

## Guidelines for Understanding Standard 10.3 on Finances

A Companion to the ATS Self-Study Ideas for Standard 10.3 on Financial Resources

*(approved by the Board of Commissioners in February 2021, following consultation with a group of CFOs)*

These Guidelines are referenced within the self-study ideas for Standard 10.3 on Financial Resources. These suggestions are designed to help the self-study process (school, evaluation committee, and Board of Commissioners) demonstrate and evaluate the financial equilibrium of the school. The school should consider using these guidelines and others that will help it demonstrate its own fiscal realities. The school may also want to consider using the ATS Strategic Information Report, which includes institutional data and benchmarks around a variety of important economic, enrollment, and other matters. Finally, since the evaluation committee may review the financial data provided by the school through the ATS Annual Report Form process, schools should review those data for potential elements for use in this process.

### Self Study Idea - Standard 10.3

*Excerpt on Budgets and Surpluses: The self-study should discuss how the school’s budgets and operating results are “realistic” (based on reasonable revenues and expenditures in light of recent trends), “holistic” (considering the whole impact on the mission, educational quality, students, employees, donors, and other constituencies), and “sustainable” (represent operating surpluses, prudent dependence upon endowment, reserves, donors, and proper utilization of unusual or infrequent resources)—with a credible plan to address any deficiencies going forward*

**Discussion of Budgets and Surpluses:** There are a variety of ways that schools reflect "operating surpluses" in their internal financial discussions. For self-study purposes, freestanding schools should chart and then reflect on three important elements: operating surplus from their internal finances, audited change in net assets without donor restriction resulting from operations, and audited total change in net assets without donor restrictions. The chart should go back three years, include the current year, and then project forward the next two years (at least in terms of anticipated operating surpluses). Most importantly, the freestanding school should reflect on how the operating surpluses (or deficits) are impacting the school's ability to fulfill its mission and whether operations are being supported by unusual, infrequent, or unsustainable items, such as significant bequests or donations, large endowment draws, use of reserves that are depleting, student debt borrowing, or sales of property or unused items whose proceeds were used to support operations. The school should also report and reflect on overall total change in total net assets and how this supports the mission.

For embedded schools, these measures may not be as important or available; however, embedded schools should have a budget for their unit (with those numbers inserted in this chart as feasible) and reflect on the expectations that the larger entity places on the embedded school. Is the embedded school expected to generate a surplus? Are there central costs charged to the embedded school and how does this factor into the financial picture of the embedded school? How do these financial expectations impact the mission of the embedded school?

#### Operating Surplus & Change in Net Assets

Operating surplus(deficit) from internal financials  
 Change in net assets without restriction - operations  
 Total change in net assets without restriction  
 Total change in total net assets

	CY - 3	CY - 2	CY - 1	Current Yr	CY + 1	CY + 2
Operating surplus(deficit) from internal financials						
Change in net assets without restriction - operations						
Total change in net assets without restriction						
Total change in total net assets						

*A school might draw from its audited statement of activities, with attention to net assets without/with donor restrictions. A school might consider using ATS Strategic Information Report - Figures 1-1 to 1-4 related to Net Assets.*



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### Self Study Idea - Standard 10.3

*Excerpt on Expenses: The self-study might also describe any significant changes in the percentages of major expense categories (e.g., instruction, academic support, institutional support, etc.) in recent years, as well as any significant debt the school has and how debt repayment is being addressed.*

### Discussion of Expenditures

A freestanding school could prepare a chart showing the dollar amount and percentages of expenditures that were incurred annually using the broad categories from the ATS Annual Report Form Process - Finance Form. An embedded school could also use expenditures reported to ATS or reflect expenditures that were directly attributed to it within the financial system of the larger entity (i.e., direct cost of instruction reported in the accounting system for the ATS-accredited entity). This chart should go back at least three years, include the current year, and project forward two years. Most importantly, the school should reflect on how the expenditure dollar amounts and percentages have changed over the years and how these changes have supported its mission.

#### Expenditures

Instruction  
 Research and Public Service  
 Library  
 Academic Support  
 Student Services  
 Institutional Support  
 Operations and Maintenance of Plant  
 Scholarship  
 Auxiliary Services

	CY - 3	CY - 2	CY - 1	Current Yr	CY + 1	CY + 2

*A school might consider using ATS Strategic Information Report - Figure 1-13 - Expenditures by Category.*

### Discussion of Spending per Student

A freestanding school could prepare a chart showing the amount of expenditure incurred by different variables. Total expenditures divided by head count students, full-time equivalent students, credit hours sold, or graduates show how spending has changed over the years relative to the changing student body. Most importantly, the school could reflect on how spending per student is shifting intentionally or unintentionally and how it impacts the school's ability to support and fund its mission. The school might consider benchmarking itself to other ATS schools. When providing these calculations, include expenditures, enrollment, and graduate data based upon what was reported to ATS each fall through the ATS Annual Report Form process.

	CY - 3	CY - 2	CY - 1	Current Yr
Total expenditures/Total HC student				
Total expenditures/Total FTE students				
Total expenditures/Total Credit Hours Sold				
Total expenditures/Total Graduates				

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### Self Study Idea - Standard 10.3

*Excerpt on Debt*: The self-study might also describe any significant changes in the percentages of major expense categories (e.g., instruction, academic support, institutional support, etc.) in recent years, as well as any significant debt the school has and how debt repayment is being addressed.

### Discussion of External Debt & Debt Repayments

A freestanding school could prepare a chart showing the dollar amounts of short-term debt and long-term debt that were outstanding at the end of each fiscal year as well as debt & interest payments that were made within each fiscal year. These debt balances and debt & interest payments could be drawn right from the audit and related footnotes. Normally, an embedded school would not have debt directly related to it, so no amounts need to be reflected. Most importantly, the school should reflect on the purpose of the debt (debt from operations, debt for real property, debt for other purposes) and how the school intends to generate cash to pay future debt & interest payments.

#### External Debt - Balance & Repayments

	CY - 3	CY - 2	CY - 1	Current Yr	CY + 1	CY + 2
Total short-term debt						
Total long-term debt						
Debt & interest payments						

#### Internal Debt - Restricted & Endowment Funds

If either exist, the school should also provide data from the audit footnotes on any material borrowing from restricted funds or underwater endowment funds. The school should indicate the process for replenishing these funds.

	CY - 3	CY - 2	CY - 1	Current Yr	CY + 1	CY + 2
Total borrowing from restricted funds						
Total underwater endowment						