



Monitoring Report
EL-04
November 10, 2022

I hereby present my monitoring report on the **Executive Limitations Policy EL-04: Planning** according to monitoring report schedule (BPD-04). I certify that the information contained in this report is true and represents compliance with a reasonable interpretation of all aspects of the policy unless specifically stated otherwise.

Signed 
Leah A. Barrett, President

Date 09 November 2022

The President shall not permit planning that allocates resources in a way that risks fiscal jeopardy or that is not aligned with achievement of the board's Ends.

INTERPRETATION

NOTE: This opening statement is similar to the opening statement of [EL-05 Financial Conditions and Activities](#), which states: "With respect to the actual, ongoing financial conditions and activities, the President shall not cause or allow the development of fiscal jeopardy or actual expenditures that are not aligned with achievement of the Board's Ends."

I interpret "not risking fiscal jeopardy" to mean a) compliance with policy items #1 to #7 below; b) an audit report that finds no material irregularities, because irregularities in an audit report signal potential fiscal jeopardy; and c) financial ratios within acceptable range as provided by the Higher Learning Commission, because ratios outside the acceptable range are a signal of fiscal jeopardy. **NOTE: this is the same interpretation as in EL-05.**

EVIDENCE

- a) Evidence of compliance for items #1 to #7 is provided below.
- b) The [Northeast Community College Area Financial Statement Audit](#) completed for FY22 reported no material irregularities.
- c) The College reported the following financial ratios to HLC for FY2021:

	<u>2021</u>	<u>5yr Average</u>	<u>Threshold Range*</u>
Primary Reserve Ratio	1.267	1.083	.4 – 1.33
Net Operating Revenue Ratio	0.213	0.097	.04 - .13
Return on Net Assets Ratio	0.162	0.111	.06 - .20
Viability Ratio	3.626	3.209	1.25 – 4.17
Composite Financial Indicator Score (link to HLC website page)	9.000	7.207	1.1 to 10.0

* HLC relies on the financial ratios recommended in the publication *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks (Seventh Edition)*, 2010, by KPMG LLP; Prager, Sealy & Co., LLC; Attain LLC (updated summer, 2016)

Further, without limiting the scope of the above statement by the following list,

... the President shall not:

1. Operate without a documented, multi-year strategy that can be expected to achieve a reasonable interpretation of the Ends.

INTERPRETATION

A multi-year strategy includes a five-year budget plan that projects revenue and expenses with reasonable planning assumptions (further interpreted in item #1.1 and #3 below). A multi-year strategy that “can be expected to achieve a reasonable interpretation of the Ends” is one that includes specific budget items for each of the Ends.

EVIDENCE

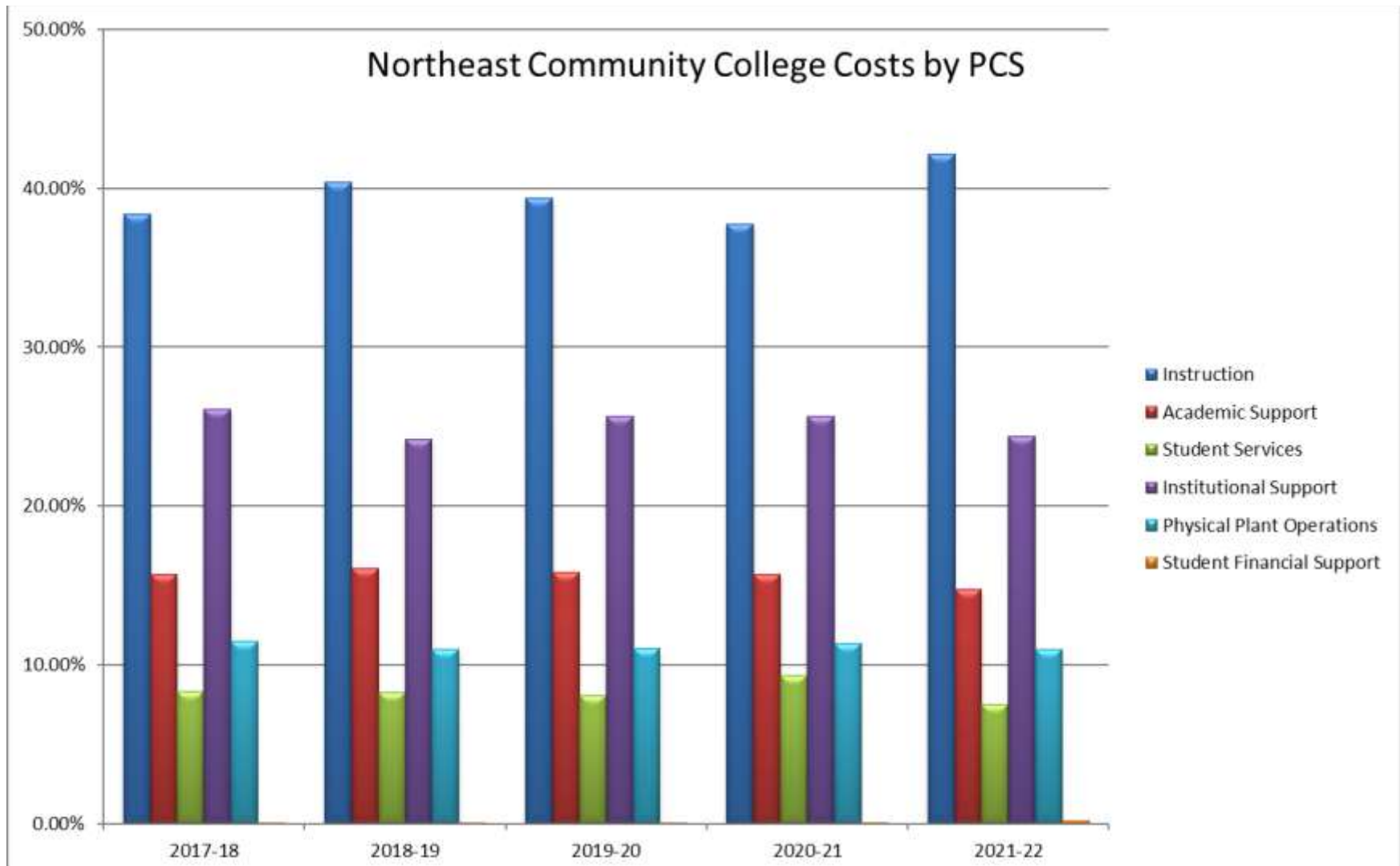
The [Five-Year Budget Plan](#) provides for the following specific budget items for each of the Ends:

END	EVIDENCE
1.Students have pathways to achieve academic and/or career goals	The five-year budget plan includes the amount of \$347,000 per year in other revenue due to be paid from the Foundation from earnings on the Mackenzie Scott fund, which are earmarked for Guided Pathways initiatives. Evidence for this End is further provided in 1.1-1.4 below. Additional funds from the earnings are used to fund student scholarships and are tracked and monitored through the Foundation and presented annually to the Foundation Board.
1.1 Students can easily transfer credits to other education institutions	According to the current Biennium Budget Request submitted to the Nebraska Department of Administrative Services, the budget allocation to Instruction and Academic Support is projected to be over 54% of the total budget. See the PCS (Program) Allocation table below. Additional evidence, such as six-year graduation rates, will be presented as part of the seven-year CCPE program review process.
1.2 High School students can obtain dual credits	The five-year budget plan includes an additional 1% in state aid revenue to be allocated specifically for the costs of dual credit. Growth in this area has been significant and data will be provided in annual enrollment report scheduled for December.
1.3 Students develop workforce skills necessary to meet demand of businesses in service area	According to the current Biennium Budget Request submitted to the Nebraska Department of Administrative Services, the budget allocation to Instruction and Academic Support is projected to be over 54% of the total budget. See the PCS (Program) Allocation table below. Additional evidence, such as three-year graduation rates and placement rates, will be presented as part of the seven-year CCPE program review process. The placement rate data is included in the annual graduate report .
1.4 Students are aware of the academic standards required to achieve college success	According to the current Biennium Budget Request submitted to the Nebraska Department of Administrative Services, the budget allocation to Instruction and Academic Support is projected to be over

	54% of the total budget. See the PCS (Program) Allocation table below. Retention and graduation rates are an indicator of college success. These rates are updated annually and are part of our institutional profile . Additional evidence will be presented as part of the seven-year CCPE program review process.
2. Diverse populations of students experience learning and academic success responsive to their needs	According to the current Biennium Budget Request submitted to the Nebraska Department of Administrative Services, the budget allocation to Instruction and Academic Support is projected to be over 54% of the total budget. See the PCS (Program) Allocation table below. Through Northeast's work with the Community College Resource Center (CCRC) inequities have been identified in the experience of our learners resulting in our commitment to creating a Guided Pathways culture. The eNvision measurement metrics are used to track our progress and will be reported annually to the Board currently scheduled for January 2023. Additional data will be provided in the annual enrollment report scheduled for December.
3. Students have access to affordable education and training	The five-year budget plan provides for no increase in tuition and fee rates.
4. Students have access to a college experience that includes campus living and student activities	The budgets for the Residence Life and Cafeteria auxiliary funds provide for no overall increase in room and board rates. Student Fee funds support student activities and Union 73. Additionally, general funds are used to support other activities and personnel to support student life in Norfolk.

Evidence can be further articulated with the agreement of metrics that show progress on achievement of the Ends. This can be achieved by further collaborative work with the Board and the Cabinet.

Five-year pro-forma trend of costs by Program Code Structure:



...the President shall not:

1.1. Permit planning that does not explain and justify assumptions and identify relevant environmental factors.

INTERPRETATION

“Planning Assumptions” are disclosed in the planning document and are the assumptions used to project revenue and expenses, including: the tuition/fee rate, credit hours, state aid increase, property valuations, property tax levy, and total compensation increases. The specific assumptions used in the 5-year plan are disclosed as the evidence for compliance of item #3.

“Relevant Environmental Factors” include:

Inflation, measured by the Consumer Price Index (CPI) as reported by the U.S. Bureau of Labor Statistics

Cost of Labor, measured by the Employment Cost Index (ECI) as reported by the U.S. Bureau of Labor Statistics

Inflation and Cost of Labor are factors used to project the cost of personnel and operating expenses.

Census population data, as reported by the United States Census Bureau

Census population data is a factor used to project population increases or declines which affect enrollment and FTE projections.

EVIDENCE

The planning assumptions and relevant environmental factors are summarized and explained in the [Five-Year Budget Plan](#).

...the President shall not:

2. Permit budgeting for any fiscal period or the remaining part of any fiscal period that is not derived from the multi-year plan.

INTERPRETATION

The “fiscal period” will be the applicable fiscal year for which the budget is forecasted. The starting point for the next fiscal year’s budget will be the corresponding fiscal year of the multi-year plan. The current fiscal year’s budget is developed from a 1-year budget projections document. As the current fiscal year’s budget is developed and finalized, the 5-year plan is updated.

EVIDENCE

A five-year budget plan was first presented to the Board in [February, 2022](#) (Minutes and Documents page 75).

An updated five-year budget plan was next presented to the Board in [May, 2022](#), including a discussion of property valuations based on the April forecast of property valuations by the Nebraska Department of Revenue.

Further [discussions](#) of property valuations, property tax levy history, and compliance with new the [Nebraska Property Tax Request Act](#) took place in June 2022.

A preliminary [FY2023 General Fund Budget Projection](#), along with the five-year [Building Fund Capital improvement Budget plan](#) was presented to the Board in August 2022.

The final proposed [FY2023 General Fund Budget](#) and the [Allowable Growth Calculations](#) for compliance with the Nebraska Property Tax Request Act, were presented to the Board on September 8, 2022.

The final [FY2023 Budget Hearing/Tax Request Presentation](#) was presented to the Board and passed on September 27, 2022.

...the President shall not:

3. Permit financial planning that omits credible projection of revenues and expenses, separation of capital expenditures and operational expenses, cash flow projections, and disclosure of planning assumptions.

INTERPRETATION:

A “credible projection of revenues” includes separate projections of the three statutory forms of funding for community colleges, including:

a) Tuition/Fees – which provides for the flexibility of planning a combined tuition/fee increase in a range from 0%-5% annually, by using a three-year rolling average of credit hour projections and considers a reasonable balance of fiscal responsibility between students and taxpayers, within the context of the impact of the property tax levy on local property owners and the overall cost of attendance for a student to be provided with an affordable education, all consistent with EL-02, item #2.

b) State Aid – which provides for the flexibility of planning a standard increase in a range from 2-4% annually, based on historical state aid allocations by the Nebraska Legislature, which includes standard state aid calculated under the statutory formula for distribution of state aid to all Nebraska community colleges, tribal college funding, and additional state aid for dual enrollment.

c) Property Taxes – which provides for a forecast of property valuations based on quarterly valuation projections from the Nebraska Department of Revenue and future projections of valuations based on current economic factors.

A “credible projection of expenses” includes separate projections for the following:

- a) Personnel – which includes the cost of salary and benefits for all full-time and part-time employees, full-time faculty, adjuncts, and student workers
- b) “Operational Expenses” – which includes costs of books, printing, conference registration, photocopying, memberships, dues, periodicals, postage, software licenses, repair and maintenance of equipment and contractual services
- c) Supplies & Materials – which includes costs of office supplies, food, and minor equipment (cost below \$5,000)
- d) Travel – which includes lodging, meals, motor pool, commercial transportation, and personal mileage reimbursements
- e) Capital Equipment – which includes the purchase of all equipment items with a value of \$5,000 or over

A “credible projection of capital expenditures” includes a separate five-year budget plan for the purchasing, purchasing on contract, constructing, and improving of facilities, which is funded by \$.02 of the total property tax levy (See [Neb. Rev. Stat. §85-1515](#)).

EVIDENCE

The [General Fund 5-year Budget Planning document](#) includes a credible projection of revenue and expenses for the General Fund, and the [Building Fund 5-year Budget Planning document](#) includes a credible projection of revenue available for capital expenditures, and a credible projection of capital expenditures.

...the President shall not:

3.1. Omit five-year pro-forma trend of revenues and expenses.

INTERPRETATION:

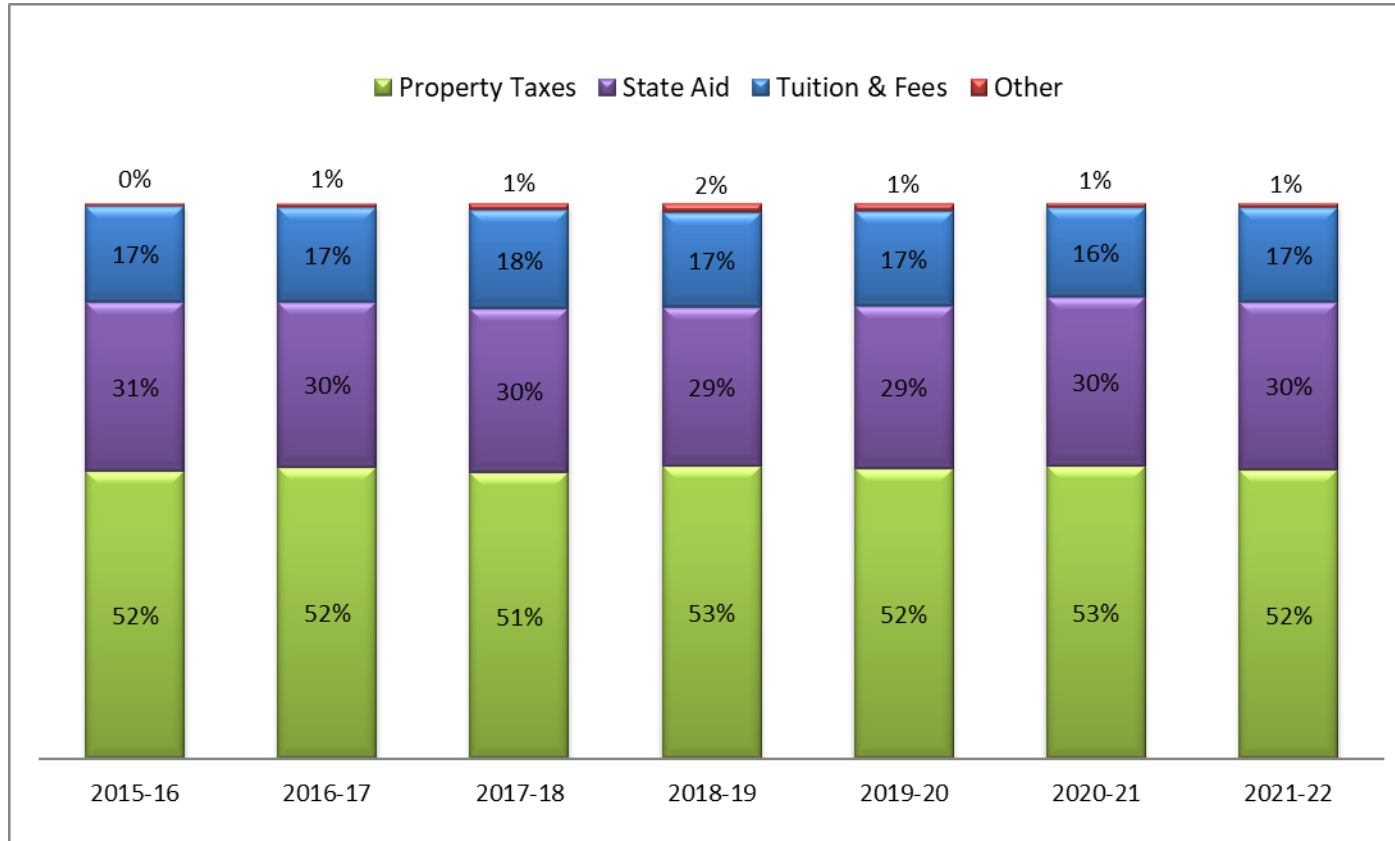
The five-year pro-forma trend of revenues and expenses has been fully interpreted in previously numbered policy items.

Steady, no large fluctuations, fairly predictable.

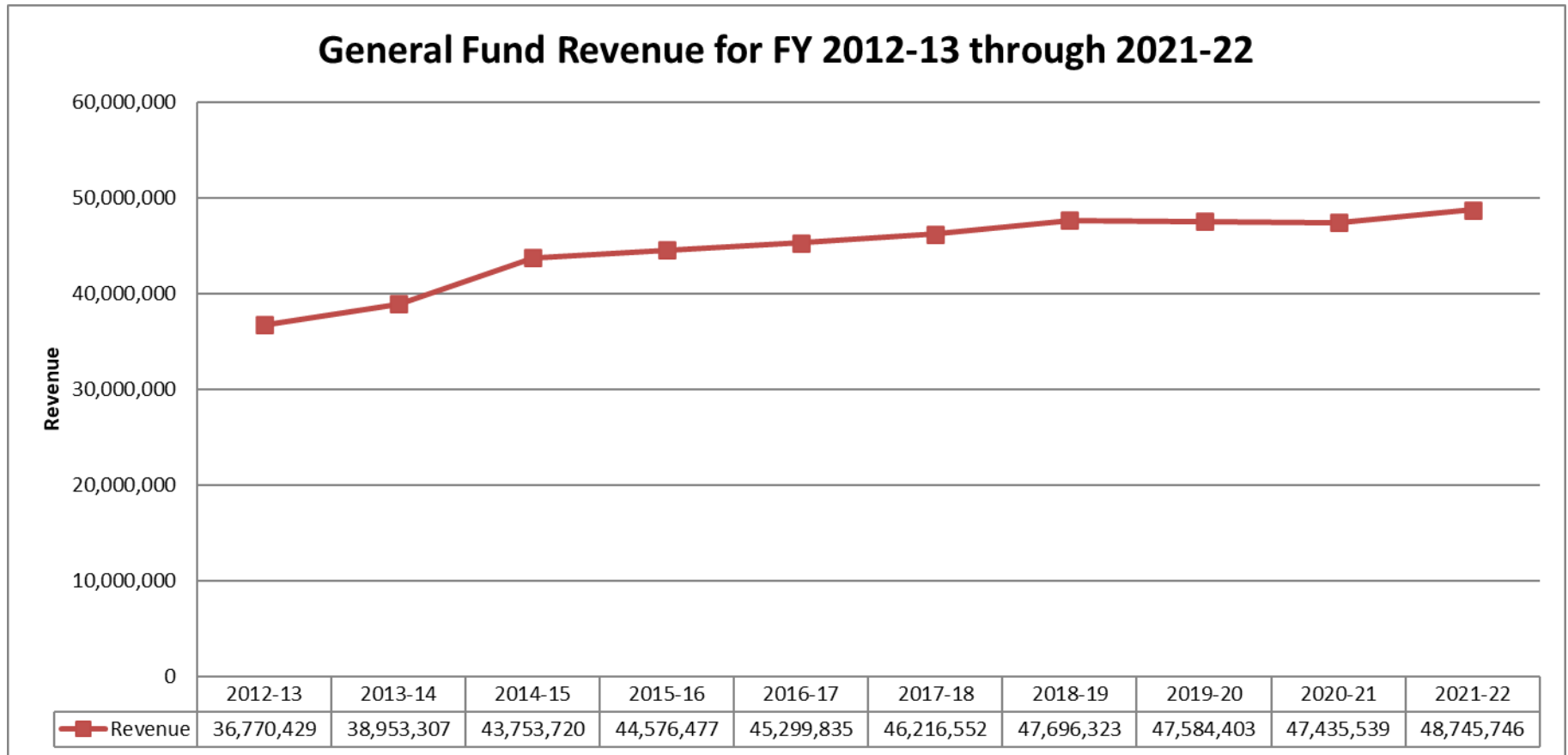
EVIDENCE

Both five and ten-year pro-forma trends of revenues and expenses, does not reveal any irregularities, as shown in the following graphs:

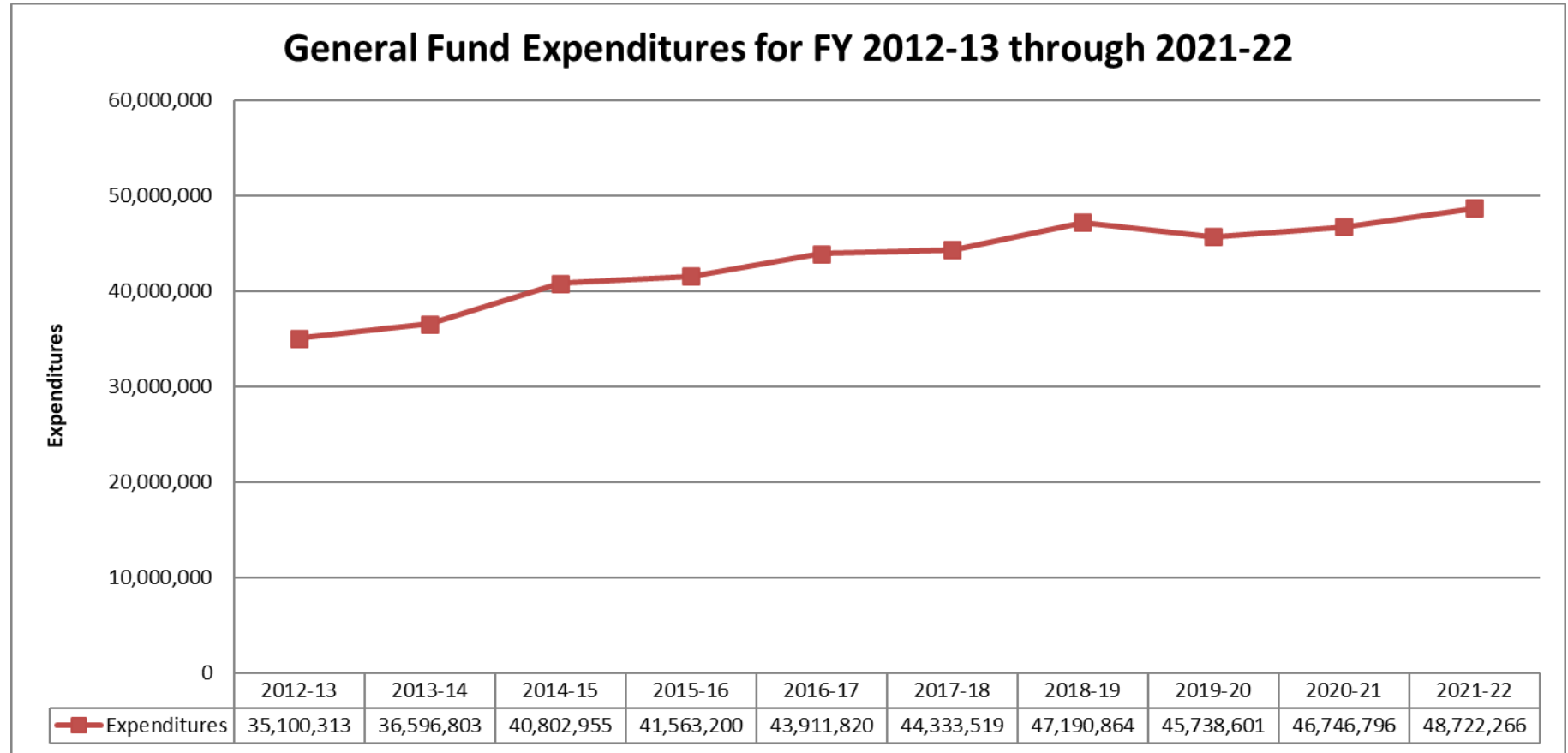
Five-year pro-forma trend of revenues by source:



Ten-year pro-forma trend of total revenues:



Ten-year pro-forma trend of total expenditures:



...the President shall not:

4. Permit financial planning without a projected five-year facilities master plan.

INTERPRETATION

A “facilities master plan” is a current facility plan that sets forth the timeline of the College’s proposed capital construction projects. These capital construction projects should be tied to, and an extension of, the Northeast [Master Site and Facilities Plan \(MSFP\)](#), which was completed in 2017.

EVIDENCE

The [Northeast Community College Construction Project Schedule](#) includes a schedule of projects for the next five years.

...the President shall not:

4.1. Omit provision for cybersecurity and technology.

INTERPRETATION

I interpret “not omitting a provision for cybersecurity,” as the Information Security Plan implemented by the College Technology Services division.

I interpret “not omitting a provision for technology” as the implementation of the Technology Services strategic plan.

EVIDENCE

The [Technology Services Information Security Plan](#) and [Technology Services Strategic Plan](#) were presented to the Board of Governors on September 8, 2022.

...the President shall not:

5. Permit financial planning that risks any situation or condition described as unacceptable in the “Financial Condition and Activities” policy.

INTERPRETATION

Interpretation of this item #5 has been fully interpreted in the Monitoring Report for EL-05.

EVIDENCE

In the Monitoring Report for [EL-05, Financial Condition and Activities](#) dated December 9, 2021, (Minutes and Documents pages 159-164) there were no situations or conditions noted as unacceptable.

...the President shall not:

6. Permit financial planning that does not provide the amount determined annually by the Board for the Board's direct use during the year, such as costs of fiscal audit, Board development, Board and committee meetings, Board legal fees, and ownership linkage.

INTERPRETATION

I interpret item #6 to mean the Board of Governors budget, which is provided in the financial report to the Board at each Board of Governors meeting.

EVIDENCE

The Board of Governors budget and year-to-date activity is provided in the monthly financial report materials.

[Five-year Budget v. Actual expenses for Board of Governors](#) data.

...the President shall not:

7. Permit planning that endangers the fiscal soundness of future years or ignores the building of organizational capability sufficient to achieve Ends in future years.

INTERPRETATION:

The Primary Reserve Ratio (as set forth in the evidence for the Global Statement above) is a measure of whether there are resources sufficient and flexible enough to support the College's mission. It compares the institution's expendable net assets to total expenses.

Expendable net assets represent those assets the institution can access quickly and spend to meet its operating and capital requirements. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. *See Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks (Seventh Edition)*, by KPMG LLP; Prager, Sealy & Co., LLC; Attain LLC, pp. 120-121. A Primary Reserve Ratio of .40 or better is advisable, which implies that the institution has the ability to cover about five months (146 days) of expenses (40% of 365 days) from reserves. (p. 122) Therefore, I interpret “fiscal soundness” to mean the College five-year budget plan continues to provide for an amount in general fund reserves on hand sufficient to provide for 180 days of operating expenses.

“Organizational capability sufficient to achieve Ends in future years” was interpreted in the Global Statement above.

EVIDENCE

Analysis of Northeast’s Primary Reserve Ratio indicates that for 2021, the College had the ability to cover 411 days (12.67% of 365). On average over the last 5 years, the College has 404 days of annualized expenses retained in expendable resources (10.83% of 365):

<u>2021</u>	<u># Days</u>	<u>5yr Average</u>	<u># Days</u>
1.267	411	1.083	404

...the President shall not:

7.1. Operate without succession plans to facilitate smooth operations during key personnel transitions and ensure competent operation of the organization over the long term.

INTERPRETATION:

I interpret #7.1 to mean that each Vice President has built the capacity for one or more direct reports to take leadership in a planned or unplanned personnel transition, and that the President is aware of the plans of each Vice President.

EVIDENCE

As of the date of this report, all Vice Presidents have verbalized to the President succession plans in the event of their absences. However, additional discussions are needed with Cabinet to determine the best method of documenting and operationalizing these plans.

...the President shall not:

7.2. Permit the College to be without sufficient organizational capacity and current information about President and Board issues and processes for the competent operation of the organization to continue in the event of sudden loss of President services.

INTERPRETATION: **NOTE: this section #7.2 is referenced in BPD-05, #2 which states as follows:

“Should an absence of the President arise, the Board will meet as soon as feasible at a special or regular meeting. The Board will review the President’s most recent reasonable interpretation for Executive Limitation EL-4 #7.2 (“Permit the College to be without sufficient organizational capacity and current information about President and Board issues and processes for the competent operation of the organization to continue in the event of sudden loss of President services.”)

I interpret #7.2 to mean that the President has built the capacity with the Cabinet to take leadership in a planned or unplanned loss of President services, and that the Board is aware of the President’s succession plan.

EVIDENCE

As of the date of this report, the President has verbalized the proposed succession plan to the Board Chair. Additional input is needed with the officers of the Board to determine the best method of documenting and operationalizing this plan.