

SECTION 13: Financial and Physical Resources

13.1 The institution has sound financial resources and a demonstrated, stable financial base to support the mission of the institution and the scope of its programs and services. (*Financial resources*) [CR]

Rationale and Notes

Although missions vary among institutions, both a sound financial base and a pattern of financial stability provide the foundation for accomplishing an institution's mission. Adequate financial resources allow for deliberate consideration of the effective use of institutional resources to fulfill that mission. Adequate physical resources are essential to the educational environment and include facilities that are safe and appropriate for the scope of the institution's programs and services. It is reasonable that the general public, government entities, and current and prospective students expect financial and physical resources necessary to sustain and fulfill the institution's mission.

Peer evaluators may consider a number of factors when assessing a sound financial base like total net assets, unrestricted net assets (without donor restrictions), endowment balances, UNAEP (unrestricted net assets exclusive of plant and plant-related debt), reserves, select ratios or benchmarks (none specifically are required; if used, cite source of ratio or benchmark), and so forth. The stability of the base is typically the trending of this type of financial data over time. Some institutions use the Composite Financial Index (CFI) as a tool in financial analysis. While the CFI is not endorsed or required, institutions may consider providing the index as calculated by their auditor. Often external auditors provide extensive financial analysis of the audit when presenting it to the institution's board, and this information can be useful when building a case for compliance. There is no one way for an institution to present a case for sound and stable resource base, or for a peer evaluator to evaluate it.

In order to provide evidence for this standard, institutions should place primary attention on the documents required in the next standard [Core Requirement 13.2 (*Financial documents*)], as external audits and standard review reports give evidence of external verification as well as some degree of standardization. However, it is critical for the institution to provide a narrative supporting its claims; tables and charts are often helpful. The source of financial data included in institutional narratives should be cited. Special attention should be given to items in the external audits that appear atypical, as reviewers will not have proper context unless the institution provides it.

While parts of this core requirement clearly overlap with Standard 13.3 (*Financial responsibility*), two key elements set them apart. First, there is severity, with a finding of noncompliance in this standard (Standard 13.1, a Core Requirement) reflecting more serious concerns than in Standard 13.3 (not a Core Requirement). Second, this core requirement focuses on the underlying financial strength of the institution and the stability of that base, while Standard 13.3 focuses more on operational financial management of the institution.

These standards often are related, and it is certainly easier to be fiscally responsible in operations if the underlying financial base is solid. However, compliance status with these two standards is not perfectly correlated and the standards are different.

For example, an institution might balance its budget, have positive operational cash flows, and meet obligations on a timely basis, yet have insufficient financial resources. This lack of resources might make it difficult to maintain its physical plant, provide sufficient faculty professional development, buy needed equipment, and otherwise support the mission of the institution. In such an instance, compliance in Standard 13.3 might accompany noncompliance in Standard 13.1. Just balancing the budget is not enough; an institution must also have an adequate resource base.

Or consider an institution that had depleted most of its endowment in order to maintain an excessive level of expenditures; that institution may be out of compliance with both standards because of a lack of a stable financial base (CR 13.1) and operational practices that are questionable and unsustainable (Standard 13.3).

And as a third example, consider that temporary problems with enrollment could create noncompliance with Standard 13.3 while CR 13.1 remains compliant. It is important for institutional narratives to explain the reason for financial difficulties.

NOTE

Institutions should not provide draft financial figures. Unaudited figures lack the validity of audited figures; if unaudited figures are used, they should clearly be designated as such. If the financial audit of the most recently completed fiscal year is not available when materials are submitted to SACSCOC, the institution should nonetheless provide a full narrative for this core requirement. Failure to provide the most recent financial audits if they are available could raise serious concerns of integrity (see CR 1.1). Similarly, failure to provide audits because they cannot be finalized may raise concerns about the underlying financial resources of the institution and/or the capabilities of staff.

Questions to Consider

- Does the institution demonstrate that it has sound financial resources?
- Does the institution demonstrate it has a stable financial base?
- How are the two questions above answered in the context of supporting the mission of the institution? (Is there evidence that important support of academics, facilities, learning resources, etc., is being denied due to financial stress?)
- What evidence is there that financial behaviors are sustainable?
- If financial behaviors have eroded the financial base or stability of the institution, what are they and why has this happened?
- Is the institution borrowing to support day-to-day operations? If so, what does this say about the level of financial resources to support the mission?

- What is the balance of unrestricted net assets exclusive of plant and plant-related debt (UNAEP)? How has it changed over time? If it is negative, why? If it is falling, why? (This is one way of assessing whether day-to-day resources are adequate to support operations.)
- If there are deficits in UNAEP, what are the causes? An overinvestment in plant? Operational deficits? Purchases of property and equipment? Market volatility?
- How stable are key financial indicators over recent years? Are there obvious trends? Are there obvious incongruences?

Sample Documentation

- See 13.2 (*Financial documents*) for required financial documents.
- External auditor trend analysis, ratio analysis, peer analysis, benchmarking, etc., based on audits.
- Evidence of sound financial resources and a stable financial base, which may include ratio analysis produced by institution based on audited financial statements. (If benchmarked, include source of benchmark. If ratios are used, show calculations.)
- Trend reports, graphs, and charts to document sound financial resources and a stable financial base (e.g., trends in net assets, FTE enrollment, endowment size and rates of return, gross tuition revenue, net tuition revenue, discount rate, state appropriations if applicable).
- Explanations of anomalies in financial data (e.g., sudden spikes or dips in values or ratios, a merger/acquisition that changes the base, discontinuation of key benefits, a very large gift, unusual write-offs).
- Rating agency reviews with special attention to any upgrades or downgrades in bond ratings (if applicable).

Reference to SACSCOC Documents, If Applicable

None noted.

Cross-References to Other Related Standards/Requirements, If Applicable

- CR 4.1 (*Governing board characteristics*), see part (b)
- Standard 4.2.3 (*Multi-level governance*), see part (b)
- CR 13.2 (*Financial documents*)
- Standard 13.3 (*Financial responsibility*)
- Standard 13.6 (*Federal and state responsibilities*)