

# Reserve and Financial Metric Dashboard and UNP Glossary Review

October 21, 2020

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University of Colorado

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# Reserve and Financial Metrics Dashboard Overview

The Reserve and Financial Metrics Dashboard provides a visual resource to help inform the Board and University Leadership about the condition of our financial resources.

External and internal benchmarks are used to demonstrate reserve adequacy and financial health.

1. Credit Rating
2. Financial Health Index
3. Adequate Liquidity and Investments



# Conclusions

- Reserves are currently adequate to maintain credit rating and align with Aa1 peers
- Tuition and state revenue are significant risk factors
- Spend-down of reserves would:
  - Put credit rating at risk, cost millions and put pressure on tuition and furloughs
  - Decrease assets that generate investment income
- Cash effectively managed to ensure liquidity
- Reserves critical for strategic investments like deferred maintenance, equipment, faculty recruitment and research enterprise

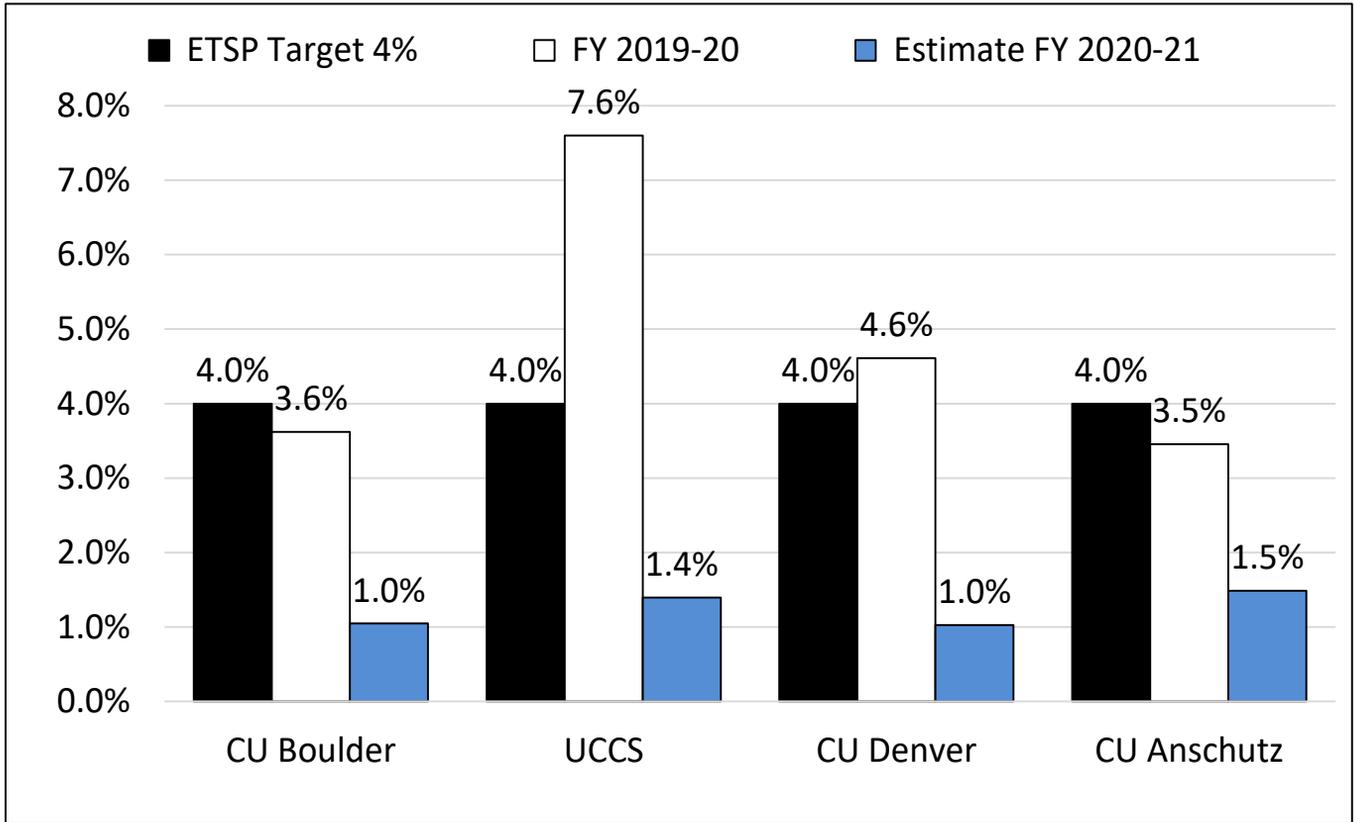


# Critical Strategic Investment Needs

- Around \$1.5 billion in deferred maintenance needs across the CU System
  - Does not include renewal needs of IT infrastructure
- Office of the State Architect goal for state assets is to maintain a Facility Condition Index (FCI) score of at least 85%
- Average FCI for CU Boulder is 54.7%
- CU Boulder capital reserves for deferred maintenance, renovations, and other capital projects = \$127.1 million  
***(this covers less than 10 percent of the total campus need)***



# FY 2020-21 Spend Down of 4%



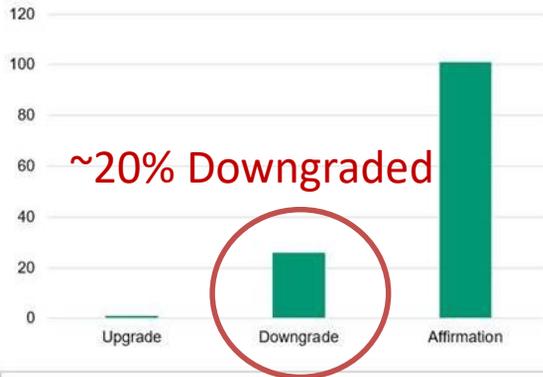
# Credit Ratings – Downgrades

***Moody's and Fitch have noted: "that weakening of financial reserves and erosion of liquidity could lead to a downgrade"***

## Rating actions reflect prior conditions & Covid

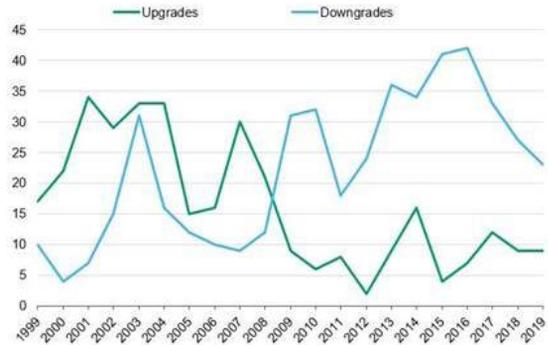
18 of the 26 downgrades previously carried negative outlooks

### YTD downgrades have increased



Source: Moody's Investors Service, as of September 21, 2020

### Downgrades have outpace upgrades since 2008



Source: Moody's Investors Service



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# Reserve and Financial Metrics Dashboard Overview

## Reserve and Financial Metrics Dashboard

Legend

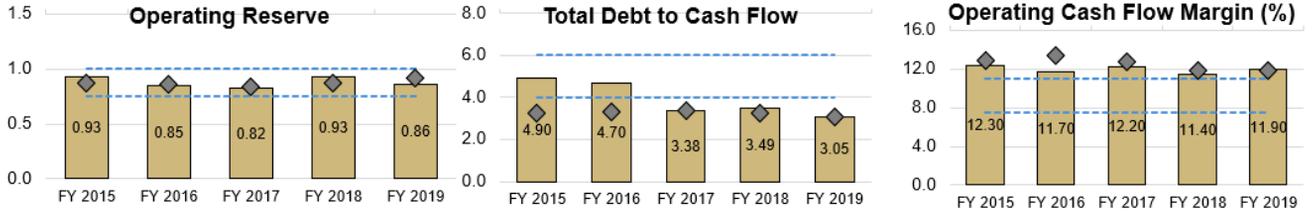
Credit Rating	
Operating Reserve	
Total Debt to Cash Flow	
Operating Cash Flow Margin	
Financial Health Index	
Composite Financial Index (CFI)	
Primary Reserve Ratio	
Viability Ratio	
Adequate Liquidity and Investments	
Days Cash on Hand	
Total Cash & Investments	
Coverage of Operating Loss	

Moody's	Fitch
Aaa	AAA
<b>Aa1</b>	<b>AA+</b>
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-
Caa	CCC
Ca	CC
C	C
	RD/D

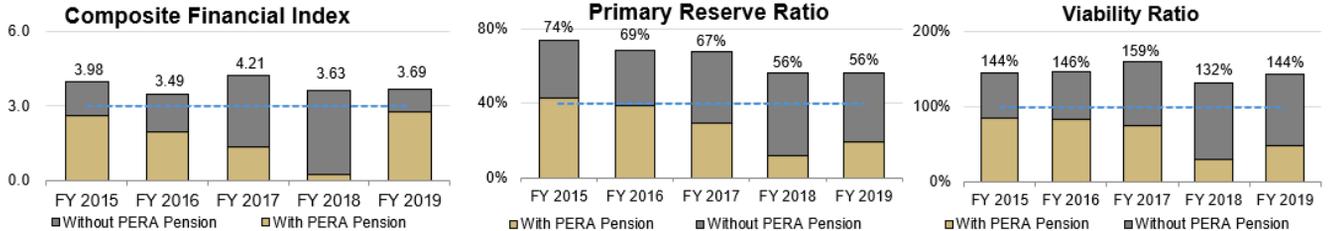
# Reserve and Financial Metrics Dashboard (FY 2015 to FY 2019)

■ University of Colorado 
 - - - Aa1 Goal 
 - - - Aa1 Floor 
 ◆ Moody's Median (Aa1 Public University)

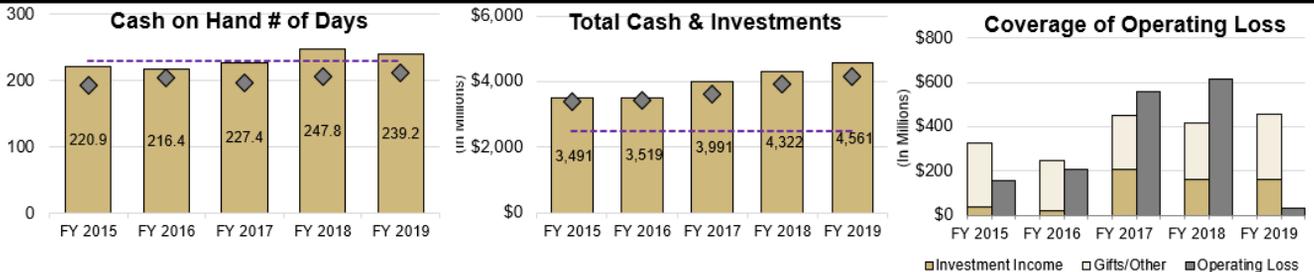
## Credit Rating



## Financial Health Index



## Adequate Liquidity and Investments



# 1. Credit Rating

## Operating Reserve –

Measures the operating reserves and CUF endowment investments compared to expenses (spendable cash & investments compared to operating expenses ratio).

A higher ratio is better.

Note: Spendable cash & investments subtracts permanently restricted net assets.

## Total Debt to Cash Flow –

Measures total debt as a share of operating cash flow (debt affordability).

Lower ratio reflects less debt to cash flow and is better.

Note: Operating cash flow adds depreciation and interest to net operating income.

## Operating Cash Flow Margin –

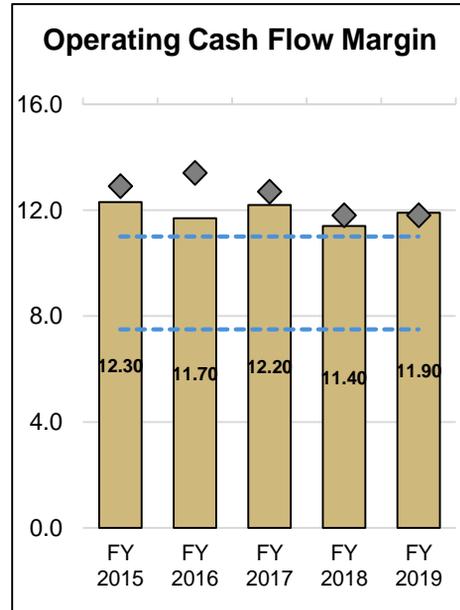
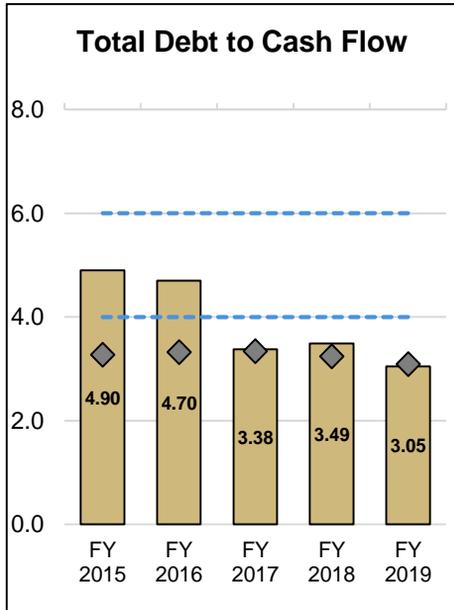
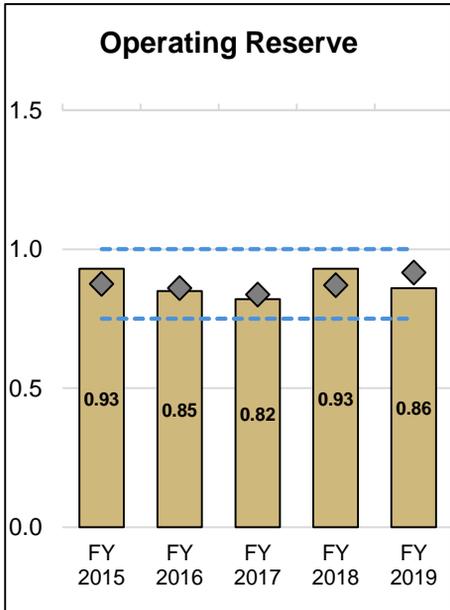
Measures the operating cash flow compared to the operating revenue.

Expressed as a percentage (11.9 = 11.9%).

Higher ratio is better.

Note: Operating cash flow adds depreciation and interest to net operating income.

# 1. Credit Rating



University of Colorado
  Aa1 Goal
  Moody's Median (Aa1 Public University)

## 2. Financial Health Index

### **Composite Financial Index –**

Measures an institution's financial health. It should be analyzed in context with the university's other activities to reach an assessment of the overall health of the institution.

### **Primary Reserve Ratio –**

Measures if resources are sufficient and flexible enough to support the university's mission.

A Primary Reserve Ratio of 40 percent or better is advisable to give institutions the flexibility to transform the enterprise.

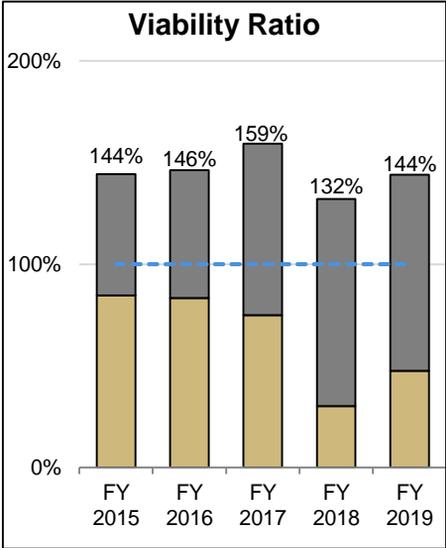
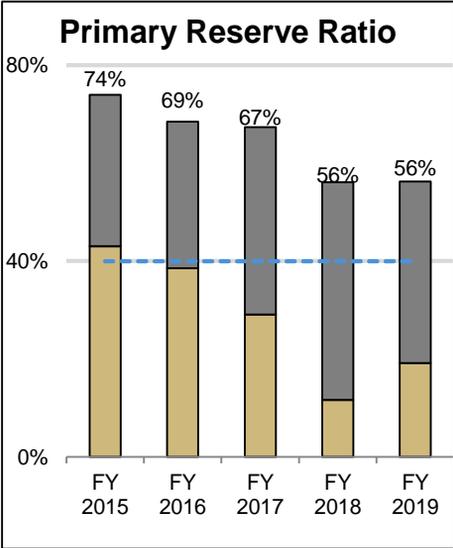
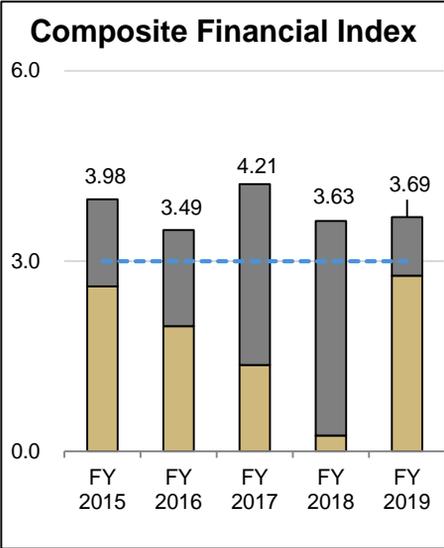
The implication of 40 percent is that the institution would have the ability to cover about five months of expenses (40 percent of 12 months) from reserves.

### **Viability Ratio –**

Measures whether debt resources are managed strategically to advance the university's mission.

A ratio of 100 percent or greater indicates that, as of the balance sheet date, an institution has sufficient expendable net assets to satisfy its debt obligations.

# 2. Financial Health Index



----- Goal Threshold

■ With PERA Pension

■ Without PERA Pension

# 3. Adequate Liquidity and Investments

## Cash on Hand # of Days –

Measures the number of days a university could continue to pay operating expenses from existing unrestricted cash and investments **if 100% of current revenue sources ceased**, assuming equal daily expenditures.

This value is measured at June 30 of each year and serves as a minimum.

Benchmark (Aa1 goal) is +230 days per Moody's.

## Total Cash & Investments Accessibility of short-term/long-term investments –

Measures absolute wealth and the assets that generate investment income.

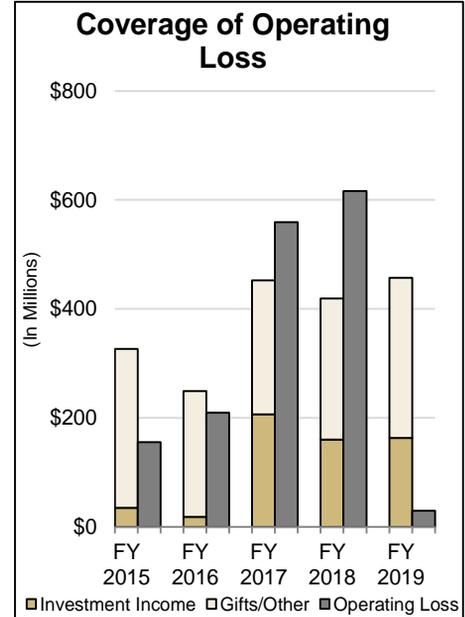
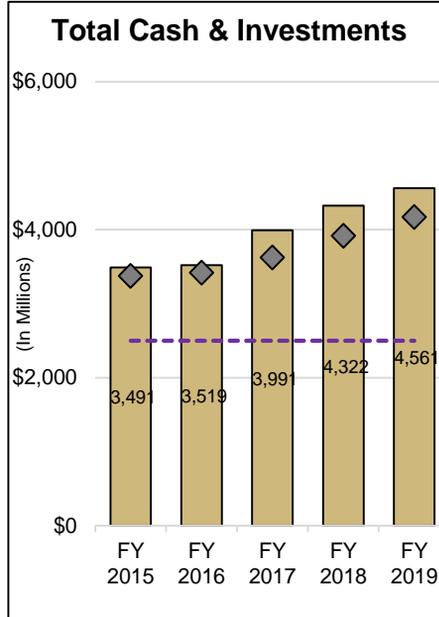
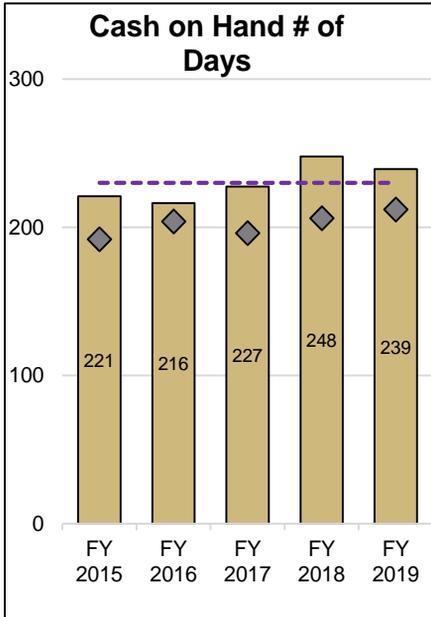
Benchmark (Aa1 goal) is +2,500 per Moody's.

## Coverage of Operating Loss

Compares income from gifts, investments, and other non-operating income to the university's operating loss. This demonstrates the university's reliance on non-operating revenue sources to support its mission.



# 3. Adequate Liquidity and Investments



University of Colorado
  Aa1 Floor
  Moody's Median (Aa1 Public University)

# Conclusions

- Reserves are currently adequate to maintain credit rating and align with Aa1 peers
- Improved credit rating helped achieve millions in savings
- Tuition and state revenue are significant risk factors
- Spend-down of reserves would:
  - Put credit rating at risk, cost millions and put pressure on tuition and furloughs
  - Decrease assets that generate investment income
- Cash effectively managed to ensure liquidity
- Reserves critical for strategic investments like deferred maintenance, equipment, faculty recruitment and research enterprise

# Glossary Review of UNP

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# Obligated Funds

These funds are unrestricted net position that are obligated to specific projects, are required to be held by external agencies (i.e. as bond covenant requirements), are held for contractual payments (such as faculty start-up) or are unavailable by their nature (i.e. inventory and prepaid expenses).

## Accounts Receivable

- These assets are non-cash and are not available for spending. The primary type of receivable balance for the University is student receivables, patient receivables, and receivables from other governments.

## Inventory and Prepaid Expenditures

- Recording of inventory and prepayment expenditures per accounting standards.

## Obligated Capital in Progress

- These projects have been authorized by the state or Regents according to Regent policy and state guidelines.

## Service Center Reserves

- Includes net position associated with campus cost centers that service units across the University.
- Any surplus funds generated by service centers are obligated per federal cost accounting standards (OMB A-21) for use by the associated service center.



# Obligated Funds (cont'd)

## Investment Pool

- The investment pool balance is used as a hedge against market volatility, which allows Treasury to maintain liquidity in a given year when market forces are moving in a negative direction.
- Approximately 14% of the balance is in the form of unrealized gains, which is a non-cash asset.

## Technology Transfer Offices

- Includes net position held by the University's Technology Transfer Office (TTO).
- Approximately 75% of TTO's net position is in non-cash assets including patent acquisition cost and long-term investments, while the balance is used for operations.

## University Risk Management and Risk Financing Activities

- Reserves to pay insurance claims submitted by campuses.
- Professional liability associated with the clinical practices of University faculty and staff.

## Faculty Startup and Research Initiatives

- These funds are obligated for contracted faculty start-up, cost sharing, matching programs, and financial aid obligations associated with faculty research.

## CU Medicine

- CU Medicine is a separate legal entity treated as a blended component unit for accounting purposes.
- Net position includes residual clinical revenues that are generated by Anschutz Medical Campus faculty who serve patients at multiple Denver-area health facilities.



# Nonobligated Funds

Funds available for campus use. Campus leadership holds these funds in general categories based on internal policy or intended use. Their designation may change in accordance with directives from leadership, including Regent directives.

## Auxiliary Facilities Nonpledged

- Held by auxiliary programs for use by the generating auxiliary.
- Such as continuing education reserves and insurance activities.

## Unobligated Capital Reserves

- Held by departments for capital construction, information technology and capitalized equipment purchases.

## Campus Designated Capital

- These projects are planned and will be requested according to Regent policy.

## General Programmatic Reserves

- Available for emergency needs like equipment failures, leveraging grants and gifts, and strategic opportunities.
- General departmental reserves for campus support. Generated by nonrecurring revenue surpluses and lower than expected spending levels.

## Compensated Absence & Post-Employment Benefits

- Absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.
- Other Postemployment Benefits (OPEB) includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan.



# APPENDIX

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# How Metrics are Calculated

## **Composite Financial Index –**

The CFI is a measure of financial health used widely throughout higher education. It utilizes four core ratios measuring aspects of an organization's financial wellbeing. The four ratios are weighted and combined to determine the CFI.

## **Primary Reserve Ratio –**

Expendable net position plus FASB component unit (i.e. Foundation) expendable net assets divided by total expenses plus FASB component unit total expenses.

## **Viability Ratio –**

Expendable net position plus FASB component unit's expendable net assets divided by plant-related debt plus FASB component unit plant related debt.

## **Cash on Hand # of Days –**

Unrestricted cash and investments that can be liquidated within one month, multiplied by 365, divided by operating expenses less depreciation and other large non-cash expenses.

## **Total Cash & Investments Accessibility of short-term/long-term investments –**

University cash and investments plus affiliated foundations' cash and investments.

## **Coverage of Operating Loss –**

University revenue from gifts, investment returns, and other non-operating sources relative to the university's operating loss per the financial statements.