

## HIGHER EDUCATION FINANCIAL ACCOUNTABILITY MEASUREMENTS

The following is a summary of the financial accountability measurements for the North Dakota University System as amended and recommended by the Financial Accountability Measurements Subcommittee. The subcommittee's responsibility was to develop financial accountability measurements relating to the Higher Education Roundtable recommendations. In addition to the financial accountability measurements, the Higher Education Roundtable report identifies numerous nonfinancial measurements. This memorandum lists expectations or performance standards for the North Dakota University System and identifies corresponding performance indicators or associated measurements.

The performance indicators would be reported annually by the North Dakota University System at the University System level. The State Board of Higher Education would be responsible for expanding and refining the financial accountability measurements when appropriate to evaluate individual institutions of higher education. The reporting process would include auditing of areas as deemed necessary by the Legislative Assembly. Depending on the nature of the performance indicator and the information presented, trend information may be presented for a 6- to 10-year period. Attached is a listing of the related Higher Education Roundtable recommendations.

Expectations (Performance Standards)	Annual Performance Indicators
<p><b>Financing and Financial Management</b></p> <p>The North Dakota University System develop a long-term plan for financing the higher education system that addresses any funding gap between current resources and needs, reflects a shared funding responsibility among the state, students, private sector, donors, local governments, communities, and campuses and allows for the funding of plant asset depreciation.</p> <p>The North Dakota University System ensure:</p> <ul style="list-style-type: none"> <li>• Base funding provided to individual institutions is adequate and provides stable funding consistent with the mission of the campus and is responsive to changing priorities.</li> <li>• Incentive funding pools meet the guidelines established by the Legislative Assembly, the Higher Education Roundtable recommendations, and State Board of Higher Education priorities.</li> <li>• Asset funding provided to individual institutions is used in conjunction with other funds for capital renewal and addressing deferred maintenance.</li> </ul> <ul style="list-style-type: none"> <li>• Funds appropriated by the Legislative Assembly for the construction of new facilities and the major renovation of existing facilities are used in a cost-effective manner and within statutory building authority lease payment limitations.</li> <li>• Institutions are funded on an equitable basis.</li> </ul>	<p><b>A status report on higher education financing</b> as compared to the long-term financing plan.</p> <p><b>Base funding</b> levels and uses including trends in base funding.</p> <p><b>Incentive funding</b> information, including:</p> <ul style="list-style-type: none"> <li>• Allocation, use of, and results of incentive funding.</li> <li>• Incentive funding as a percentage of the higher education budget.</li> </ul> <p>Value of institutional buildings, funds spent on renewal or updates as compared to depreciation, and the status of deferred maintenance including a comparison of the funds appropriated for deferred maintenance to actual funds spent on deferred maintenance.</p> <p><b>Deferred maintenance ratio</b> measures the size of the University System's outstanding maintenance as compared to its expendable net assets:</p> $\frac{\text{Deferred Maintenance}}{\text{Expendable Net Assets}}$ <p><b>Report on new construction and major renovation capital projects</b> for which specific appropriations are made, including budget to actual comparison, use of third-party funding, and related debt.</p> <p><b>Funding levels</b> of institutions or other selected indicators as compared to peer institutions.</p>

Expectations (Performance Standards)	Annual Performance Indicators
<p>The North Dakota University System identify and maximize all financial resources available to support the University System, including:</p> <ul style="list-style-type: none"> <li>• Internally generated revenue.</li> <li>• Externally generated revenue.</li> <li>• Revenue generated from the state.</li> <li>• Debt issued to support University System operations.</li> <li>• Tuition and fees.</li> </ul>	<p><b>The amount and trends of funding from all financial sources.</b></p> <p><b>Operating income ratio</b> measures how inflows from fees for services provided contribute to the University System's overall funding:  <math display="block">\frac{\text{Operating Income}}{\text{Educational and General Expenses}}</math></p> <p><b>Contributed income ratio</b> measures how externally generated resources other than debt contribute to the University System's overall funding:  <math display="block">\frac{\text{Contributed Income}}{\text{Educational and General Expenses}}</math></p> <p><b>State general fund appropriation levels and trends</b> as compared to changes in the state's economy and total state general fund appropriations.</p> <p>Trend report on <b>per capita</b> and <b>per student</b> appropriations for higher education.</p> <p>The amount of debt incurred and supported in relation to limitation requirements.</p> <p><b>Debt coverage ratio</b> demonstrates the portion of net income available to meet the debt burden should economic conditions change:  <math display="block">\frac{\text{Adjusted Change in Net Assets}}{\text{Debt Service}}</math></p> <p><b>Affordability</b> index detailing:</p> <ul style="list-style-type: none"> <li>• Tuition and fees on a per student basis and total cost of attendance compared to peer institutions.</li> <li>• Tuition and fees as a percentage of median North Dakota household income.</li> <li>• Student affordability considering financial aid.</li> </ul>
<p>The North Dakota University System use moneys appropriated from the general fund and other income, including tuition in a cost-effective manner in meeting the recommendations identified in the Higher Education Roundtable report including the following areas:</p> <ul style="list-style-type: none"> <li>• Funding for core education services.</li> <li>• Funding for educational support services.</li> <li>• Funding for general support services.</li> </ul>	<p>Trend reports on the <b>distribution of expenditures</b> by function.</p> <p><b>Educational core services ratio</b> provides information regarding the portion of total funds being used for instruction, research, and public service:  <math display="block">\frac{\text{Educational Core Services Expenses}}{\text{Educational and General Income (all funding excluding capital and debt service amounts)}}</math></p> <p><b>Educational support services ratio</b> provides information regarding the portion of total funds being used for academic support and student services:  <math display="block">\frac{\text{Educational Support Expenses}}{\text{Educational and General Income (all funding excluding capital and debt service amounts)}}</math></p> <p><b>General support ratio</b> provides information regarding the portion of total funds being used for institutional support, operations, and maintenance of physical plant:  <math display="block">\frac{\text{General Support}}{\text{Educational and General Income (all funding excluding capital and debt service amounts)}}</math></p>

Expectations (Performance Standards)	Annual Performance Indicators
<ul style="list-style-type: none"> <li>• Investment in equipment and technology.</li> </ul> <p>The North Dakota University System be financially sound and viable.</p> <p><b>Faculty and Staff Excellence</b> The North Dakota University System should strive for a quality-focused, productive, and rewarded faculty and staff.</p> <p><b>Research and Development</b> The North Dakota University System should focus research and development on the economic and social needs of North Dakota, increase public-private North Dakota research and development partnerships, and reward faculty for research and development efforts.</p> <p><b>Financial and Statutory Compliance</b> The North Dakota University System comply with related state laws and generally accepted accounting principles.</p> <p>The State Auditor's office use performance audit standards reported in biennial audits that:</p> <ul style="list-style-type: none"> <li>• Represent a balanced approach identifying appropriate financial noteworthy accomplishments and successes.</li> <li>• Address University System compliance with legislative intent.</li> <li>• Concentrate on high-risk areas of institutional operations.</li> </ul>	<p><b>Equipment expenditure ratio</b> provides information regarding the portion of equipment inventory replaced:  <math display="block">\frac{\text{Annual Expenditures for Equipment Replacement}}{\text{Equipment Inventory Value}}</math></p> <p>Financial ratios and other financial information which would indicate:</p> <ul style="list-style-type: none"> <li>• <b>Viability ratio</b> measures the ability of expendable net assets to cover debt.</li> <li>• <b>Primary reserve ratio</b> measures the ability to continue to operate without additional net assets.</li> <li>• <b>Return on net assets ratio</b> measures the changes in net assets.</li> <li>• <b>Net income ratio</b> measures surpluses or deficiencies.</li> <li>• <b>Debt, assets, and end-of-year fund balances.</b></li> </ul> <p>Faculty and staff trend information, including:</p> <ul style="list-style-type: none"> <li>• Ratio of faculty and staff to students.</li> <li>• Faculty and staff turnover rates and major reasons.</li> <li>• Faculty and staff salary levels, including annual average salary increases and comparisons with peer institutions.</li> </ul> <p>Research and development efforts trend information, including:</p> <ul style="list-style-type: none"> <li>• <b>Total funding received</b> for research, including federal, state, local, and private sources.</li> <li>• <b>Revenue generated</b> or additional funding earned by research and development projects.</li> </ul> <p><b>Research expenditure ratio</b> measures the amount of research expenditures per faculty FTE:  <math display="block">\frac{\text{Research Expenditures}}{\text{Faculty FTE}}</math></p> <p>Annual audit report, with an <b>unqualified opinion</b>, that identifies suggested material areas of improvement to the University System's financial operations.</p> <p>Biennial audit report reflecting:</p> <ul style="list-style-type: none"> <li>• <b>Budget to actual</b> appropriation statements.</li> <li>• Appropriate financial <b>noteworthy accomplishments</b> and successes.</li> <li>• A reduction in <b>material areas of statutory noncompliance</b>.</li> <li>• University System <b>compliance with suggested significant areas of improvement</b>.</li> </ul>

ATTACH:1