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The following is a brief discussion on usefulness of financial ratios as an evaluation tool and the impact of a recent accounting change called GASB 68 on those financial ratios.

Why Use Ratios for Financial Analysis?
Ratios are used as part of financial analysis of an institution because they allow us to evaluate institutions relative to the following two goals:

1. Measure the use of financial resources to achieve an institution's mission (or HECC's goals).
2. Focus planning activities on those steps necessary to improve financial performance and to spot potential problem areas ahead of time.

Ratios allow us to do this analysis in a summary format with relatively straightforward, understandable data points. The ratios the HECC has chosen to evaluate match those that industry best practices tell us should be most informative in evaluating institutions relative to the above

What do the Benchmarks mean?
The benchmarks for each ratio are those set out by the authors of the book "Strategic Financial Analysis for Higher Education", widely regarded as an authoritative text on university financial ratio analysis. The ratios established in this book are used nationally, with the exception of the debt burden ratio, which is based on standard industry practice. These benchmarks represent recommended levels for institutions to reach/maintain in order to ensure current financial health, sustainability and flexibility. However, as the sixth edition of "Strategic Financial Analysis for Higher Education" writes about the viability ratio, "the institution should develop a target for this ratio and others that balances its financial, operating and programmatic objectives."[1] Indeed, an institution's ratio levels are to be taken in context with an institution's strategic goals, its characteristics/context and the financial means/flexibility required to achieve them. Therefore, failure to, or even success, in meeting the benchmarks does not, in and of itself, determine whether an institution has the resources necessary to achieve its own goals or those of the HECC.

Instead, as noted in the evaluations themselves, a trend analysis for an institution's own ratios is more valuable than whether that institution meets or fails to meet the one-size-fits-all benchmarks. That is not to say that the extent to which an institution may fall short of a benchmark does not matter but that it is to be taken in context with overall institutional trends when considering what a particular ratio, or group of ratios, tells us about the financial health or sustainability of an institution.

GASB 68 Summary and Impacts:
The following is a brief discussion on the relevance of the Governmental Accounting Standards Board (GASB) Statement # 68, the changes it made regarding how universities calculate their financial statements and the resulting impact on the HECC's university evaluations. This information is based on the linked document on the NAUCBO website.

[1] <http://www.prager.com/Public/raihe6.pdf> Page 63.

What did GASB 68 change?

GASB 68, published in 2012 and implemented beginning with the 2014-15 fiscal year (FY 15), substantially changed the way in which pension obligations (such as part of PERS payments) are calculated. More generally, since pensions are deferred payment for services being performed, the government is required to record their proportional share of future pension liability on their current financial statements, rather than just recording payments made related to pensions in any given fiscal year. GASB 68 required institutions to take the following key steps, along with other smaller ones:

1. Project future benefit benefits for current and former employees and their beneficiaries.
2. Discount those future payments to their present value.
3. Allocate the present value of those payments to each year in which the future expense has been/is/will be earned.

The result is that institutions are required to record these projected actuary-determined pension payments as if they were being paid at the time they were earned with some corresponding offset of future pension liabilities. At implementation, this generally resulted in a decrease in expenses for the first year and a substantial increase in future years. For example, EOU saw a $3.1 million (5.9%) decrease in expenses in FY 15 due to GASB 68, followed by a $4.9 million (9.4%) increase in FY 16 and a $2.4 million (4.5%) increase in FY 17. These changes impact the financial ratios that rely on this fiscal data.

How Does GASB 68 Impact the University Evaluations?

In the last round of university evaluations in January 2017, the HECC included both ratios based on pre-GASB 68 calculations and those based on post-GASB 68 calculations. However, since three years of data were only available for the pre-GASB 68 ratios, the HECC used pre-GASB 68 data in its analysis to allow for an equitable comparison. Beginning with this round of evaluations, while both sets of ratios (with and without GASB 68's impact) will be presented, the analysis will be based on the ratios prepared with the impact of GASB 68 with the intention of aligning our analysis with data based on the most up to date relevant accounting standards. In addition, given the substantial future pension costs faced by Oregon public employers, GASB 68 allows for HECC staff to develop a fuller picture of an institution's long-term financial stability than had previously been the case.

The result is that the trends and analysis observed in the 2016 evaluations will not necessarily be observed in this year's evaluations. Since GASB 68 changed these ratios, and often changed them substantially, the resulting trends and analysis may be different. Therefore, those familiar with previous analyses of an institution's finances may see significant changes as a result of GASB 68.