# Ridgewater College

## Fiscal Year 2010 Financial Trends and Highlights

**Ridgewater College's financial position improved significantly at the end of FY 2010 exceeding all budget goals and ending the year with an increase in total net assets of $3.84 million.**

## Current Financial Health

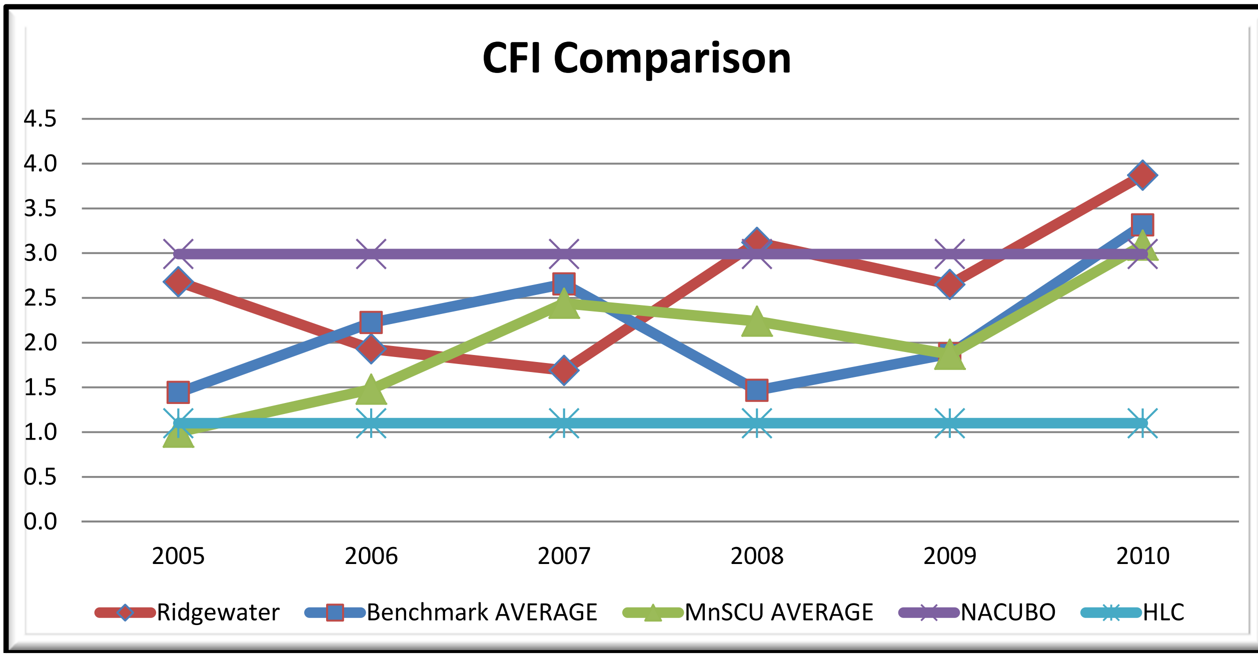
**Major factors impacting our financial results:**

- Enrollment was projected at 3,317 FYE and pleasantly ended the year at 3,514 FYE, an increase of 208 FYE or 6.3%.
- Revenues were projected to decrease by 1.4% from FY 2009 however actual revenues exceeded the budgeted amount by $540k which is a 1.5% increase over the previous year.
    - State appropriations and special appropriations decreased by over 9% from FY 2009 which resulted in a reduction of $1.85 million.
    - Tuition, fees and sales increase by $2.19 million over FY 2009 actual results. This includes a 5% increase in tuition.
    - $598k in Carpentry Program homes were sold in FY 2010 removing all prior year inventories.
    - Large increase in capital appropriations in FY 2010 resulting in $4.3 million in revenue.
- Operating expenses remained flat in FY 2010 as compared to FY 2009 increasing by .25%.
    - Expenses included a 2.5% reduction ($680k) in salaries/benefits.
    - Financial aid expenses increased by 100% ($819k) based in part to an increase in Pell grant funding.

## Composite Financial Index (CFI)

| Composite Financial Index | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fiscal Year | | | | | | NACUBO |
| Financial Ratios: | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | Threshold |
| Primary Reserve | 0.58 | 0.54 | 0.54 | 0.47 | 0.48 | 0.45 | 1.05 |
| Return on Net Assets | 1.53 | 0.13 | 0.70 | (0.14) | (0.20) | 0.09 | 0.60 |
| Viability | 1.85 | 2.08 | 1.91 | 1.45 | 1.46 | 1.33 | 1.05 |
| Operating Margin | (0.10) | (0.10) | (0.03) | (0.10) | 0.19 | 0.08 | 0.30 |
| **CFI** | **3.87** | **2.65** | **3.12** | **1.69** | **1.93** | **1.95** | **3.00** |

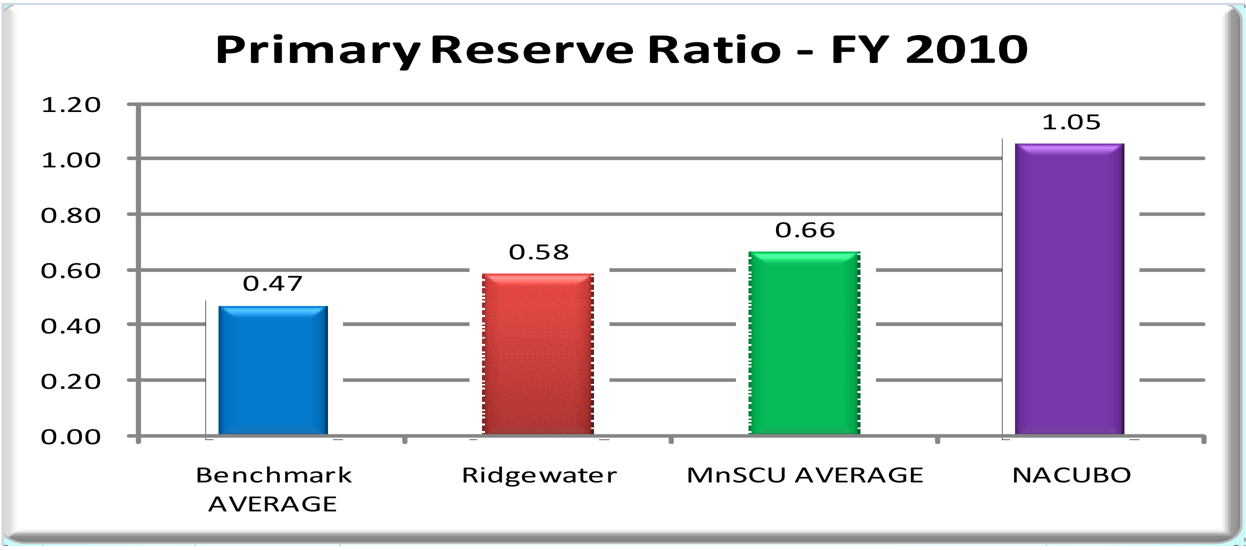
**Composite Financial Index increased in FY 2010.** Ridgewater's financial health improved in FY 2010, as measured by the Composite Finance Index (CFI) performance indicator. Our CFI increased from 2.65 in FY 2009 to 3.87 in FY 2010 placing our CFI value "Above the Zone" based on Higher Learning Commission (HLC) standards.



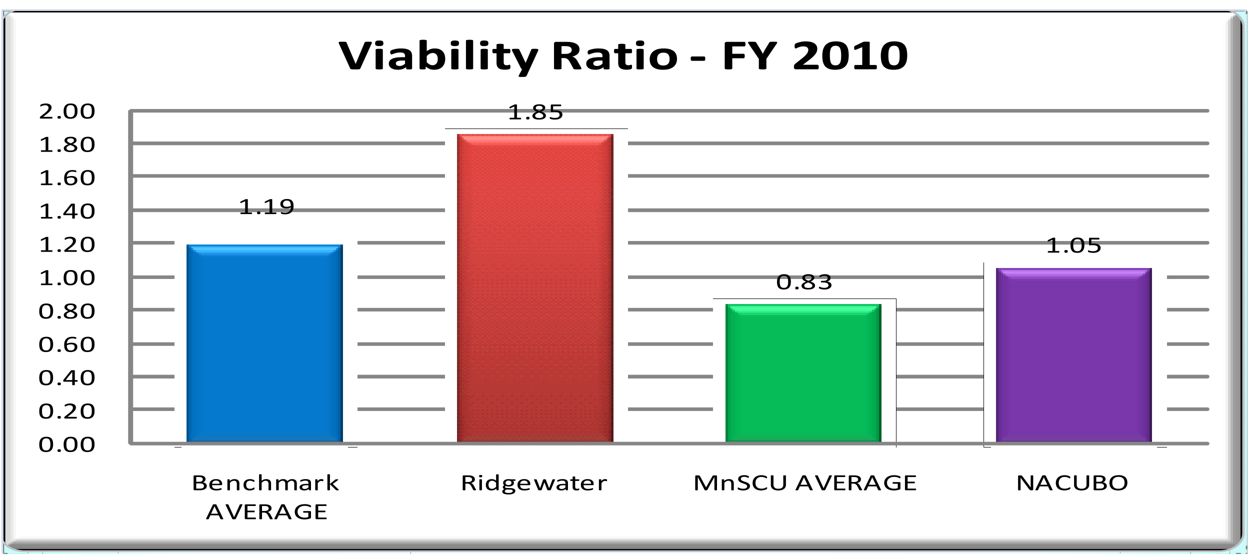

**Comparison of Ridgewater's CFI and its component ratios.** Our FY 2010 CFI exceeds all four of our comparisons: MnSCU Average, NACUBO, *Benchmark Average (schools) and the Higher Learning Commission (HLC) "Above the Zone" limit. This marks the second year (2008) in the past three years that our CFI has exceeded all four comparisons. Overall, the FY 2010 CFI of 3.87 is Ridgewater's strongest performance within the six year timeframe.

** Benchmark consists of 8 colleges Ridgewater has selected as a benchmark group for CFI comparisons: Central Lakes College, Lake Superior College, Minnesota State Community & Technical College, Minnesota West Community & Technical College, Riverland Community College, Rochester Community & Technical College, South Central College, and St. Cloud Technical and Community College.*

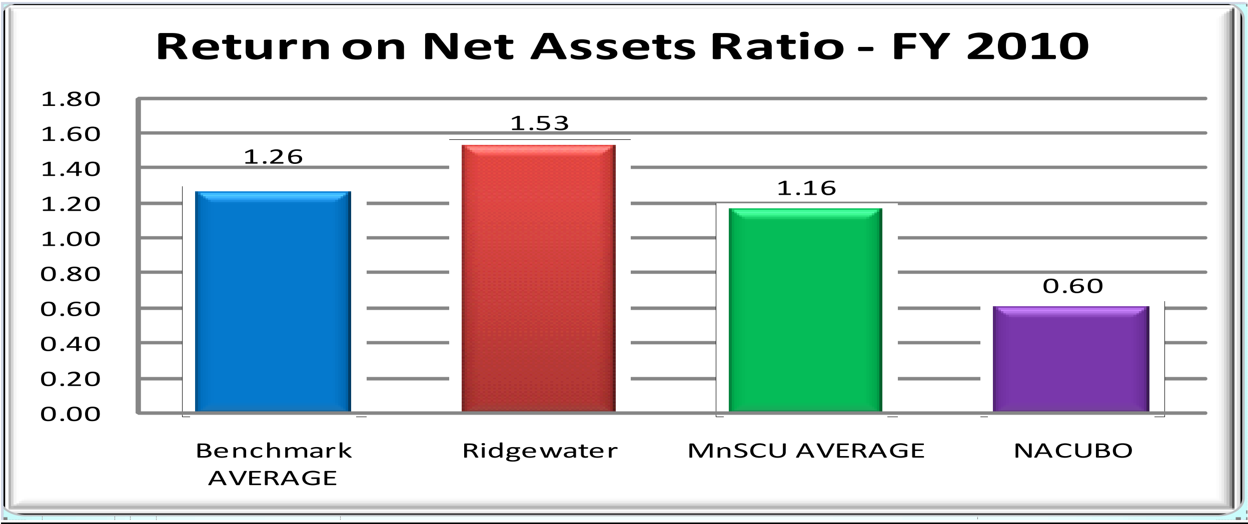
## CFI Components



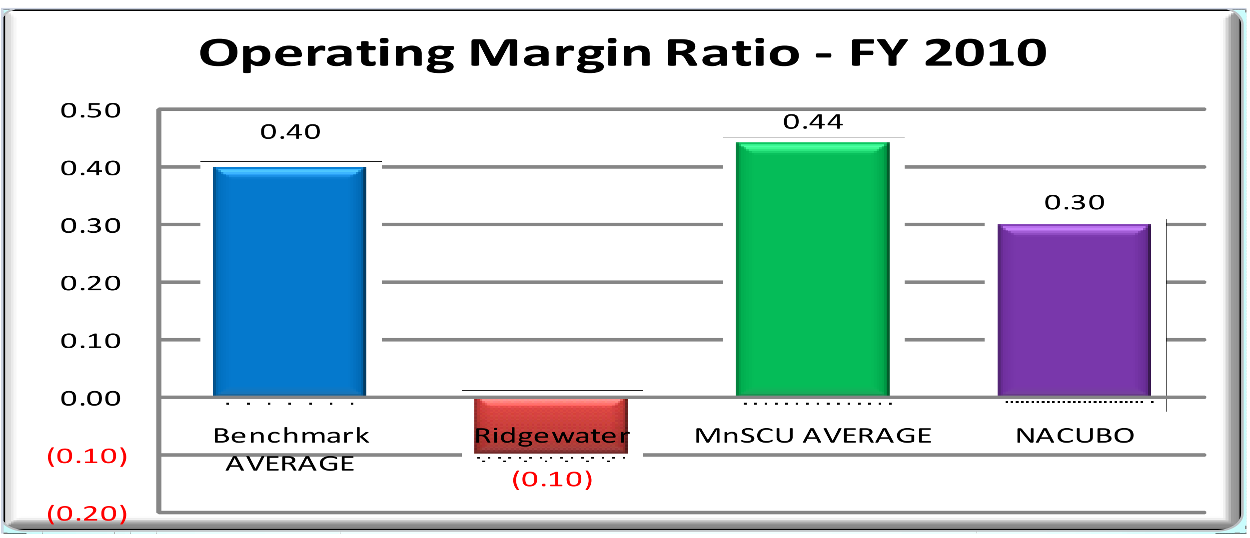

The **Primary Reserve Ratio** exceeds our Benchmark average and is within .08 of the MnSCU average, while still significantly less than the NACUBO threshold. The increase (from .54 to .58) from last year indicates the college has slightly improved its financial strength and flexibility by an increase of expendable net assets of 8% in proportion to total expenses which increased by less than ½%. The implication of the ratio is that the college has the ability to cover about 7 months of operating expense coverage.




The **Viability Ratio** exceeds all three benchmarks again in FY 2010. Even though the ratio decreased by 11% from FY 2009 the college still maintains sufficient expendable net assets to satisfy debt obligations should they immediately become due. Factors influencing this increase include the much larger growth in expendable net assets in comparison with a 21% increase in long-term debt obligations.

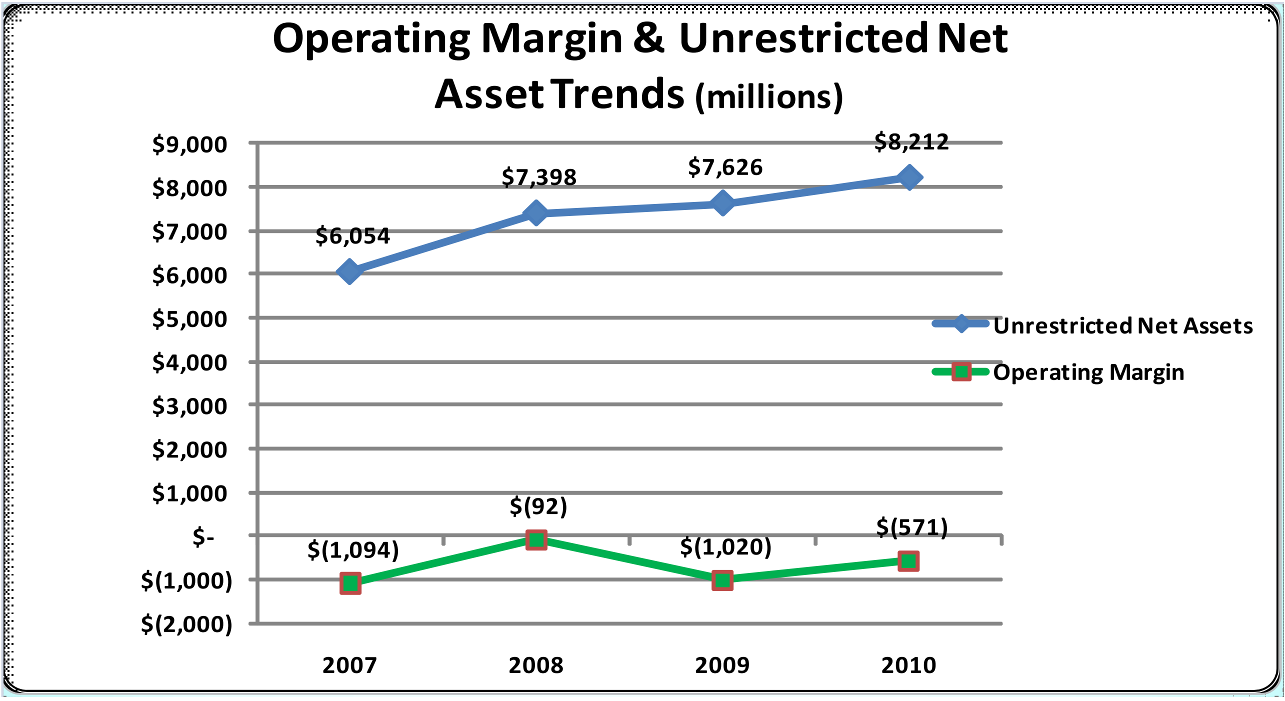



The **Return on Net Assets (RONA) Ratio** of 1.53 exceeds all three benchmarks in FY 2010. Our 2010 ratio represents the second time in three years that the RONA ratio exceeded the NACUBO threshold. The increase from FY 2009 indicates a strong growth in the college's net assets which helped to build reserves in advance of the State's projected deficit. The major factor influencing the large increase in this ratio was the $3.8 million increase in net assets.




The **Operating Margin Ratio** of -.10 lags below all three benchmarks and is identical to last year's ratio. The trend over the past four years represents an institution whose operations are clearly not breaking even. The dominate factor influencing the negative trend for this ratio is the $571,000 loss before other R, E, G or L.

**Margin & Unrestricted Net Asset Trends**




**Ridgewater College increased the unrestricted net asset balance by $586k to a total of $8.212 million in FY 2010 which represents 24% of general fund revenue. Because of the recent trend in state deficits and the $6.2 billion state deficit for the FY 12 & 13 biennium it was our plan to build reserves in anticipation of state appropriation reductions and unallotments.**

The unrestricted net asset balance is made up of the following reserves and designations:

- Actual reserve balance of $2.09 million representing 25% of the total.
- FY 2011 budget obligations of $75k or 1% of the balance.
- Projected reserves for FY 2011 & 2012 of $1.5 million, or 18% of the balance.
- Funds designated for programs makes up the remaining 56% which is $4.547 million.

**Capital Assets – Investment, Age & Maintenance**

| Capital Assets - Investment, Age and Maintenance | | | |
|---|---|---|---|
| | Fiscal Year | | |
| Ratios: | 2010 | 2009 | 2008 |
| **Investment %** (additions to beginning depreciable cost) | 11.1% | 3.1% | 3.2% |
| **Investment $** (additions to beginning depreciable cost) | $ 5,681,415 | $ 1,598,834 | $ 1,606,699 |
| **Age** (ending accumulated depreciation to depr. expense) | 19.1 Yrs | 19.0 Yrs | 18.6 Yrs |
| **Facilities Maintenance** | 9.1% | 9.3% | 9.5% |
| **Operations & Maintenance** (Expense per Square Foot.*) | $ 5.14 | $ 5.16 | $ 5.24 |
| * 686,870 sq. ft. in 2006-2009, 683,729 sq. ft in 2010 | | | |

**Investment Ratio** increased by nearly 8% from FY 2009 due primarily to the Technical Instruction Addition. This trend will be temporary as current capital projects will be completed in FY 2011.

The **Age Ratio** continues its trend upward, increasing from 19.04 years to 19.07 years in FY 2010. This trend indicates that Ridgewater has increasing deferred maintenance which will require a growing level of expenses for facilities in the future.

The **Facilities Maintenance Ratio** trended down again for the 4th year in a row in FY 2010. The downward trend suggests that the college is not keeping up with its commitment to facility maintenance.

The **Operations and Maintenance Expense per Square Foot Ratio** decreased slightly in FY 2010 and continues the downward trend of reduced investment in maintenance that started in 2005.

Our capital asset trends highlight our inability to fund recommended fixed asset levels. However, the college has taken actions to reverse the negative fixed asset trends. These capital investments are outcomes from our FY 2006 Master Facilities Plan and all projects support the strategic plan goal of demonstrating high quality in all education areas.

- We are near completion of a $2.64 million HEAPR project approved in spring 2010 for phase I of a two phase project for design and replacement of the Central Heating System on the Willmar Campus.
- Construction began in May 2009 and continued through FY 2010 on our $3.5 million phase 1 project of the two phase $17.8 million Technical Instruction Addition and Renovation project on the Willmar campus.
- After Phase II of our Capital Project was vetoed by the Governor in FY 2010 this $14.3 million State Appropriation Request was resubmitted in the fall of 2010 and we are

hopeful for funding in the upcoming legislative session. The Technical Instruction Addition and Renovation projects will improve instructional space for 12 programs and provide the enhanced functionality and technological infrastructure necessary to prepare students for the 21st century. The project is the first major renovation on the Willmar Campus since the merger and will significantly improve its overall Facilities Condition Index. These projects support our mission by reducing deferred maintenance by $6.2 million, reducing operational and energy costs, positively impacting STEM initiatives, and bring us into compliance with ADA regulations.

**Impact on students and academic programs**

Several initiatives that began in 2008 or 2009 continue to be enhanced in FY 2011. These include:

- <u>The $325,000 Bio Science initiative</u>. This $325,000 appropriation was received in late FY 2008 and can be spent over 3 years. This exciting opportunity allows us to create and maintain a BioBusiness Clearinghouse website and Digital Learning Objects Repository, and to serve as the convener of the managers of the four system-wide Bioscience Initiative projects.
- <u>The Access, Opportunity & Success initiative.</u> FY 2011 will be our third full year operating this initiative funded by state appropriation of $175,528 in FY 2011. The goal is to assist in recruiting and retaining underrepresented students.
- <u>The East Campus Remodeling Project (Hutchinson).</u> This project was completed in the spring of 2010 and is now the home of our Customized Training and Continuing Education department as well as the Farm Business Management offices. The project remodeled about 9,000 sq.ft, of old and outdated space to create modern offices, smart classrooms and a space to house the college's mobile simulation training vehicle. The newly refurbished facility will also serve regional business needs by housing community business resources and offering a business incubator. Total cost of the remodeling at East Campus was $318,578 in FY 2010.
- <u>The Main Campus Remodeling Project (Hutchinson).</u> This project was also completed in 2010 to address the urgent need for additional classroom and office space. This project has remodeled the area of campus that formerly housed the child care center (which had moved off-campus) into new faculty offices and classroom space and allowed for the creation of a fitness center. Total Cost of the remodeling on the main Hutchinson campus was 193,019 in FY 2010.

There remain areas not adequately supported by our financial trend:

- We need additional support to provide assurance of quality in our on-line courses.
- Academic support services are not at the optimal level in the areas of tutoring and mentoring. This impacts student success and retention.
- Lack of adequate staff to pursue potential revenue growth through new or renewal grant applications.

- We have been unable to fund potential new initiatives. Examples include Renewable Energy programs and aggressively pursuing improved alignment between K-12 and Higher Ed.

## Per Full Year Equivalent Student Data

| Per Full Year Equivalent Student Data | | | | | | |
|---|---|---|---|---|---|---|
| | | 2010 | | 2009 | | 2008 |
| Total Operating Expenses | $ | 11,146 | $ | 11,818 | $ | 11,388 |
| Direct Student Expense | $ | 7,456 | $ | 8,183 | $ | 7,921 |
| **% Direct Student Expense** | | **66.9%** | | **69.2%** | | **69.6%** |
| | | | | | | |
| Student-based Revenue | $ | 3,341 | $ | 3,639 | $ | 3,697 |
| **% of Total Revenue** | | **27.2%** | | **30.4%** | | **31.0%** |
| | | | | | | |
| Appropriation Revenue | $ | 4,429 | $ | 5,267 | $ | 5,306 |
| **% of Total Revenue** | | **36.1%** | | **44.0%** | | **44.4%** |
| | | | | | | |
| Operating Margin | $ | (162) | $ | (309) | $ | (28) |
| | | | | | | |
| % Change in Student FYE | | 6.3% | | 0.1% | | 3.4% |

**Changes to Per Full Year Equivalent Student Data:**

- Enrollment increased by 208 FYE in FY 2010 which is an increase of 6.3% over FY 2009.
- Operating expenses decreased by $672k and direct student expenses decreased by $852k in FY 2010 to reduce the **percentage of Direct Student Expenses** by 2.3%.
- The **percentage of Student based revenue** decreased by 3.2% due to the increased scholarship allowance in FY 2010 of approximately $2.7 million. There is a greater share of educational costs funded by financial aid.
- The **Appropriation Revenue percentage** decreased by 7.9% in FY 2010; directly impacted by a $1.85 million reduction in the state appropriation.

## Plans that will Impact Future Financial Health

**Financial plans and expectations for FY 2011 and beyond**

Ridgewater's mission and strategic goals are generally supported by our financial resources in FY 2011. However, looking ahead at 2011 and beyond, there are reasons for concern. The college is proactively preparing to address economic variables that impact our financial health and keep our mission and strategic plan aligned with financial resources in the future. We know that the college needs to look at new and different ways of doing things. Our goal is not simply surviving the recession and the slow growth recovery, but to come out of this positioned to be successful.

Economic variables that are most likely to impact our future financial health include enrollment, tuition, State appropriation and employee contracts.

**Looking ahead, demographic trends offer a challenge to the college in the coming years:**

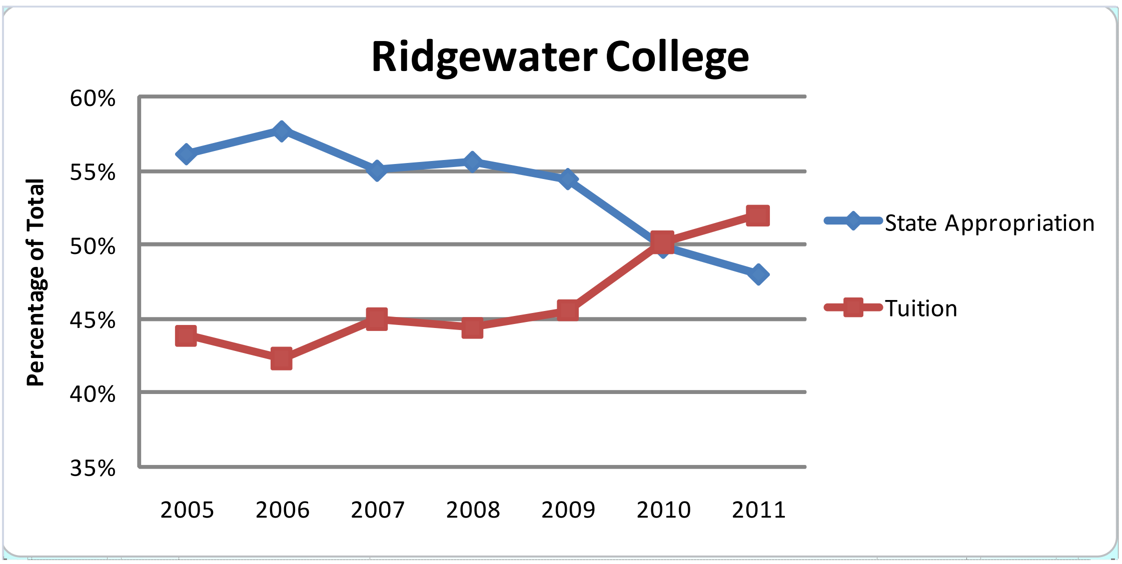
**Enrollment**

- Our FY 2011 fall semester enrollment is up 2.43% from one year ago. However spring semester enrollment has stalled and overall, we project college wide enrollment to remain flat this year and in FY 2012 and FY 2013.
- Our region's demographics show that total high school graduates are projected to steadily decrease in the next 5 years in and around Willmar and Hutchinson.
- The latest Minnesota Office of Higher education report states that about 70% of Minnesota's 2008 high school graduates generally enroll in postsecondary education following graduation. Unless high school to college participation rates sharply increase – especially among low-income students, students of color and other students traditionally underrepresented in post-secondary education – our college, and others in Minnesota, will have a smaller pool of students to recruit from. The Willmar Public Schools has seen their minority enrollment increase from 10% to nearly 40% in less than 10 years and the trend is expected to continue. In addition, Willmar's elementary schools have over 55% of their students qualifying for free/reduced lunch. Partially offsetting this trend is our projected growth in non-traditional students.
- We are committing additional resources to enrollment management. We are exploring best practices and developing specific initiatives for the recruitment of international students in conjunction with St. Cloud State University. Another key part of our enrollment management strategy is our extensive current and planned efforts to recruit and retain more students from groups traditionally underrepresented in higher education. This effort includes initiatives to expand ELL offerings/programs, improving outreach efforts to current students of color to encourage retention, developing a Ridgewater College Academy to offer online and onsite PSEO options, and concerted efforts to increase scholarship opportunity awareness for students in need of financial assistance.

**Tuition**

**We are planning another 5% increase to Tuition in 2012.** Tuition was increased by 5% in FY 2011 with an ARRA stimulus buy down of 2% resulting in an increase to students of 3%; FY 2011 marked the last year of the ARRA federal stimulus buy down. It is also apparent that state appropriations for the next biennium will continue to decrease and that we will need to request higher tuition to compensate. These two revenue sources provide 94% of our General Fund revenue. Tuition revenue has become a more significant part of our revenue stream over the past eight years. A factor that will impact tuition negatively in the future is the new 60/120 credit legislation which could decrease the number of credits in some technical programs.

**State Appropriation**




**We are planning on continued reductions to our state appropriation in the 2012-2013 biennium.**

- Our base appropriation decrease by over 9% in FY 2010 and is expected to decrease by 2.4% in FY 2011. Based on what we know at this point, we expect another decrease from our current appropriation in FY's 2012 & 2013 due to the State's projected $6.2 billion budget deficit.
- The most recent 2011 economic outlook for Minnesota and the U.S. indicates that growth will be slow until mid 2012.
- We will continue to spend our ARRA stimulus dollars on College initiatives such as presidential scholarships, electronics relocation stipends and equipment purchases in FY 2011.

**Employee Contracts**

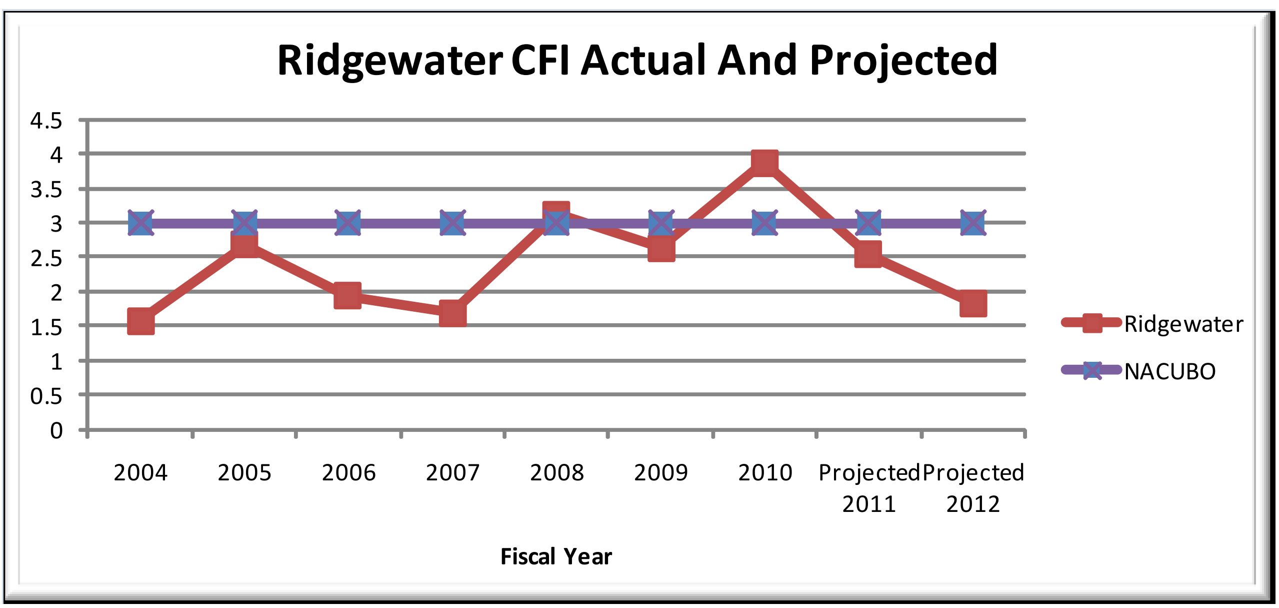
The college also reduced the FY 2011 personnel commitments by an additional $282,000 in reductions. These personnel reductions were a function of not replacing 2 open staff positions due to attrition and two non-renewals for faculty members.

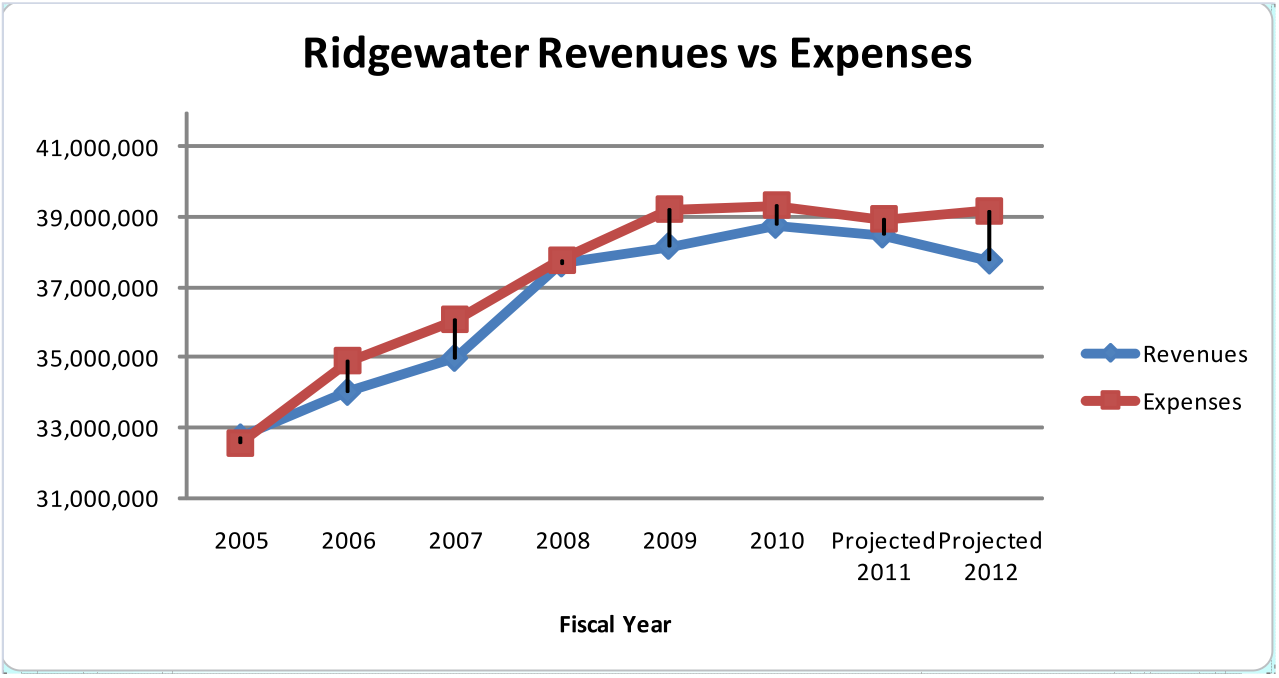
On the expenditure side, we expect total compensation increases for faculty and staff to be very limited in 2011, based on current contracts and benefits projections. This assumption includes employee benefits, and assumes no change in annual health care costs for the college. Our health care increases are expected to be .3% in FY 2012 and 12.5% in FY 2013; however contract negotiations have not concluded so we have projected personnel costs will increase by 2% in 2012 and 3% in 2013.

**Impact on Performance Measures**

**FY 2011:**

- The budget assumptions and projections in the prior section lead us to conclude that the trend of increasing net assets will begin to decline in the coming years. We expect that our CFI score will reflect a similar trend with our current projection showing a decrease from 3.87 to 2.53 in FY 2011, similar to our CFI score in FY 2009 and 2005.
- Unrestricted Net Assets are projected to remain steady while we continue to struggle to achieve a positive Operating Margin. We will complete phase I of our Central Heating project funded through the 2010 HEAPR process and phase I of our Technical Instruction Addition and Renovation capital project and capitalize the remaining costs of these projects in FY 2011. The completion of these projects will increase our investment in capital assets for one more year.






**FY's 2012 and 2013:**

Going forward, we project that our CFI and other key financial measures will steadily decline, as the expected decreases to appropriation revenue, only partially offset by increased tuition revenue, cannot keep pace with current contract obligations. This decline in financial health will be tempered by concerted efforts to reduce expenses. These as yet unknown and additional expense reductions for the near future are only partially factored into our projections.

At this point, based on our current assumptions, expectations and plans, we project our CFI score to decline to about 1.83 in FY 2012. This would also include declines in all four individual component scores. The college will attempt to level out this steep trend through the expense reduction initiatives mentioned above. Based on current assumptions, however, we don't expect our CFI score to reach the HLC Red Flag Zone of 1.0 in FY 2012.

CFI Target. Our long-term target CFI is 2.00, just .5 less than our average from the past 7 years. Although this target is higher than two of the past five years our past three consecutive years have exceeded this goal. The MnSCU and Select School benchmarks are following the same trend as Ridgewater as they continue to improve. Considering the grim financial outlook for the next biennium, we don't think a target higher than that is reasonable.

We are in a good position currently to weather a short term adverse financial event or trend. However, we would require additional unplanned-for-revenues to continue making strategic, proactive investments after such an event or trend. This adverse event or trend would leave the college at a disadvantage when competing with institutions that are in better financial condition.

Our projected financial trend could ultimately cause our mission and strategic goals to be out of alignment with our financial resources. Cost pressures on our core activities will limit the College's ability to make significant base investments in new or current strategic initiatives and possibly leave us unable to fund current programs at their present levels. Examples of some current Ridgewater strategic initiatives are:

- Exploring best practices and developing initiatives for the recruitment of international students.
- Developing a comprehensive Enrollment Management Plan.
- Exploring new programs such as Bio Science and Renewable Energy.
- Advancing our efforts to recruit and retain minority students, including serving the 1st generation of college students in the majority of these families.
- Pursuing improved alignment between K-12 and higher education.
- Supporting system strategies focused on innovation, high quality, accountability and continuous improvement.
- Responding to the academic needs of our students, a large percentage of which need remediation services, or test at a non-college level.
- Increasing and improving our technological capabilities and equipment.
- Pursuing improved academic alignment with 4-year colleges.
- Improving student outcomes.

**There are several economic variables that may limit our fulfillment of mission.** One involves the current economic situation and its negative impact on our ability to raise funds. Stock market volatility has affected, and continues to affect, our endowment investments, further impacting our ability to sustain current levels of funding for scholarships and programs. While our goal has been to increase student scholarships by 1% annually, this may be difficult to accomplish in the current economic environment, and the implications are of potentially fewer students and the resulting decrease in tuition revenue.

Conversely, the economic downturn may also encourage enrollment in some programs and we are continuing to see this in our fall enrollment on our Hutchinson Campus. Another variable is the new 60/120 credit legislation. We are continue to analyze this legislation's potential impact on credits and ultimately on revenue. The impact will be negative from a revenue standpoint, but the extent is unknown. Finally, we have a large list of potential HEAPR projects and a major capital project that will need action in the next few years.

**Steps we are have recently taken and/or are currently implementing now to help us fulfill our mission and goals in the near future while preserving financial resources include:**

- The already mentioned budget reductions for both FY 2010 and FY 2011, and the preparation for additional budget reductions this year.
- Continued analysis of all programs and services in light of our mission and strategy.
- Continuing to implement an integrated college wide planning process linking strategy with financial health, leading to the development of an operating budget that communicates our strategic plan and helps to monitor our progress.
- Focused efforts to improve quality, grow enrollment, and improve operating efficiencies.

It all comes down to fulfilling our mission. Analyzing our CFI (both actual and our projection) in the context of our strategic plan and mission, indicates that our financial resources are currently supporting goals that successfully support both college and MnSCU mission and strategic goals. Our challenge is to prepare for and align the necessary financial resources to carry out our plans into a very uncertain future.

**What are several innovative steps you have taken to deal with current and future budget constraints that may have applicability at other institutions?**

- We have not opted for "across the board" types of budget reductions. We communicated with employees that we weren't planning to do this and that our focus was on mission and its resulting priorities. All areas have contributed but not exactly at a specific percentage.
- We ramped up budget related communication in the past three years, included detailed presentations to meet & confer groups, at duty days, and optional "Budget 101" sessions for all employees. Employee awareness is critical in establishing budget assumptions.

**What is your current, most perplexing budget related challenge?**

Both time and control are difficult challenges. The amount of time involved between the decision to make personnel reductions and when the savings actually impacts our budget. Also, the lack of control over appropriations revenue and tuition decisions, along with employee contractual commitments.

Questions concerning information provided in this report or requests for additional financial information should be addressed to:

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