



Procedure 205-05 Long-Term Financial Forecasting

Sponsor: Business and Administrative Services

Purpose

The purpose of long-term financial and enrollment forecasts is to manage the long-term financial health and sustainability of the College. A long-term financial plan is the financial component of a long-term strategic plan.

Definitions

None

Procedure

Length of Forecast

General Fund – the College will create ten-year forecasts for enrollment, revenues, expenditures, and financial position for the General Fund.

Plant Fund – the long-term forecast for the Plant Fund is based upon a 20-year preventative maintenance schedule.

Retirement of Indebtedness Fund – the long-term forecast for the Retirement of Indebtedness Fund will be based upon the term of the debt.

Frequency of Forecasting

The long-term enrollment and financial forecast will be updated annually, or as needed, and used to inform the annual budget building process.

Revenue Forecasting

The focus of long-term financial planning on the major revenue sources is to ensure adequate income to pay for fixed and variable costs. Long-term financial planning includes enrollment planning, state appropriations, grants, auxiliary services, and indirect cost recovery. The long-term financial forecast shall be inclusive of all funds and accounts of the College.

Assumptions and Analysis

The College will use trend analysis to prepare realistic and objective assumptions for long-term financial forecasts. The College will document special adjustments to the long-term financial forecast for clarity.

Capital

The long-term financial plan will include preventative maintenance and capital replacement plans. Physical capital represents a significant aspect of the College's ability to provide quality educational programs and services. Physical capital includes land, buildings, improvement and improvements, furnishings, equipment, and vehicles. It is strategically important for the College to maintain physical capital in good working order.

Debt Management

Long-term indebtedness is for financing of long-term physical plant assets. Any debt increase by local government that is paid exclusively through the secondary property tax must be approved by voters. Under Article IX of the Arizona Constitution, the total amount of indebtedness of the district may not exceed 15% of the County's secondary property assessed valuation.

Ratio Analysis

Long-term financial plans will include financial indicators/ratios. Financial indicators/ratios are used to assess the financial health of the College. The College is required to submit financial indicators/ratios annually to the Higher Learning Commission (HLC), the College's accrediting body, to measure the College's financial health. The financial ratios are currently defined as follows but may change if the Higher Learning Commission changes its requirements:

1. Primary Reserve Ratio measures how long the institution could operate using expendable reserves
2. Net Operating Revenue Ratio measures if operating activities provide a surplus or deficit
3. Viability measures the availability of expendable net assets to pay off debt at any point in time
4. Return on Net Assets measures the total return on investment of net assets for the year
5. Composite weighted average score to determine overall financial health

Risk Analysis

The College will also present a long-term risk analysis highlighting major risks to the College.

References

Article IX of the Arizona Constitution
Higher Learning Commission Financial Indicator Procedure

Procedure History

03/11/2015 New and Approved by College Council

Legal Review

None