Jackson COLLEGE

ENDs Monitoring Report

FINANCE

June 12, 2017

Presented To:

President Dr. Daniel J. Phelan

Jackson College Board of Trustees

Presented by:

Darrell R. Norris, Vice President of Finance

I. Executive Summary

This ENDs Monitoring Report presents and demonstrates the fiscal accountability and responsible stewardship of the institution’s assets, in part, through long-term financial sustainability and positive financial results. The key measures discussed in this report include budget, revenue trends, expenditures, regulatory compliance, fund balance, debt service, and maintaining Higher Learning Commission critical financial ratio. This report also summarizes the work accomplished since the last Board monitoring report presented in June 2016 and describes current and future activities related to the current state of the College, improvement strategies, performance trends and goals for future action.

Factors that will affect the College’s future are tied to the economic position of the State of Michigan. Because of economic growth and changes to the funding formula for community colleges, the State budget provides an increase of 1.2% in State appropriations for the 2016-17 year, together with a Board approved tuition increase of 8.0% for this fiscal year.

In an effort to stay ahead of upcoming changes to state and federal funding guidelines, the College is focusing on total commitment to student success (TCS^2). This focus has the College changing its student services and related business model from traditional academic advising with a ratio of 1 advisor to 1,400+ students to approaching student services on a more personal level with Student Success Navigators who will be responsible for 200-300 students. The use of national benchmark data reveals that student success is higher for students who have a personal relationship with a college professional. This strategy has concluded its second year and the college has baseline measured the success of this strategy by monitoring retention, persistence, graduation rates, and ROI calculations.

The College continues to make investments in instructional facilities, aging infrastructure and modernization of learning environments. The College budgeted $1,043,500 for facilities improvement in FY ’17.

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", is effective for the College’s fiscal year 2018 and establishes new recognition and disclosure requirements for employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statement of net position based on an actuarial valuation of retiree healthcare. Since the College participates in the MPSERS OPEB plan, it will report a liability for its “proportionate share” of the “net OPEB liability” of the MPSERS OPEB plan. The College will be required to recognize OPEB expense, deferred outflows of resources and deferred inflows of resources related to its proportionate share of the corresponding collective OPEB amounts. The methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service will be specified in this Statement. Further updates are expected as MPSERS OPEB begins their actuarial calculations.

Jackson College is launching new academic programing in Dental Hygiene, Agriculture and Sports Management with hopes of attracting new students to the institution. College management continues to watch enrollment trends, local economies and will react with revenue enhancements and/or expense reductions as necessary to ensure financial stability of the College.

The College's collective unrestricted Fund Balance as of June 30, 2016 is $12,679,588 or 28%, which is above the Board's policy requirement.

II. Institutional Context

Jackson College (JC) is committed to preserving the institution as financially strong and with the necessary fund balance to exceed the minimum financial ratios required by our accreditation agency, The Higher Learning Commission (HLC) of the North Central Association of Colleges and Schools. The ability to maintain the Board ENDs to stay financially strong requires a balanced budget based on the expected student enrollment each year, and the proper matching of operating expenses with total revenues. The achievement of these factors ensures fiscal responsibility and stewardship of the institution's assets.

The HLC financial ratios is a benchmark for measuring the financial stewardship of the College's assets as compared to a national benchmark. As you can see in appendix C, the College had a composite financial index (CFI) score of 1.64 for 2016 and a score greater than 1.00 displays we are better than the national benchmark. Over the past five years, the College has experienced an institutional high CFI of 3.90 in 2011 and an institutional low of 0.30 in 2012 but recovering and maintaining an average score of 1.57 for years 2014-2016.

The College has focused on appropriately matching revenues and expenses to assure that collective un-restricted fund balances are maintained at consistent levels as directed by the board of trustees to provide sufficient cash flows for summer operations when revenues are at an annual low along with strong bond ratings and a strong financial foundation should we experience a rapid change in our revenue sources. The College's five year average collective unrestricted fund balance was $12,288,107 which exceeds the board policy fund balance requirements.

III. External Context

As noted on the Activity Classification Structure Data Tables for 2015-2016, the pie chart (see Appendix A) represents the average support that Michigan Community Colleges receive from the state, local taxpayers and student revenues. JC's revenue distribution pie chart (see Appendix A) reveals a huge disparity in local property tax support, which has increased 8.10% since 2006, which is far below the historical inflation increase of 17.0%. In addition, the State appropriation support since 2006 has only been a 10.7% increase. At the same time, the historical annual U.S. inflation rate average for the 10-year period was 17.0%.This unfortunate reality provides greater stress, as to the revenue mix needed to operate the institution, with students carrying the greatest share of operational costs (52.4%) through higher than average tuition and fee rates, especially our in-district fee payers (See Appendix B).

IV. Institutional Performance Reporting and Assessment

The Business Office and Office of Quality & Institutional Effectiveness have developed, and implemented, an operational budget process that requires budget managers to examine allocated annual budget and actual history to project their monthly expected expenditures. The Leadership Council reviews their respective areas for added accountability. To enhance this process, the College invested in a budgeting and analytics tool called Budget Maestro. Budget Maestro is expected to drive budget development efficiencies along with more accurate financial modeling to help drive future revenue and expense projections.

Appendix A reflects the primary sources of institutional revenues, with Tuition and Fees 52.4%, State Appropriations 29.4%, and Property Tax 10.9%, (each shown as a percent of total revenue streams). While the principal increase in 2015-16 was tuition and fees, modest increases are expected for tuition and fees in 2016-17 as well. Billing contact hours (BCH) have decreased over the last three years, and the academic year 2015-16 enrollment declined an additional .04%. It is projected that the college will end the 2016-2017 fiscal year with a total BCH higher then 2015-2016 fiscal year level. With the addition of special academic programs like the Prison Education Initiative, American Honors, the addition of Campus View 3 housing unit along with our Student Success Navigator investment, the college anticipate to experience increases in billing contact hours as compared to our peer institutions in the State of Michigan.

V. Institutional Performance Improvement Planning

The Higher Learning Commission (HLC) requires the College to annually report on four critical financial ratios: Primary Reserve, Viability, Return on Net Assets, and Net Revenue Ratios (see Appendix C). The composite index of the financial ratios when they fall below 1.0 means the institution's financial strength is weaker than the national benchmark by a wide margin. The College is committed to maintaining a composite ratio score above 1.0, and to strengthen its financial sustainability by providing balanced budgets, and as directed by the President, build fund balances to cover two to three months of operating expenditures. Doing so also ensures that the College has sufficient funds to meet obligations during the summer months, a time period that produces very little revenue.

As directed by the President, the College had four distinct goals;

- to finish the fiscal year with a composite financial indicator score (CFI) above 1.0;
- Increase fund balance closer to three months operating expense;
- Increase student retention and monitor our return on investment;
- Implement an e-commerce payment solution for students;
- Continue making payments on the loan from Lenawee to Maher Campus.

The College was able to achieve a CFI score of 1.64 for fiscal year 2016 and a CFI score of 1.19 for the fiscal year 2015. The College has been successful with appropriately aligning revenues and expenses to maintain the CFI ratio above the 1.0

requirement. The net operating revenue ratio is a focus for improvement in 2017. The remaining ratios performed similar to 2015.

The College will continue to maintain a CFI score above 1.0 by implementing a financial management plan that includes a more sophisticated budget management tool along with electronic purchase order requisitioning that will not allow unbudgeted transactions to be processed without the review and approval of a leadership council member.

The College's collective un-restricted fund balance increased from prior year by $241,000 showing progress towards a fund balance closer to three months operating expense.

The College's retention rate was 44% in 2016, which was flat, but we are expecting retention to begin to increase now that we have all 18 student navigators hired.

The College has purchased Touchnet to provide an e-commerce payment solution. Implementation began on June 1, 2017 and is expected to be complete in November 2017.

The loan payments on the loan from Lenawee to Maher campus have been put on hold as the College is going to transition to a one-budget model at the start of FY'18 which will consolidate fund balances and they will no longer be tracked by campus location.

Aside from the four goals, the College implemented an internal audit function in the Business Office. Below is a list of projects the internal auditor has been involved with.

Third Party:
- Financial Aid Services review of financial aid processes.
- Michigan Office of Retirement Service 2016 Payroll Audit.

Assurance:
- Activity Classification Structure classification review.
- Cash misstatement on 12/31/2016 Treasurer Report.
- Proper Authorization of millage reimbursement requests.
- Tuition allocation methodology

Planning:
- Student residency and tuition rate assignments.
- IT audit to include scanning and risk mitigation of personal identifiable information.
- Title IV HEA Program Review (July 10th-14th).

VI. Goal Setting & Concluding Discussion

The past year has brought forth many challenges for the leadership of the College prioritizing the resource allocation of the College included investments in Prison

Education, Agricultural Sciences, Students Success Navigators and retention initiatives, are believed to have kept the college's enrollment from declining further.

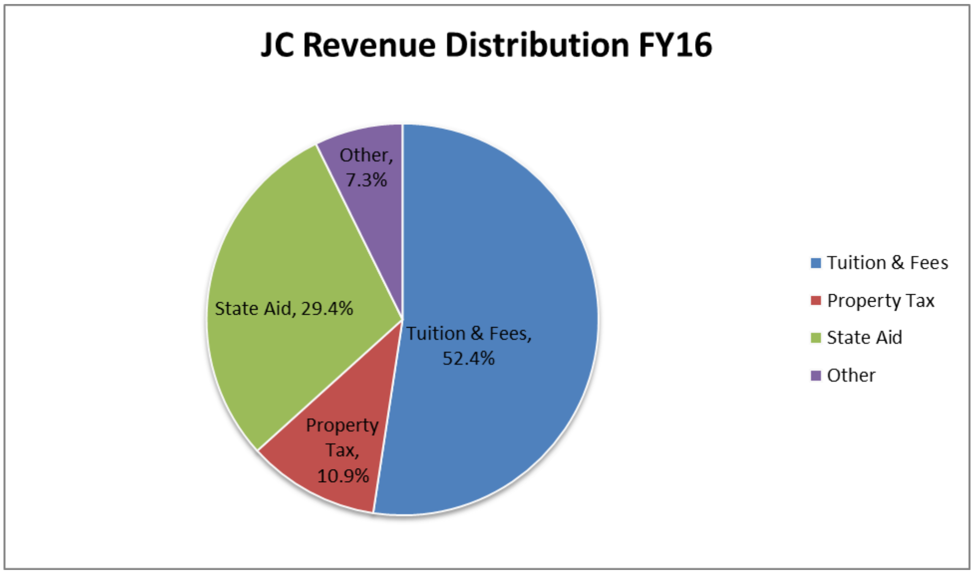
The College has made investments in tools to help improve the ability of those in leadership roles to manage and monitor the finances of the College and improve the timeliness of financial reports and added accountability. The continued use and improvement of the complete operationalized budget monitoring that controls the approved operating budget of the College will ensure responsible budget management for financial success. As this report illustrates, the College has maintained in the financial areas to support the process of accountability, sustainability and budget management with the focus of complete responsibility for the stewardship of the institutions assets.

Specific goals for this aspect of the College, over the course of fiscal year 2018 include, but are not limited to:

1. HLC CFI score greater than 2.0;
2. Create a future operations fund of $8M;
3. Increase student retention and monitor our return on this investment.
4. Implement an e-commerce payment solution for students.

VII. Appendices

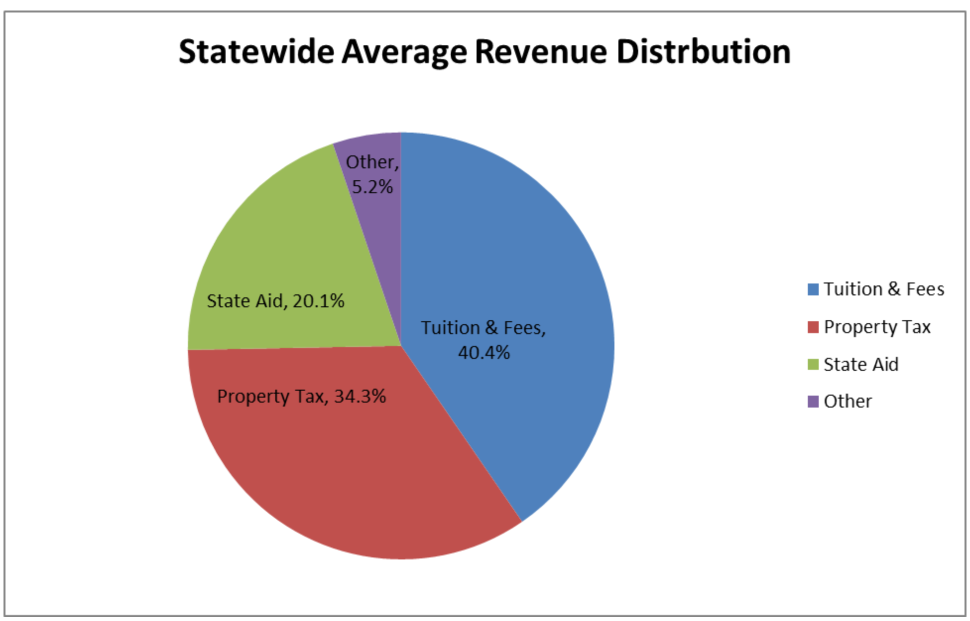
Appendix A: Revenue by Source



JC is currently receiving funding from the State of Michigan that when adjusted for inflation is equivalent to 2007 values.

Jackson College
Property Tax & State Aid
2006-2017

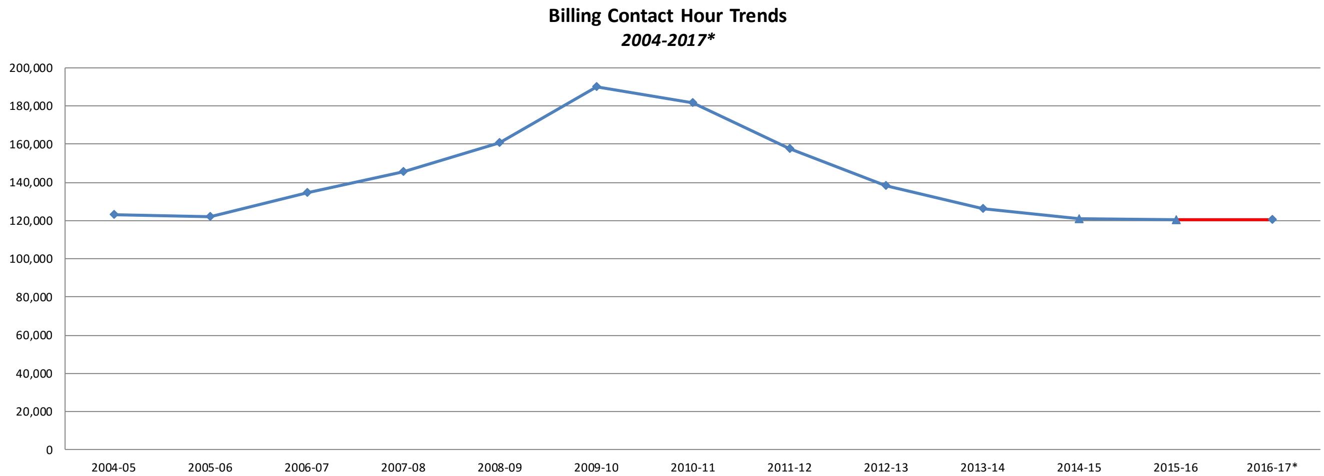
	% Increase	Inflations %	Inflation Adjusted	
Property Tax	8.10%	17.00%	-8.90%	$ 445,000
State Aid	10.70%	17.00%	-6.30%	$ 819,000
				$ 1,264,000
headlee rollback				$ 700,000
Inflation and Headlee Combine estimated				**$ 1,964,000**

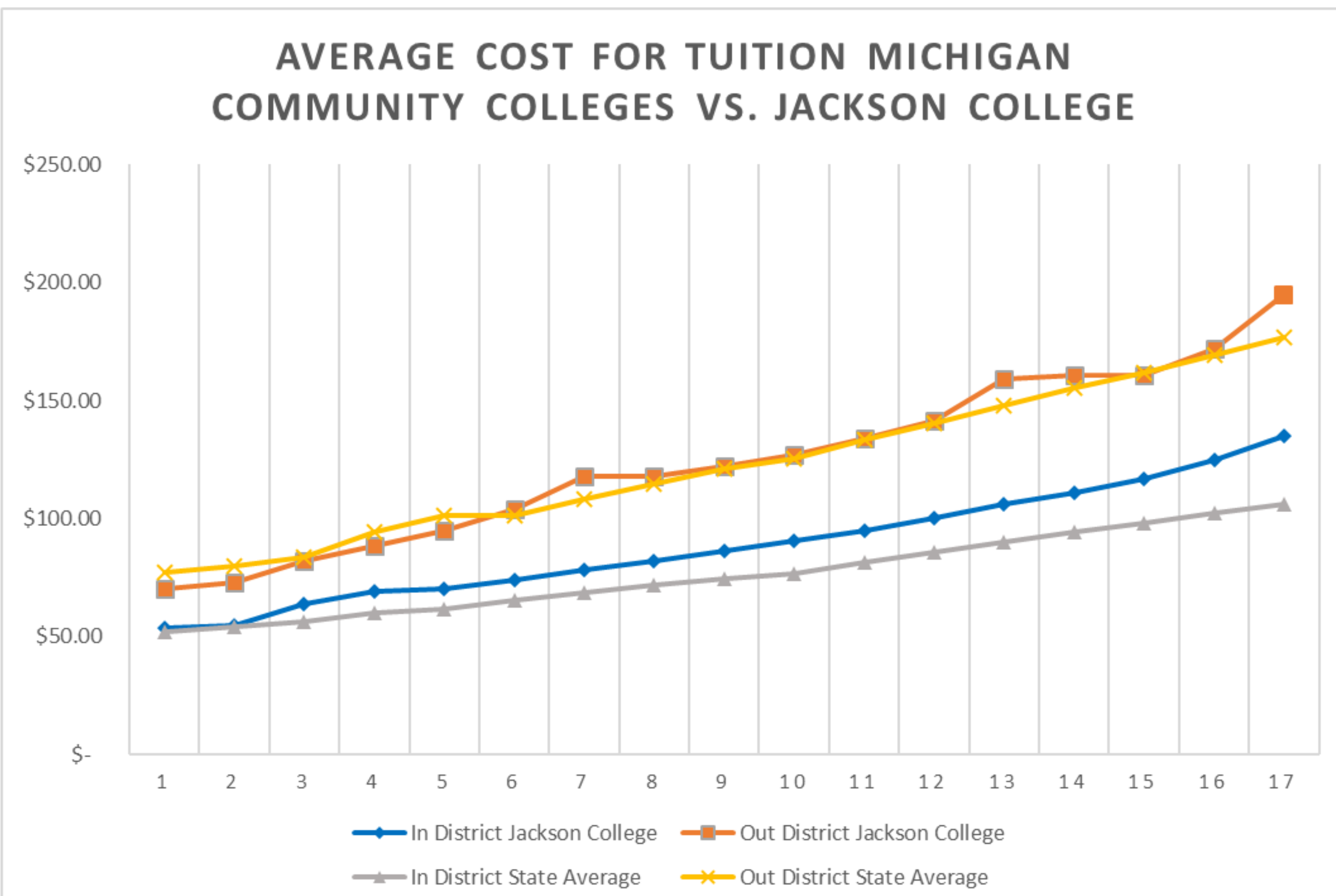


Appendix B: Billing Contact Hours and Tuition Rates

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17*	1-Yr % Change	5-Yr % Change	10-Yr % Change
BCH	122,903	122,263	134,778	145,770	160,496	189,957	181,704	157,584	138,075	126,424	120,886	120,421	120,300	-0.4%	-23.6%	-10.7%

**Projected*





Appendix C: Higher Learning Commission Financial Ratios

Jackson College
HLC Financial Ratios
5-Year CFI Trends

_	2012	2013	2014	2015	2016	3-Year Average 2014-2016
CFI Score	0.3	1.17	1.87	1.19	1.64	1.57
Billing Contact Hours	157,584	138,075	126,623	120,886	120,421	

Financial Ratios					
Primary Reserve Ratio Calculation:		**Data**	**Strength**	**Weight**	**CFI**
Institution unrestricted net assets	+	12,680.0			
Institution expendable restricted net assets	+	241.0			
C.U. unrestricted net assets	+	934.0			
C.U. temporary restricted net assets	+	1,907.0			
C.U. net investment in plant	-	0.0			
Numerator Total		15,762.0			
Institution operating expenses	+	47,768.0			
Institution non-operating expenses	+	1,590.0			
C.U. total expenses	+	1,005.0			
Denominator Total		50,363.0			
Primary Reserve Ratio =	÷	**0.313**	**2.353**	**0.35**	**0.82**
Net Operating Revenue Ratio Calculation:					
Institution operating income (loss)	+	(28,102.0)			
Institution net non-operating revenues	+	27,033.0			
C.U. change in unrestricted net assets	+	99.0			
Numerator Total		(970.0)			
Institution operating revenues	+	19,667.0			
Institution non-operating revenues	+	27,033.0			
C.U. total unrestricted revenues	+	1,023.0			
Denominator Total		47,723.0			
Net Operating Revenue Ratio =	÷	**-0.020**	**-1.564**	**0.10**	**-0.16**
Return on Net Assets Ratio Calculation:					
Change in net assets + C.U. change in net assets		3,629.0			
Total net assets + C.U. total net assets (beginning of year)		57,106.0			
Return on Net Assets Ratio =	÷	**0.064**	**3.177**	**0.20**	**0.64**
Viability Ratio Calculation:					
Expendable net assets **Numerator Tota**		15,762.0			
Institution long-term debt (total project related debt)	+	39,740.0			
C.U. long-term debt (total project related debt)	+	0.0			
Denominator Total =		39,740.0			
Viability Ratio =	÷	**0.397**	**0.951**	**0.35**	**0.33**
COMPOSITE FINANCIAL INDICATOR SCORE (CFI)					**1.64**

Appendix C: Higher Learning Commission Financial Ratios Continued

Primary Reserve Ratio: This ratio measures the sufficiency and flexibility of financial resources by comparing expendable net assets to total expense.

The Viability Ratio: This ratio measures the ability of the institution to adequately manage debt, indicating whether the institution can meet its entire debt obligation with expendable net assets.

The Return on Net Assets Ratio: This ratio measures asset management and performance, indicating whether an institutions total assets, both restricted and unrestricted, are increasing or decreasing.

The Net Operating Revenue Ratio: This ratio gauges the results of institutional operations, indicating whether normal operations resulted in a surplus or deficit.