



PA State System of Higher Education Board of Governors

Effective: July 1, 2011

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Policy 2011-01: University Financial Health

See Also:

Adopted: April 7, 2011

Amended:

A. Purpose

To establish expectations for long-term financial health of System entities through the measure of unrestricted net assets and operating margins.

B. Definitions

Educational and General-All activities and resources that support the educational mission of the System or University, including unrestricted instruction, research, public service, academic support, institutional support, scholarship and fellowship, and operations and maintenance of plant activities. Auxiliary and restricted activities are excluded.

Encumbrance-A firm commitment or obligation in the form of purchase orders or other contractual agreements.

Net Assets-The difference between an institution's assets and liabilities, as defined by the Governmental Accounting Standards Board (GASB). Net assets are displayed on the financial statements in three components: invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Unrestricted Net Assets-This category of net assets includes funds that the Board or University trustees have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets. It represents all funds over which the University can exercise discretion and may be used to meet the general financial requirements of the institutions. For the purposes of this policy, the following unencumbered unrestricted net asset designations will be included: Educational and General Activities, Life Cycle Maintenance, Retirement of Debt, and Plant. The following unrestricted net asset designations will be excluded: Educational and General Encumbrances, Plant Encumbrances, contractually required Health Care Reserves, Auxiliary net assets, and the unfunded net asset balances attributed to postretirement and compensated absence liabilities.

Operating Margin-Reflects the ability to balance operations in any given year by indicating the excess margin (or deficit) by which annual revenues cover operating expenses. The operating margin is calculated in accordance with national best practices.

C. Administration

1. The Presidents and the Chancellor are required to maintain adequate unrestricted net assets at each PASSHE entity to:
 - a. Protect the System and individual PASSHE entities in cases of sudden revenue reductions;
 - b. Provide resources to address unanticipated expenses, including emergencies; and,
 - c. Prepare for multiyear planning needs.
2. University unrestricted net asset balances shall be maintained annually within the range of 5% to 10% of the University's current year Educational and General revenue.
3. The University operating margin shall be maintained annually within the range of 2% to 4%.
4. Exceptions to the target ranges will be approved by the Chancellor.