



NATIONAL ASSOCIATION OF STATE ADMINISTRATORS
AND SUPERVISORS OF PRIVATE SCHOOLS

Financial Monitoring Best Practices for State Regulators

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Association

2024 NASASPS Annual Conference

April 7-10 | Charleston, SC

Overview



- Review preliminary recommendations from SHEEO's Financial Viability Working Group
- Panel discussion with Ross and Sam
- Feedback and questions

Poll Question



- Who has experienced an unexpected or abrupt closure?
 - Has this closure occurred in the last 2 years?

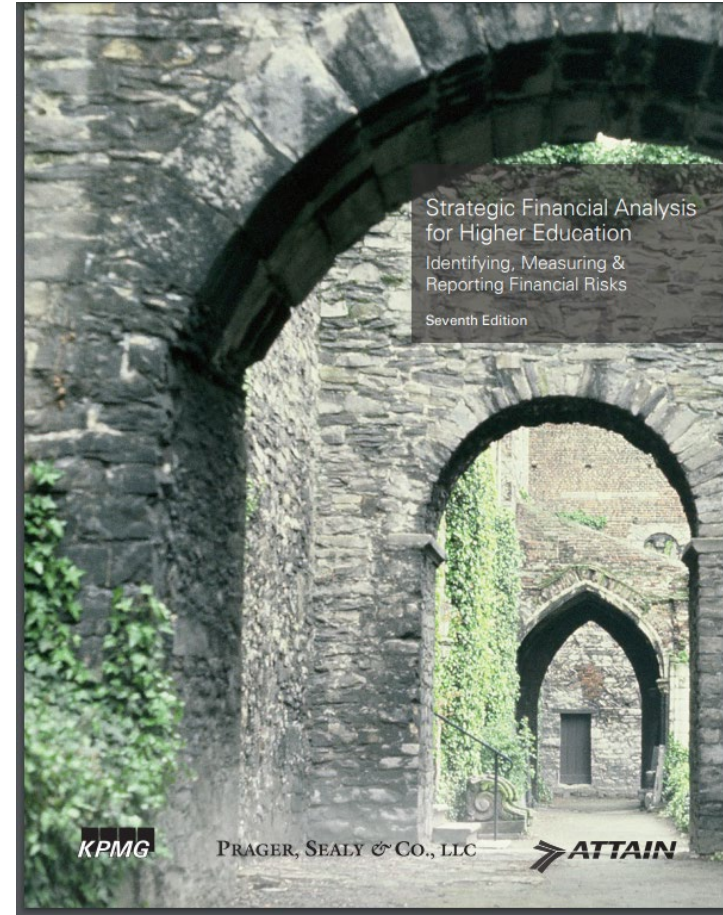
SHEEO Financial Viability Working Group



- 11-member group
- Working group charged with identifying a limited number of financial monitoring measures state regulators can use to assess the financial health of postsecondary education institutions
- Members included
 - State regulators
 - State financial officers
 - Accreditors
 - Academic researchers
 - SHEEOs
 - Supported by Deloitte

Goals for the Metrics

- Limited number
- Straight forward
- Create a long runway for closure
- Multiple data sources



Preliminary Recommendations

Quantitative Measures

- Initial or Pre-screening Measures (3-5 year trend analysis)
 - Enrollment trends
 - Operating margin
 - Debt ratio
- Follow-up Assessment
 - Cash flow analysis
 - Quarterly or monthly

Qualitative Measures

- Heighten Cash Monitoring Status
- Pending investigations or lawsuits
- 90/10 rule reliance on federal support (for-profit institutions)
- Late submission of audited financial statements
- High turnover among leadership and senior staff (e.g., CFOs)

Enrollment Trends



- Enrollment a key indicator for revenue and market share

Time Interval Before Closure	Enrollment Change at Closed Institutions	Enrollment Change at Open Institutions
2-1 Years	-13.9%	0.7%
3-2 Year	-8.0%	0.7%
4-3 Years	-7.5%	-0.2%
5-4 Years	-3.4%	0.3%
5-1 Years	-29.9%	4.5%

Operating Margin

Operating Margin Ratio =
(annual revenues - annual
expenses) / annual revenues

- Three-year moving average
 - Stable: 2% or higher
 - Struggling 1: 0-2%
 - Struggling 2: negative ratio
 - In crisis: consistently negative year over year

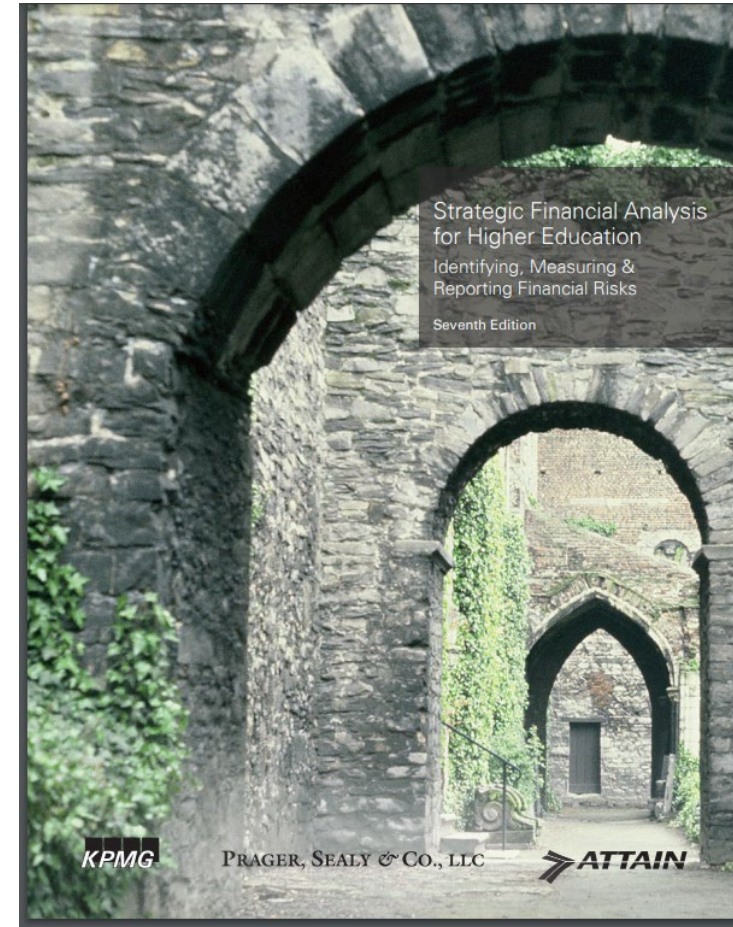
Debt Ratio

- Debt Burden Ratio = Annual Debt Service / Total Operating Expenditures
- Threshold = 7% and above
- A higher debt burden ratio indicates a larger portion of the institution's operating budget is dedicated to servicing debt.
- Raises concerns about financial sustainability, especially if institution faces declining enrollment or revenue streams.

Alternative Measures

Composite Financial Index

- Primary reserve ratio
 - Viability ratio
 - Net operating revenues ratio
 - Return on net assets ratio
-
- Profit/Loss





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Questions?

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Thank you!

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