



# Assessing the Financial Stability of Private, For-Profit and Selected Non-Profit Institutions

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# ASSESSING FINANCIAL STABILITY

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## Background



# CHE and BPE

- CHE: Indiana Commission for Higher Education, est. 1971
- BPE: Indiana Board for Proprietary Education, est. 2012
- CHE:
  - Staffs BPE
  - Leads BPE
  - Administers BPE funds (Credit-Bearing and Student Assurance)

# BPE Overview

- Authorized for-profit and selected non-profit institutions that are:
  - Credit-bearing
  - Degree-granting
  - Accredited by a body recognized by the U.S. Department of Education or seeking such accreditation

Credit-Bearing, Degree-Granting, Accredited Institution

Three State Agency Responsibilities

	----- Yes -----			----- No -----
	Indiana Institution	Out-of-State Institution		All Institutions
		Physical Presence	Distance Education	
Public	CHE	BPE	CHE	DWD
Private Not-for-Profit	CHE	BPE	CHE	DWD
Private For-Profit (Proprietary)	BPE	BPE	CHE	DWD

# Membership and Meetings

- Board consists of:
  - 5 gubernatorial appointees
  - 2 ex-officio members (CHE and IDOE)
- Board meets quarterly to consider institutional and degree authorization

# Institutions by Control

Indiana Private, For-Profit	14
Indiana Private, Non-Profit	4
Out-of-State Private, For-Profit	7
Out-of-State Private, Non-Profit	6
Total	31

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## Phase 1: Methodology





# Problem

- Lack of adequate, available metrics to determine institutional financial health
- Federal Financial Responsibility Composite Score (FRCS):
  - Has weaknesses
  - Lacks transparency
  - Is usually out of date

# Composite Score (FRCS)

- The scale ranges from **3.0 to negative 1.0**:
  - **1.5 or greater** - the institution is financially responsible.
  - **Less than 1.5 but 1.0 or higher** - financially responsible.\*
  - **Less than 1.0** - the institution is not financially responsible.\*

*\*The U.S. DOE requires additional monitoring (e.g. posting a letter of credit).*

# Composite Score Availability

- U.S. DOE:
  - Calculates a composite score for all institutions participating in Title IV
  - Doesn't calculate one for non-participating institutions
- BPE requires non-participating institutions to provide a comparable score calculated by an independent auditor using U.S. DOE methodology

# Solution

- BPE contracted with Plante Moran to analyze audited financial statements for selected BPE institutions
- Plante Moran developed a methodology and metrics for assessing the financial health of institutions

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## Phase 2: Sustainability



# Help Needed & How To Pay for It

- Help needed scenarios:
  - Scan of all BPE authorized institutions
  - Developing a “watch list”
  - In-depth financial analysis of selected institutions
- Revenue sources:
  - Institutional authorization (initial and renewal)
  - Program authorization (initial and renewal)

Current Fees:  
Initial  
Authorization

Initial Authorization

Institutions with a Physical Presence

One-Time	\$ 2,500
Per Initial New Degree	\$ 300
Per Certificate, Per Diploma	\$ 25

Institutions with No Physical Presence

One-Time	\$ 2,500
Variable, Per New Program	\$ 25

Rate

Rate

Renewal of Authorization (Annual)

Institutions with a Physical Presence

Baseline, per Institution

\$ 1,000

Variable, per Number of Programs

\$ 25

Institutions with No Physical Presence

Baseline, per Institution

\$ 1,000

Variable, per Number of Programs

\$ 25

Current Fees:  
Authorization  
Renewal



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## Phase 3: Watch List



# Primary Reserve Ratio (Liquidity)

(adopted from Plante Moran)

- Ratio of:
  - Adjusted Equity to
  - Adjusted Expenses
  
- Indicator of Ability to:
  - Satisfy current liabilities and manage short-term shocks
  - Pay suppliers in a given number of days
  - Undertake short-term borrowing

# Equity Ratio (Leverage)

(adopted from Plante Moran)

- Ratio of:
  - Modified Equity to
  - Modified Total Assets
  
- Indicator of Ability to:
  - Absorb substantial losses, short- or long-term
  - Raise cash for capital expenditures and/or growth
  - Cover fixed charges

# Net Income Ratio (Profitability)

(adopted from Plante Moran)

- Ratio of:
  - Pre-Tax Income to
  - Revenue
  
- Indicator of Ability:
  - For a for-profit organization to turn a profit
  - To generate cash flow

*Ratios are calculated after "strength factor"*

✘

*Off "Watch List"*

✔

*Remain on "Watch List"*

Composite Score

Institution Type	(Size) (\$000's) Revenues	Composite Score				Prior Year	Year-to-Year Variance	Trend	Watch List
		Primary Reserve Ratio	Equity Ratio	Net Income Ratio	Weighted Total				
Proprietary 1	335,336	3.00	2.90	3.00	3.00	1.50	1.50	▲	✘
Proprietary 2	164,948	0.79	2.29	3.00	2.05	1.60	0.45	▲	
Non-Profit	61,879	2.52	3.00	3.00	2.39	1.50	0.89	▲	✘
Proprietary 3	2,100	0.35	3.00	1.78	1.80	2.10	(0.30)	▼	?
Proprietary 4	1,590	3.00	3.00	(1.00)	1.80	1.80	-	▶	?

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## Phase 4: In-Depth Review



# Agenda for Discussion with Institution One

- Detailed financial statements:
  - Including 90/10 forms
  - Consolidated profit/loss tables
- Investor backing
- Composite score calculation
- Enrollment: past trends, current, future projections

# Take-Aways from In-Depth Discussion

- Continued weak financial condition, especially with respect to liquidity, due to:
  - Weak post-pandemic recovery (enrollment losses moving back to in-person from online)
  - Increased instructor salaries, especially for nursing faculty



# Additional Take-Aways

- Continued concerns about:
  - Turnover of campus management, deans of nursing, and other staff, e.g. admissions/recruiters
  - Possibility of additional requirements from U.S. DOE for a letter of credit

# Positive Take-Aways

- Program portfolio addresses in-demand occupations:
  - Health-care related programs, including nursing
  - HVAC
- No campuses in immediate danger of closing

# Conclusions about Institution One

- Keep on Watch List
- Monitor enrollment trends
- Review institution's nursing programs
- Have 2<sup>nd</sup> in-depth review in six months or sooner, if U.S. DOE imposes additional letter of credit requirements

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# Conclusions



# Overall Conclusions

- Very positive about the initiative:
  - More reliable information each institution's finances
  - More confident because of an expert's 3<sup>rd</sup> party's analysis
  - Better sense of which institutions need to be monitored

# Areas of Improvement

- Before in-depth discussions:
  - Do more discovery in advance (we better know what questions to ask)
  - Do more preparation in shaping the agenda

# Rationale for Continuing Plante Moran Contract

## Expertise:

- Specialized financial knowledge
- Experience dealing with institutions BPE authorizes

## Efficient use of resources

## Third-party, independent point of view



# Questions?

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NATIONAL ASSOCIATION OF STATE ADMINISTRATORS  
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