

ABC's of OU's Finances and Budget

April 27, 2022



Overview

ABC's

- Funding Sources
- Funding Uses
- Revenue and Expense Drivers
- Budget and Forecasting
- Balance Sheet
- Cash and Cash Flow
- Property, Plant, and Equipment
- Institutional Debt
- Endowment

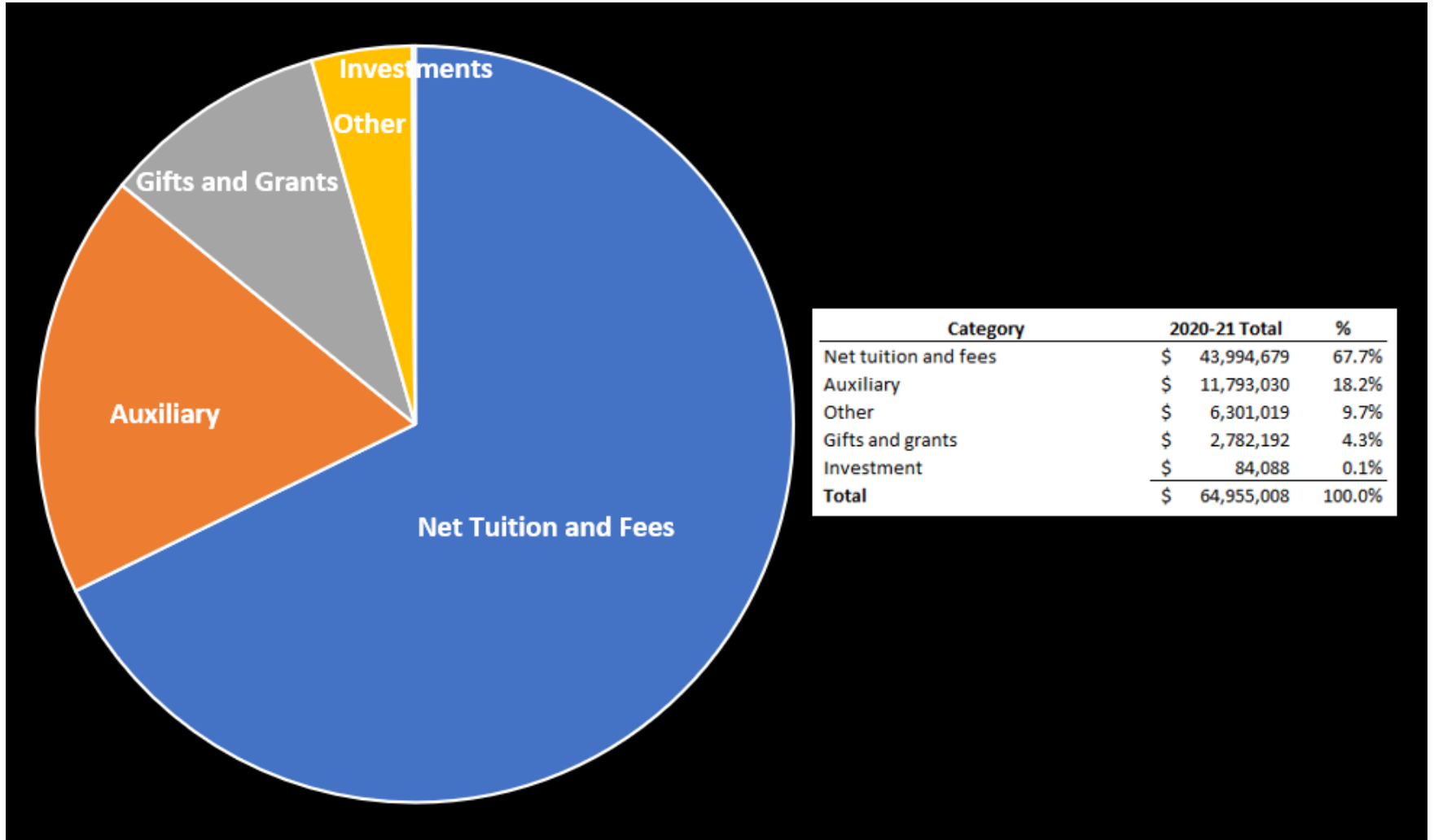
XYZ's

- Expendable Net Assets
- Department of Education Responsibility Score



Funding Sources

FY 2020-21



Funding Uses

FY 2020-21



	Category	2020-21 Total	%
People	Salaries and wages	\$ 22,140,515	35.8%
	Payroll taxes and employee benefits	\$ 5,523,556	8.9%
Buildings	Depreciation and amortization	\$ 4,665,302	7.5%
	Interest expense	\$ 4,482,212	7.2%
	Rent and occupancy	\$ 2,659,564	4.3%
	Maintenance, supplies and equipment	\$ 3,080,747	5.0%
	Utilities, insurance and taxes	\$ 2,110,186	3.4%
Other	Professional services	\$ 8,037,723	13.0%
	Supplies and office supplies	\$ 5,405,965	8.7%
	Advertising and marketing	\$ 1,651,118	2.7%
	Travel, hospitality and events	\$ 1,550,783	2.5%
	Dues, membership and subscriptions	\$ 586,571	0.9%
	Total	\$ 61,894,242	100.0%

Revenue and Expense Drivers



- Enrollment drives the financial bus (85.9% of revenue in 2020-21)
 - Diversity of enrollment types (Kansas, Arizona, APGS)
 - Balance of attention to individual units and the entity as-a-whole.
 - Financial Aid and Discount Rate
 - (List price – grant aid) x volume
 - Reduces value of top-line tuition rate increases to fund expenditures
 - Current environment of price sensitivity puts pressure on enrollment growth to meet expense demand.
- Fixed vs. Variable Expenses
 - People (44.7% of total exp. in 2020-21)
 - Buildings (27.4% of total exp. in 2020-21)
 - Operating Expenses
 - Annual flexibility
- Debt Service (more on debt to follow)
 - As of June 30, 2021, \$5.26 million or 8.5% of annual audit report expense
 - Debt versus gifts/internal funding for capital spending.

} 72.1%

Budget and Forecasting

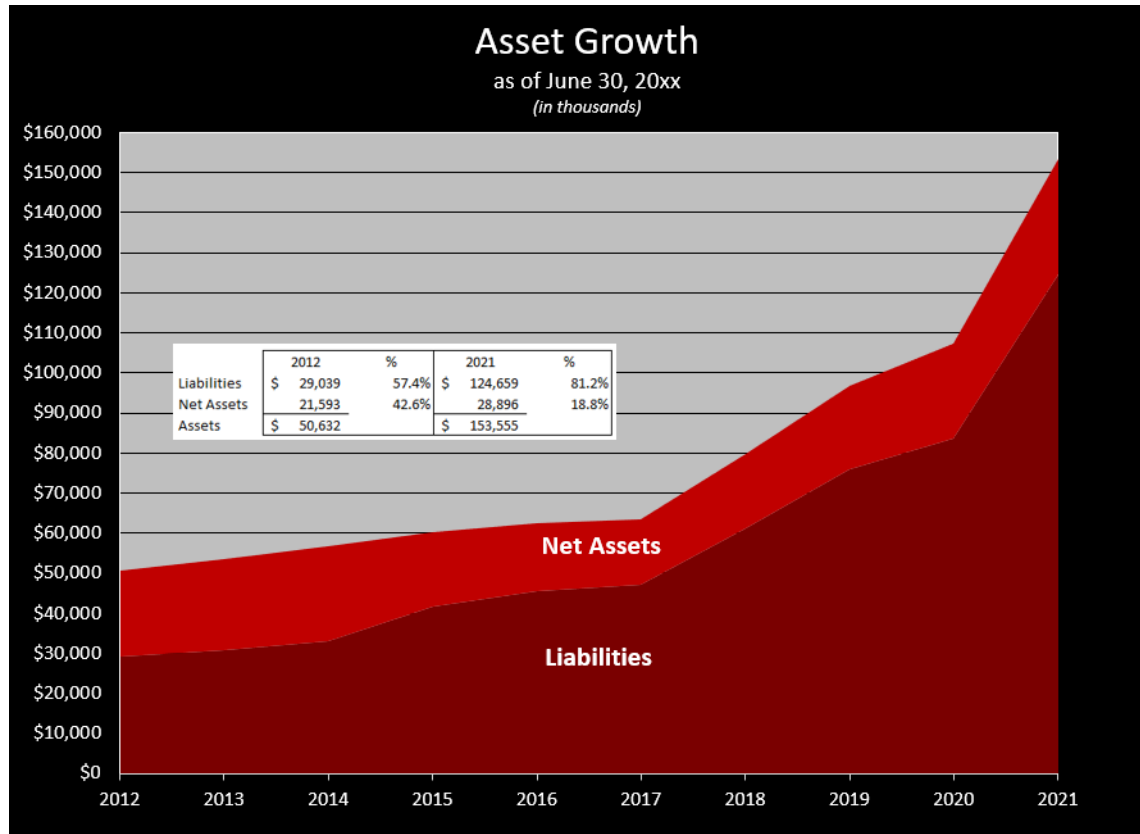


- The art of balancing the tug-of-war between needs/wants and resources (e.g., compensation, facilities, tuition rate, discount rate, program investment).
- *ALWAYS* more needs/wants than resources.
- Reflection of strategy.
- Value of multi-year budget planning.
- Current process and timing
 - Broad input and data collection
 - Clarity on how/who of decision making
- Potential future calendar



Balance Sheet

- Income statement is sexier and means more day-to-day. Balance sheet reflects long-term sustainability of the institution
- Assets = A resource with economic value that Ottawa owns or controls with the expectation it will provide a future benefit.
- Liabilities = Something that Ottawa owes to others.
- Net Assets = Difference between Assets and Liabilities a.k.a. Equity.



Cash and Cash Flow

- Cash provides day-to-day operating flexibility to the University and assure the ability to pay the bills when due.
- The volume, velocity, and in-flow/out-flow timing are the basis for many of Ottawa's student account and institutional payment policies and timelines.
- Seasonality of cash flow in higher education.
- Ottawa relies on short-term borrowing during certain periods of the year to meet cash requirements.
- Development of war chest/reserves of cash balance allows for operational flexibility and decreased borrowing costs.



Property, Plant and Equipment

- Physical or long-term assets with a multi-year useful life.
- Acquisition and deployment costs are capitalized (treated as an asset versus a current expense).
- The capitalized costs are spread across the estimated useful life of the asset via depreciation expense (\$4.7 million in 2020-21).
- Depreciation/occupancy/maintenance = 27.4% of total annual expense in 2020-21.

Property Plant and Equipment	As of June 30, 2021
Land and land improvements	\$ 4,878,980
Buildings	113,461,284
Equipment	27,699,081
Vehicles	78,590
Leasehold Improvements	2,984,678
Projects in Progress	1,435,716
Historical Value of PP&E	\$ 150,538,329
Less: Accumulated Depreciation	(44,158,130)
Net Property Plant and Equipment	\$ 106,380,199



Institutional Debt



- Purpose
 - *Short-term* - Manage seasonality of institutional cash flow.
 - *Long-term* - Use other people's money to acquire capitalized assets and match cash-flow outlay for asset with the useful life of the asset.
- Long-term Debt
 - June 30, 2021 = \$92 million (interest rates between 3.5% and 7.0%)
 - June 30, 2022 = \$116 million (interest rates between 3.5% and 4.3%)
 - New money for OUAZ residence hall/classroom/office construction, OUKS Mabee Center renovation, and additional capital expenditures.
- Financial Covenants
 - Debt Service Coverage Ratio > 1.10
 - June 30, 2021 measurement = 2.23
 - Minimum Cash and Investments equal to, or greater, than \$8,500,000 for June 30, 2021, \$11,000,000 for June 30, 2022, and \$14,000,000 for June 30, 2023 and thereafter.
 - June 30, 2021 measurement = \$17.98 million

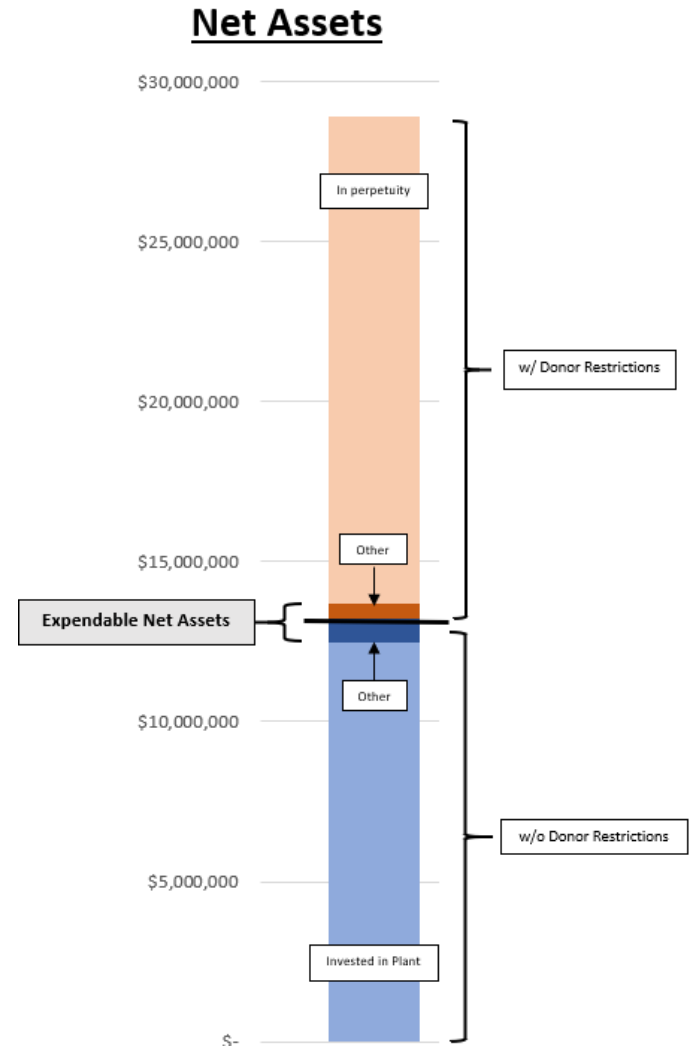
Endowment

- Restricted gifts, typically from donors, or board designations (quasi-endowment), that are invested in perpetuity.
- Intergenerational equity
 - Through prudent investing, endowment spending each year will have the same annual impact relative buying-power.
 - Needed investment return of spending policy rate + inflation.
- Uses:
 - Funded discount rate (vs. unfunded discount rate)
 - Academic program support
 - Capital expenditures
- As of June 30, 2021, approximately 250 individual endowment funds
 - Donor-restricted endowment = \$13.5 million
 - Board-designated endowment = \$5.8 million
- Spending policy
 - In normal market conditions – 5% of the of the the average endowment market value of the 12 preceding calendar quarters (3 years)



Expendable Net Assets

- Net assets not required to be maintained in perpetuity (i.e., donor restricted endowment) and not used to pay for fixed assets (i.e., Property, Plant, and Equipment).
- In other words, if Ottawa shut down tomorrow, what would be available to settle outstanding debt/claims that aren't covered by Property, Plant, and Equipment value.
- Basis for most credit analysis.
- Can serve as institutional reserves to weather the ups and downs without current year shocks.
- As of June 30, 2021, expendable net assets = \$1.24 million.



Responsibility Score



U.S. Department of Education

- Intended to demonstrate an institution maintaining the standards of financial responsibility necessary to participate in the Title IX programs.
- Weighted and composite score using:
 - Primary Reserve Ratio $\frac{\text{Expendable Net Assets}}{\text{Total Expenses and Losses Without Donor Restrictions}}$
 - Equity Ratio $\frac{\text{Modified Net Assets}}{\text{Modified Assets}}$
 - Net Income Ratio $\frac{\text{Change in Net Assets Without Donor Restrictions}}{\text{Total Revenue and Gains Without Donor Restrictions}}$
- Range of scores available from -1.0 to 3.0
- Scores < 1.0 are considered not financially responsible
- Scores 1.0 – 1.5 are considered financially responsible, but require additional oversight.
- Scores > 1.5 are considered financially responsible.
- As of June 30, 2021, Ottawa score = 1.131
- Primary Reserve measure is Ottawa's current kryptonite in this calculation.