.3	2.2	3.2	1.7	2.4	3.0
Total	N	559	559	559	559	559	559	559	559	559	559	559	559	559	559
	Median	3.4	2.3	2.8	4.2	3.9	4.3	5.1	3.1	1.0	3.1	4.0	2.5	3.8	4.1

Appendix C: Definition of Terms

FTE Enrollment	Total fall full-time equivalent (FTE) enrollment, including undergraduate, graduate, and first-professional students
FTFT (Full-Time First-Time)	Total fall full-time, first-time degree-seeking undergraduate students
Graduation Rate (Six-Year Cohort Rate)	Six-year, cohort graduation rate (%) for full-time, first-time degree-seeking undergraduate students
Percent Part-Time Faculty	Full-time equivalent for part-time instructional faculty as a percentage of total instructional faculty FTE
Tuition and Fees	The published price of tuition and fees for full-time, first-time degree-seeking undergraduate students
Total Institutional Aid Per Student	The total amount of institutional student aid (funded and unfunded) divided by total 12-month student FTE
Unfunded Institutional Aid Per Student	The amount of unfunded institutional student aid divided by total 12-month student FTE
Average amount of Institutional Aid for First-Year Students	The average amount of institutional financial aid given to full-time, first-time degree-seeking undergraduate students receiving aid
Net Tuition Revenue Per Student	Total tuition and fee revenue less institutional financial aid (funded and unfunded) divided by total 12-month student FTE
Discount Rate	Total institutional financial aid (funded and unfunded) for undergraduate and graduate students divided by total tuition and fee revenue
Tuition Dependency	The percentage of total expenditures covered by total net tuition revenue
Endowment Per Student	Endowment assets at the end of the fiscal year divided by the total 12-month student FTE
Total Expenditures Per Student	Total expenditures ($) divided by 12-month student FTE

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