MEETING OF THE
AUDIT COMMITTEE

Board of Regents for Higher Education
Board Room – Ground Floor
61 Woodland Street, Hartford, Connecticut

Tuesday, May 22, 2018 at 10:00 AM

AGENDA

1. Approval of the Minutes of December 12, 2017

2. CFO Updates

3. Compliance Officer Updates

4. Grant Thornton

    a. 2018 Audit Planning Presentation and Discussion
    b. "The State of Higher Education" in 2018 Highlights

5. Adjournment

Meeting of the
Audit Committee
Connecticut State Colleges and Universities
Board of Regents for Higher Education
61 Woodland Street
Hartford, CT
Tuesday, December 12, 2017 @10:00

MINUTES

Regents Present
Elease Wright, Chair
Aviva Budd
William McGurk – telephonic

Regents Absent
JoAnn Price

BOR Staff Present
Erika Steiner, Chief Financial Officer; Chris Forster, Controller; Michael Moriarty, CFO Charter Oak College; Keith Epstein, Vice President for Facilities and Infrastructure Planning; Melissa Schwalbach, Assistant Counsel

Guests
Claire Esten, Brittany Kelley, Justin Morrow – Grant Thornton

With a quorum present, Chair Wright called the meeting to order at 10:00 a.m.

1. Approval of the Minutes of October 10, 2017

Motion by Regent Budd, seconded by Regent McGurk, to approve the minutes of the October 10, 2017 meeting. The motion was carried.

2. CFO Updates

CFO Steiner noted that President Ojakian submitted one expense report for the twelve months. Reimbursement was submitted for airfare to San Francisco to attend a meeting with other university presidents. Mileage is not reimbursed because he has use of a State gas card.

3. **Year End Reports and Discussion**
   a. Report by Management

CFO Steiner reported that a meeting was recently held with the State Auditors of Public Accounts (APA). All of the Community Colleges with the exception of Capital Community College and Housatonic Community College were audited for the Fiscal Years ended June 30, 2014 and 2015, as well as the financial records of the Board of Regents for Higher Education. While the draft was submitted in February 2017, internal delays at the APA level prevented a draft report from being generated prior to December 2017. Many of the items identified in the report were new to the System Office with many being small items and 6-8 significant items.

Melissa Schwalbach, Assistant Counsel, reviewed the Auditors' significant findings and clarified steps that have been implemented or will be made to rectify the findings. There was a general discussion about the citing of a FMLA employee leave. Chairwoman Wright noted that the issue needs to be revisited because of the seriousness of the matter and a possible need for consequences. The Audit Report will be issued in January.

The reporting on the GASB 68 analysis was provided by CFO Steiner and Michael Moriarty, CFO Charter Oak College. The GASB 68 as adopted in FY15 into the financial statements requires recognition of a pro-rata share of the State's pension liability. CSCU employees are eligible for one of three pension plans. The SERS plan was focused on for discussion. The CSCU system fringe benefits and SERS contributions were reviewed.

Chris Forster, Controller, commented that although challenging, the audit was done in a timely manner. A meeting was convened with System Office personnel and Grant Thornton representatives to meet the November deadline. Everyone did an amazing job and there were no major issues reported.

On behalf of the Audit Committee, Chairwoman Wright thanked those involved in preparing the reports for their time and effort in this undertaking.

   b. Report by Grant Thornton

Claire Esten, Partner and other representatives from Grant Thornton reported on the required communications for fiscal year ended June 30, 2017. A "representative list" of the significant items were reviewed as well as the procedures performed by the auditors and the results. There are additional open items that are less significant but necessary to address. Upon finalization of these items, Grant Thornton will perform updating inquiries with management prior to issuance. Areas of focus included: Tuition & fee revenue; Grant revenue and accounts receivable; Net Pension Liability; State and Capital Appropriations; Capital Assets; Cash and cash equivalents, Investments, and Bonds Payable; Net position and presentation of revenues within net position classes; and Adoption of new accounting pronouncements.

Grant Thornton obtained management's analysis of Statement No. 80 of the GASB, *Blending Requirements for Certain Component Units*, and determined that CSCU is not the sole corporate member of any of the discretely presented component units such that blended presentation was required. Therefore, there has been no change as a result of this guidance. Statement No. 82 of the GASB, *Pension Issues,* was also discussed and determined that it had no impact on the disclosures as they covered payroll previously presented by the System was consistent with the new guidance.

Grant Thornton noted that each of the Foundations at the Universities, Charter Oak State College and the Community Colleges have a separate auditor and that GT do not audit those audits. In the auditor's report on each entity's financial statements, reference is made to the audits performed by the other unaffiliated auditors.

In response to certain matters identified as significant deficiencies or material weaknesses in the 2016 audit, Grant Thornton is satisfied with management's implementation of compensating processes and controls. There are currently no internal control matters identified as significant deficiencies or material weaknesses. Deficiencies of a lesser magnitude have been communicated to management in regards to manual consolidation process; consistency over financial reporting across the University campuses; and Information Technology environment.

4. Management Report of Audited Foundation Financial Statements

Chris Forster, Controller, reported on the Universities and Colleges Financial Statements and provided financial highlights for Fiscal Years ending 2017 and 2016 (draft copies of the Financial Statements were provided for the Audit Committee). Each of the seventeen Colleges and Universities as well as the Connecticut State Colleges and Universities System has a related foundation. The Foundations are considered Component Units of the System for reporting purposes under GASB rules.

The auditor's opinions states that the financial statements present fairly, in all material respects, the financial position of the Foundations as of June 30, 2017 (or December 31, 2016) and the results of its activities and changes in net assets and functional activity for the year ended in conformity with generally accepted accounting principles in the United States.

With no other business to discuss, the meeting was adjourned at 11:55 a.m. on a motion by Regent Budd, seconded by Chairwoman Wright.

Grant Thornton

2018 Audit Planning Presentation and Discussion

Connecticut State Colleges and Universities

for the year ending June 30, 2018

May 22, 2018

Senior Engagement Team Contact Information

Engagement Member	Role	Phone	Email
Claire Esten*	Lead Engagement Partner	508.926.2481	Claire.Esten@us.gt.com
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Matt McCormack*	Audit Supervisor	860.781.6715	Matt.McCormack@us.gt.com

*- Denotes a recurring member of the team

Audit Timeline

April	Client reacceptance	• Client reacceptance • Issue engagement letter
April- May	Planning	• Meet with management to confirm expectations and discuss business risks • Discuss scope of work and timetable as well as identify current year audit issues • Conduct internal client service planning meeting, including coordination with audit support teams (e.g., IT & tax) • Initial Audit Committee communications
May - June	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Update understanding of internal control environment • Coordinate planning with management and develop work calendar
May - June	Interim fieldwork	• Perform walk-throughs of business processes and controls • Perform selective substantive testing on interim balances
September - December	Final fieldwork and deliverables	• Perform year-end fieldwork procedures • Meet with management to discuss results, including review of draft financial statements, misstatements (if any), and completeness/adequacy of disclosures • Present results to the Audit Committee

Significant risks and other areas of focus

The following provides an overview of the significant risks and other areas of focus, by entity/location.

	Central	Southern	Eastern	Western	CCC	System Office	Charter Oak
Tuition & Fees Revenue*	X	X	X	X	X		X
Auxiliary Revenues	X	X	X	X			X
Grant Revenues	X	X	X	X	X		X
Capital Assets	X	X	X	X	X	X	X
Debt						X	
Adoption of new accounting pronouncements						X	

State appropriations and employee compensation related accruals (compensated absences, net pension liability, and deferred outflows/inflows) are tested at the System Office for Universities. State appropriations and employee compensation related accruals will be tested for Community Colleges and Charter Oak at those respective locations. Journal entries, Net Assets, Cash, Operating Expenses, and Employee Compensation will also be tested at each entity/campus.

*- Denotes a Significant Risk area

Views of those charged with governance

Discussion points

- Risks of fraud
- Awareness of fraud
- Awareness of related party transactions; understanding of purpose of related party transactions
- Awareness of whistleblower tips or complaints
- Oversight of management's risk assessment process
- Views about the System's objectives and strategies and related risks of material misstatement
- Awareness of any internal control matters and views about management's response
- Oversight of financial reporting process
- Actions taken in response to developments in law, accounting standards and corporate governance matters
- Actions in response to our previous communications, if any

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Recent headlines regarding fraud at Not-For-Profit organizations

- "6 employees misappropriate hundreds of thousands in student aid at Howard University"
- "Bait and switch scam for vets at Caldwell University"
- "Former employees enrolled fake students, complete with manufactured diplomas, at the Center for Employment Training"
- "Fraud perpetrated at Columbia University for over a decade"
- "Over $550k in kickbacks paid by Ecclesia College"
- "Incentive compensation for admissions staff at Academy of Art in San Francisco"
- "Alameda University offers 'degrees' for life experience and, of course, cash"

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Audit Planning Presentation

Technical Updates – GASB

Selected pronouncements effective for the year ending June 30, 2018 or subsequent periods - GASB

Title	Effective date for CSCU
GASB 75- *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*	FY18
GASB 81- *Irrevocable Split-Interest Agreements*	FY18
GASB 83- *Certain Asset Retirement Obligations*	FY19
GASB 84- *Fiduciary Activities*	FY19
GASB 85- *Omnibus 2017*	FY18
GASB 86- *Certain Debt Extinguishment Issues*	FY18
GASB 87- *Leases*	FY20
GASB 88- Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements	FY19

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

Summary	Potential impact
• GASB 75 replaces the requirements related to OPEB accounting and reporting currently provided in GASB 45 and 57 • GASB 74 established new accounting and financial reporting requirements for the financial statements of the state and local government OPEB plans • State and local governments providing defined benefit OPEB plans administered through a trust meeting certain criteria must report a net OPEB liability on the face of their financial statements, similar to the requirement to report the net pension liability in accordance with GASB 68. • Provides a more comprehensive measure of OPEB expense than is currently required, which better reflects when the benefit cost is incurred. • Requires more extensive disclosures and required supplementary information • Effective for fiscal years beginning after June 15, 2017, with early adoption encouraged. Similar to adoption of GASB 68 (Pensions), retrospective adoption is required.	Universities with OPEB plans will most likely need to reflect an obligation related to their proportionate share of the unfunded liability related to OPEB, similar to the recognition of a pension liability in connection with the adoption of GASB 68. As with GASB 68, extensive planning and discussions among all parties (university management, state government contacts and others) is critical to a successful adoption. Universities should begin to evaluate the information needed to adopt the guidance as a significant portion of that information may come from state or other related entities. Because many plans are "pay as you go," the impact of recording this liability could be significantly greater than the recognition of a pension liability, where there may have been existing plan assets to partially offset the liability.

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GASB Statement 81, *Irrevocable split-interest agreements*

Summary	Potential impact
• Scope includes irrevocable split-interest agreement giving arrangements for which the government is the intermediary (trustee or agent) and a beneficiary, as well as beneficial interests in resources held and administered by third parties • Guidance establishes accounting for Lead Interests (government is a recipient of payments during the term of the agreement) and Remainder Interests (government is the beneficiary when the agreement terminates, and makes payments to non-government beneficiary – typically the donor or designee of the donor- during the term of the agreement) as well as life-interest in real estate and charitable annuity gifts. • Accounting requires recognition of an asset, liability and deferred inflow. When assets are held by third parties, the recognition will be an asset and a deferred inflow, with no need for a corresponding liability. There will be an annual re-measurement in subsequent periods. • Effective for periods beginning after 12/15/2016, with early adoption permitted. Retroactive application should be applied.	Because there has been some diversity in practice related to accounting for irrevocable split-interest agreements, some universities may need to reflect new accounting, primarily the recognition of deferred inflows, associated with these arrangements. Management should inventory the current agreements in place to determine the impact of this standard on current accounting and reporting. This may involve interaction with development colleagues to ensure a complete list of agreements is identified.

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GASB Statement 83, *Certain Asset Retirement Obligations*

Summary	Potential impact
• Objective is to develop requirements on recognition and measurement for asset retirement obligations (ARO), other than landfills (GASB 18) or pollution remediation obligations (GASB 49), such as nuclear power plants and sewage treatment facilities • The pronouncement addresses the following: - Establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources when a governmental entity has a legal obligation to perform future asset retirement activities related to its tangible capital assets - Proposes capitalization of the ARO as a deferred outflow of resources, to be amortized in a systematic and rational manner (such as the straight-line method), generally over the life of the related asset giving rise to the obligation - Requires disclosures regarding governmental entity legal requirements to provide funding or other financial assurance for their performance of asset retirement obligations (e.g., how are those requirements being met) as well as nature and timing of AROs, method used to determine the estimated liability and useful life of the associated tangible asset. • Effective for periods beginning after June 15, 2018. Earlier application is encouraged.	Similar to the efforts Universities underwent when adopting GASB 49, management should inventory any activity whereby there is a related obligation to dispose of certain assets subject to regulatory and legal requirements. With that list, management must calculate the expense of that effort and track it annually. The effort to inventory these assets/costs may requirement input from facilities and potentially other areas of the University and the process to estimate costs of future events may also require assistance from facilities and other departments.

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GASB Statement 84, *Fiduciary Activities*

Summary	Potential impact
• Guidance addresses the following: - The categorization of fiduciary activities for financial reporting - How fiduciary activities are to be reported - When liabilities to beneficiaries must be disclosed • Types of fiduciary funds that must be reported include the following: - Pension (and other employee benefit) trust funds - Investment trust funds - Private-purpose trust funds - Custodial funds • A government controls the assets of an activity if it holds the assets or "has the ability to direct the use, exchange or employment of the assets in a manner that provides benefits to the specified or intended recipients" • Fiduciary activities must be disclosed in the basic financial statements of the government entity and a statement of fiduciary net position and changes in fiduciary net position should be presented (unless the period of custody is less than three months). • Effective for periods beginning after December 31, 2018, with early adoption encouraged.	Universities often will agree to act as a fiduciary for certain third party organizations that might be somehow affiliated to the university (such as student clubs, alumni clubs, or other such organizations). Under this new requirement, the University must report the fiduciary activity on its financial statements, where it may not have done so in the past. Management should identify which fiduciary activities it is engaged in to inventory the relationships which may need to be reported. Management may want to consider changing the terms of the relationships such that they are not subject to reporting on the financial statements of the University when the requirement becomes effective.

GASB Statement 86, *Certain Debt Extinguishment Issues*

Summary	Potential impact
• The purpose of this guidance is to achieve consistency regarding accounting for the defeasance of debt irrespective of the source of funds set aside in an irrevocable trust for the purpose of funding the remaining debt (source of funds could be proceeds from a refunding arrangement or existing sources within the governmental entity). • New guidance clarifies the accounting for debt extinguishment when the source of the assets to be set aside in an irrevocable trust is existing resources rather than refund proceeds. When all of the other criteria for in-substance defeasance are in place, the debt is removed from the statement of net position and is disclosed in the footnotes in either scenario. • GASB 86 also requires that any remaining prepaid insurance related to the debt being extinguished must be included in the net carrying amount of that debt (to determine gain or loss on refunding). • Disclosures include a description of the transaction in the related period and remaining amounts outstanding in each subsequent period that the debt remains outstanding. • Effective for periods beginning after June 15, 2017, with early adoption encouraged. Changes to adopt this standard should be applied retroactively.	Depending on how universities fund the irrevocable trust related to debt extinguishments, the new standard may create additional situations where debt will be "removed" from the statement of net position, and disclosed in the footnotes to the financial statements. For universities considering future refundings, there is no longer a distinction in the accounting if the source of funds to be placed in an irrevocable trust are from existing resources or refunding arrangements.

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GASB Statement 87, *Leases*

Summary

- The GASB recently issued guidance which resembles the recently issued FASB guidance on leases.
- To determine whether a lease exists, a government should assess whether it has both:
  1) The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
  2) The right to determine the nature and manner of use of the underlying asset as specified in the contract
- For Lessees:
  - In general, all leases will be reported on the statement of net position (the distinction between operating and capital leases is no longer relevant) as a "right of use" asset and a corresponding lease liability within long term debt
  - On the statement of changes, rent expense will be replaced by amortization expense of the right-of-use asset as well as interest expense on the lease liability (thus accelerating expenses in the beginning years of the lease term)
  - There is an exemption for short term leases (those with a term of 12 months or less, including extension options) as well as leases that transfer ownership at the end of the term
  - Disclosures regarding matters such as total leased assets by major class of underlying assets and related accumulated amortization (in total), principal and interest payments for each of the five subsequent fiscal years and in five year increments thereafter and commitments under leases before a lease commencement period, among other items
- Effective for periods beginning after December 15, 2019, with early adoption encouraged. Existing leases will be adjusted based on the remaining lease payments as of the beginning of the period of adoption or beginning of any earlier periods restated (for example, for June 30 year ends, adoption is June 30, 2021 so the beginning period is July 1, 2020).

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GASB Statement 87, *Leases* (continued)

Potential Impact
For those universities which use operating leases to finance certain capital activities, this standard could have a significant impact on the financial statements of the University upon adoption. Management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing leases that will be subject to the new accounting and disclosures.

GASB projects

Project	Timing
Financial Reporting Model- Reexamination of Statements 34, 35, 37, 41 and 46, and Interpretation 6	Evaluation of feedback from Invitation to Comment in process, planned issuance of final standard in 2022.
Revenue and expense recognition	Initial deliberations, with an Invitation to Comment expected in early 2018.
Recognition (conceptual framework)	GASB is redeliberating on results from comments on preliminary views
Capitalization of Interest Costs	Exposure draft available for comment through March 2018, with a final statement expected in June 2018
Conduit Debt- Reexamination of Interpretation 2	Recently added to the agenda
Equity Interest Ownership Issues	Exposure Draft comment period recently ended, currently in redeliberations, with final statement expected August 2018
Implementation Guide- GASB 84 (Fiduciary Activities)	Material for Guide in development, final Guide expected to be available in May 2019
Implementation Guide- GASB 87 (Leases)	Material for Guide in development, no current date for release is available

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GASB major project – Financial Reporting Model

Summary	Potential impact
• GASB is revisiting its reporting model established in GASB 34 and 35, as well as other GASB standards, following the FASB project to revisit the reporting model of NFP entities. • Although there is general consensus that most of the components of the financial reporting model are effective, the Board determined that there is a need to update guidance related to several categories, focusing on the following: - MD&A - Government-wide financial statements - Major funds - Governmental fund financial statements - Proprietary fund and business-type activity financial statements - Fiduciary fund financial statements - Budgetary comparisons • Other options to permit more timely and less complex financial reporting will be explored in conjunction with other topics • The Board is redeliberating based on feedback from invitation to comment and public meetings. Tentative timing for issuance of final guidance is projected to occur in 2022.	Similar to the significant impact on reporting and disclosures when GASB 34 and 35 were issued, this proposed guidance could have sweeping effects on the reporting and disclosures by public colleges and universities. Depending on how much the GASB looks to what is being done by the FASB on the NFP reporting model, there could be an increase in comparability between the two types of entities that currently use very different reporting models. Three of the business type activities issues that the GASB is considering that are particularly relevant to public universities are guidance on the operating indicator, MD&A and extraordinary and special items.

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GASB major project – Revenue and Expense Recognition

Summary	Potential impact
• Three primary areas of focus of the project are as follows: 1. Common exchange transactions not specifically addressed in existing GASB guidance Ø Project plans to develop guidance or improve existing guidance regarding i. Exchange and exchange-like transactions having single elements ii. Exchange and exchange-like transactions having multiple elements iii. The differentiation between exchange-like and non-exchange transactions 2. Post-implementation review of GASB 33 and 36 Ø Areas to be considered include: i. Distinguishing between eligibility requirements and purpose restrictions ii. Determining when a transaction is an exchange or a nonexchange transaction iii. Using the availability period concept consistently across governments iv. Applying time and contingency requirements 3. Development of GASB conceptual framework Ø GASB 33 and 36 were developed prior to key parts of the conceptual framework, such as defining deferred inflows and outflows Ø An evaluation of the recognition of nonexchange transactions against the conceptual framework is necessary • Invitation to Comment has been issued, with a comment period through April 2018. Current projected release of a final statement is March 2023.	As it relates to recognition of exchange and nonexchange transactions such as grants vs gifts vs contracts, there continues to be an element of judgment and interpretation of existing GASB and FASB guidance. This project could impact the current practices of higher education institutions as it relates to revenue recognition.

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GASB pre-agenda research

Topics
- Going concern disclosures - Information technology arrangements, including cloud computing - Note disclosures reexamination - Public-private partnerships, including reexamination of Statement 60

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Audit Planning **Presentation**

Industry Updates

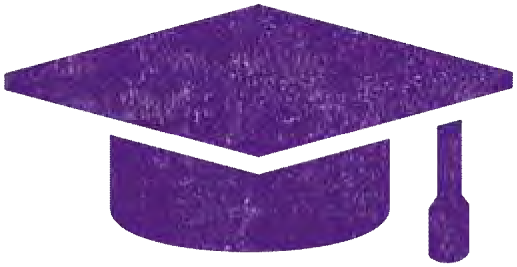
Key Themes in 2018

Good news:

- Colleges and universities are holding steady, with flat or modest revenue increases accompanied by warning signs
- More and more experiments with "business model" are occurring

Not so good news:

- Revenue is highly constrained with limited prospects of improvement
- Price sensitivity (restraint on net price increases) continues
- Demographics worrisome in East and Midwest
- Washington policies may harm but won't help



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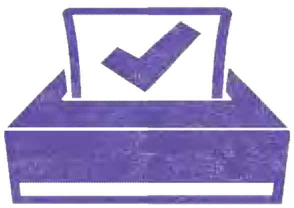
Washington Update: New Tax Law



Plus many, many little surprises like employee moving expenses now being taxable

1. **Endowment spending lowered**: 1.4% excise tax on net investment income. Applies if over 500 students and $500M in assets per FT student. Excludes assets "directly used to carry on educational purposes."

2. **Excise tax on executive comp**: 21% excise tax on comp of "covered employee" in excess of $1M ("covered" if one of five higher compensated for organization)

3. **Likely increase in unrelated business income tax**. No "bucketing" or "netting." Loss of one activity can't be used to offset gain of another.

4. **Fund raising more challenging**. Increase in standard deduction eliminates tax incentive for those who don't itemize. Doubling of estate tax exemption may reduce charitable giving to reduce or eliminate estate tax.

5. **Weakened state support for public higher education:** The cap on the state and local tax deduction puts additional pressure on state budgets

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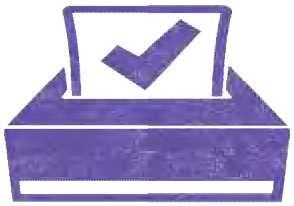
Washington Update: Immigration & Isolation



1 **Immigration, including DACA**: Negative impact on trend toward globalization: insecurity of existing students & faculty, less international students (see below) & faculty; stifled programs abroad

2 **International Student Enrollments Down**: Applications & enrollments dropped this fall, especially at the graduate level and in non-elite institutions

States:

1 **"Free tuition**: Being proposed by governors and adopted in in some states. Generally good for public institutions. Potential negative impact on private colleges in those states.

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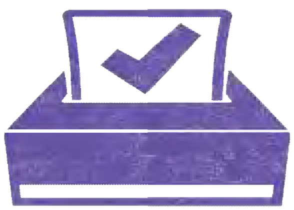
Washington Update: Higher Education Act*



1	**Federal aid (grants)**: Continues Pell Grants but limits or eliminates other aid programs.
2	**Federal aid (loans)**: Ends the Public Service Loan Forgiveness Program. Caps the amount graduate students may borrow at $150K. Ends Federal Direct Loan Program for new borrowers starting July 1, 2019.
3	**Free Application for Federal Student Aid (FAFSA)**: Asks Secretary to simplify the FAFSA and create mobile-optimized tool.
4	**Accreditation**. Accreditors required to identify annually institutions that are at risk of failing to meet their standards and key metrics. At least one public member on accrediting commission would be required to represent the business community
5	**Protects for-profit education**. Repeals "gainful employment" regulation, weakens "borrower defense" regulation; tells DOE to use "single definition of institution"

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*House version

"Negative" after two years of "stable"

Revenue:

- Growth in revenue will not keep pace with growth in expenses
- Increases of tuition revenue, research funding and state contributions will "remain subdued"
- "A market that is increasingly sensitive to higher education's price v. perceived value"

Expenses:

- Labor costs
- "Need to sustain investments" in programs, facilities, and technology

Private Sector

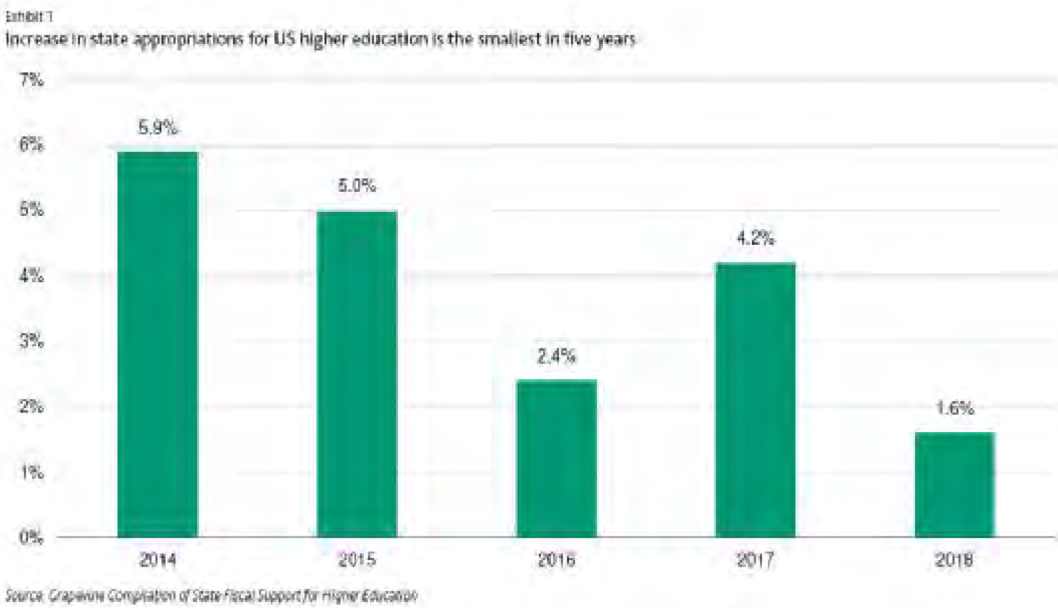
- More than half of private institutions will achieve growth of at least 3%
- Net tuition growth in the 3-3.5% range for private universites and "lower net tuition growth" than universities for small & medium sized institutions
- Growth in "first year discounting" is a worry

Public Sector

- Less than 20% of public, four-year institutions will see their revenue increase by more than 3%
- Net tuition growth in 2-3% range "as they face increasing political constraints, including state limits on raising tuition"
- Tuition freezing and lowering is gaining traction
- More states likely to mandate mergers & reorganizations

All sectors: decline of high school graduates in Northeast & Midwest (over 5% through 2025)

"Slow growth in state support strains public universities' budgets"*



- Smaller state funding increase is "credit negative" for public universities
- "Effects of the limited funding increase will be greatest for small public universities, for which almost 30% of operations are paid for with state appropriations."
- Public universities, especially regional universities, have "consumed much of their pricing power" so tuition increases can't offset state support

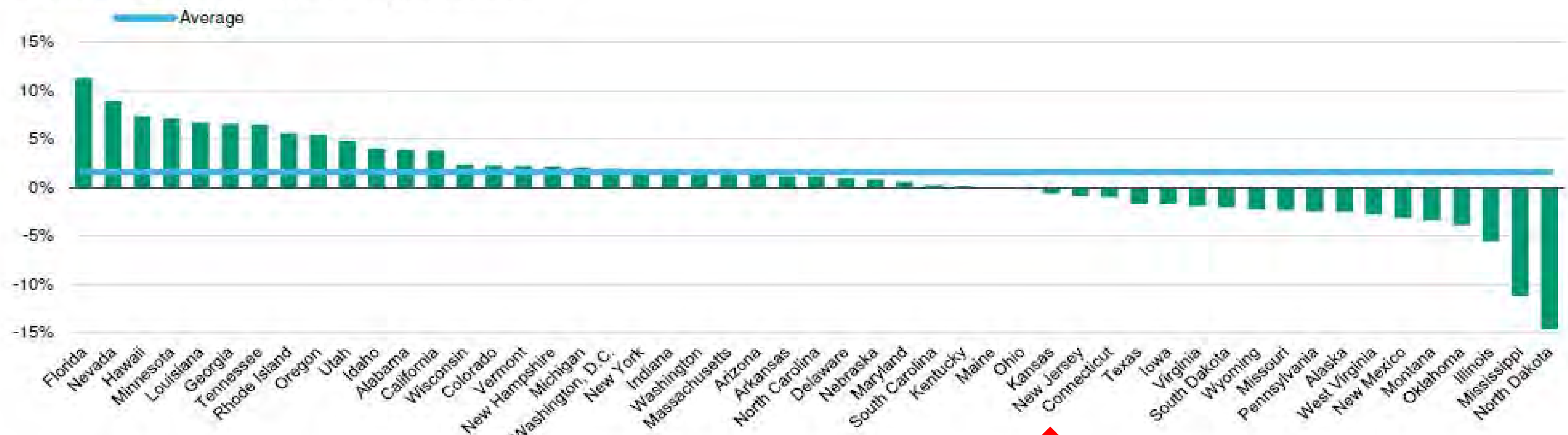
*Title of Moody's report issued 1-29-2018

Changes in support vary significantly by state

Exhibit 2

Wide disparity in 2018 state appropriations for higher education

One-year change in state support for higher education



Source: Grapevine Compilation of State Fiscal Support for Higher Education

Moody's report issued 1-29-2018

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"Negative" after two years of "stable"

Federal policies:

- Tax law could hurt fund raising
- Immigration policies and tone is hurting international enrollment
- Uncertainty around potential future changes in tax policies and in Federal student aid policies

MOODY'S

"Negative" after two years of "stable"

Opportunities:

- International recruitment
- Expansion of online and certificate programs
- Attracting transfer students and improving retention

Standard & Poor's 2018 Sector Outlook

S&P Global
Ratings

Opportunities

- Increase and emergence of innovative strategies and partnerships
- Change in institutions' view of ideal target student profile

Risks

- Multiple implications from the recently enacted Tax Cut and Jobs Act
- Decrease in capital markets activity due to rising interest rates and curtailment of advance refundings
- Widening gap between students' expectations and their willingness to pay

Citing changes in Federal policy, S&P also switches to "a negative outlook"

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Standard & Poor's 2018 Sector Outlook

S&P Global Ratings

Some quotes from S&P

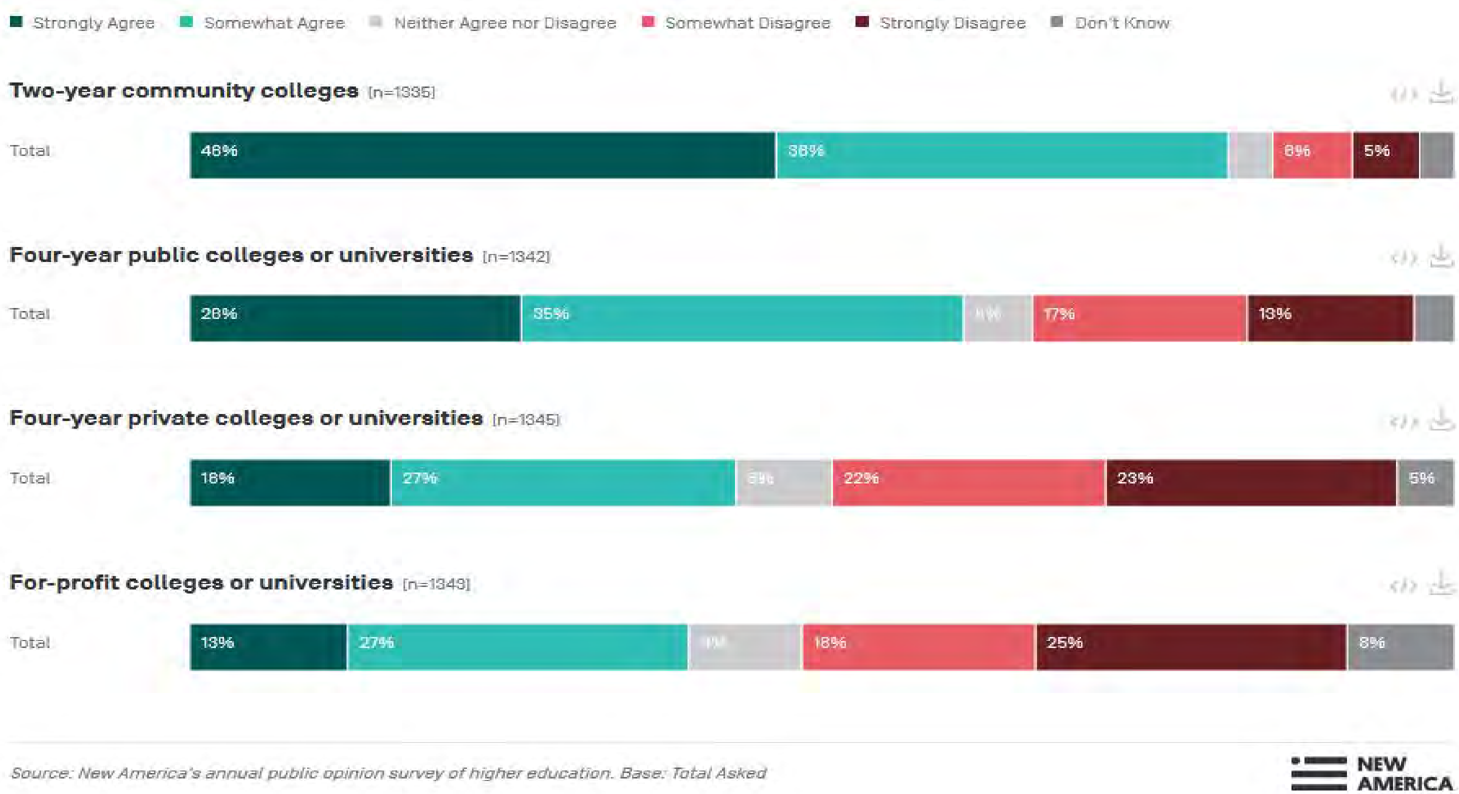
"Students and parents seek stagnation in or decrease in the cost of attendance while demanding even bigger increases and improvements to facilities, amenities, and services."

"Colleges and universities seem more open than ever before to adopting nontraditional or new strategies and partnerships……We expect institutions will continue to explore creative ways of doing business to combat the challenges of the current operating model."

NEW AMERICA

2017 annual survey of American public opinion on higher education

Agree or disagree: Public higher education is worth the cost.



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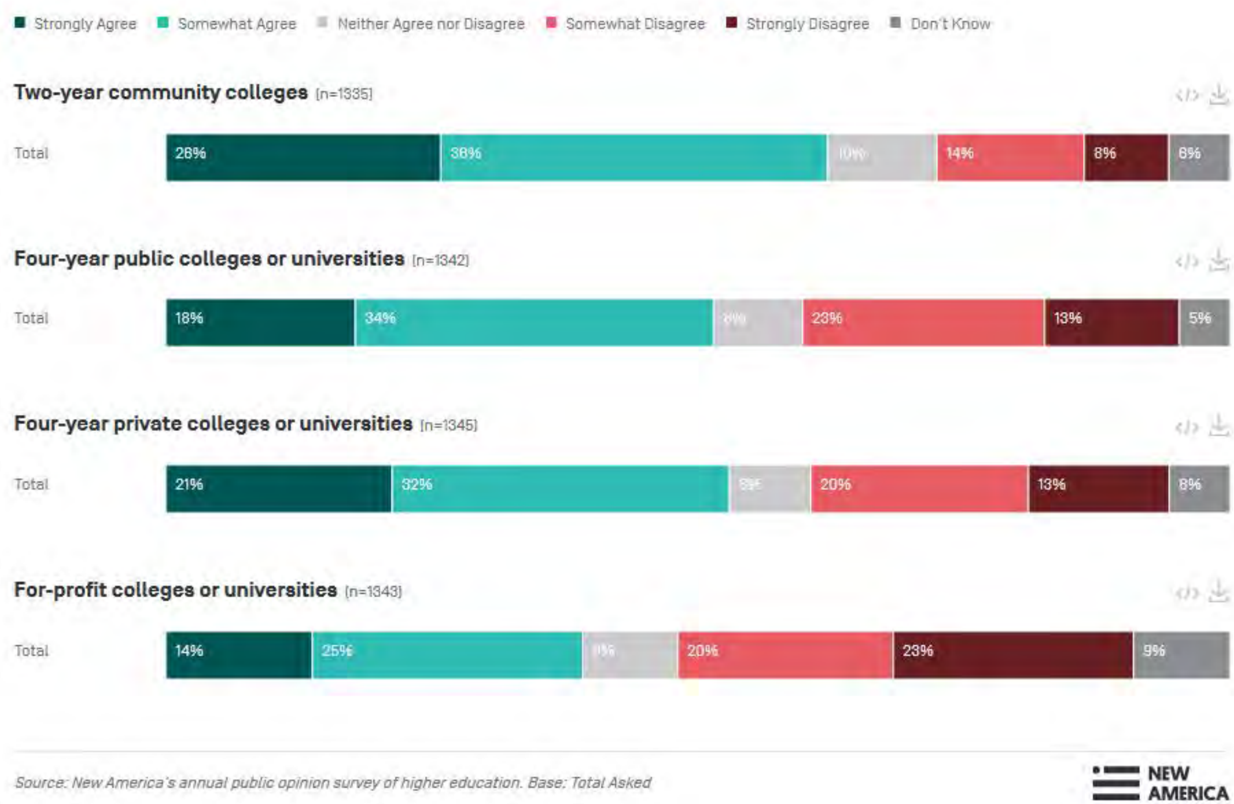
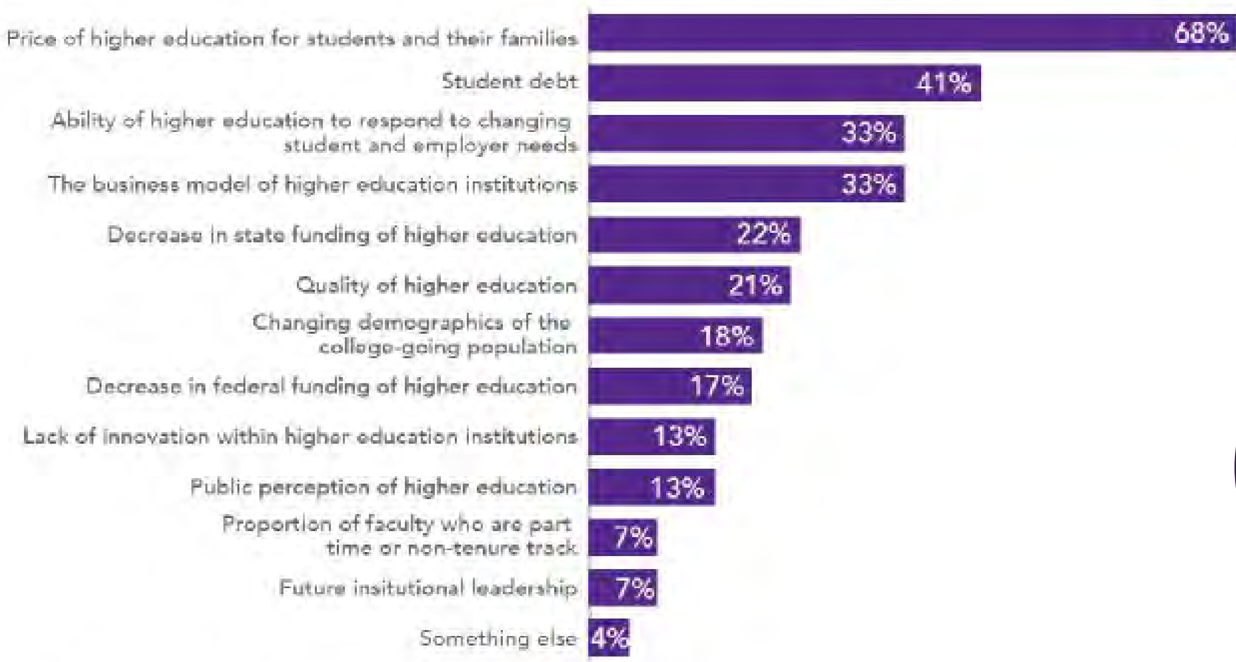
2017 annual survey of American public opinion on higher education

Agree or disagree: Public higher education always puts their students first.



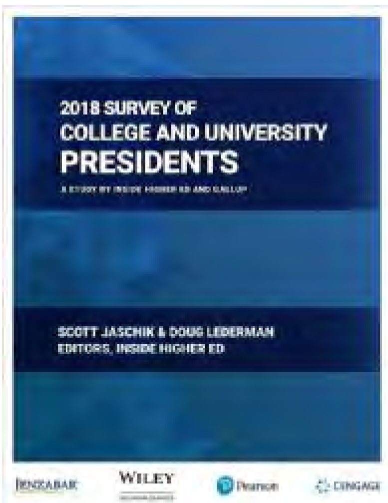
2017 survey: % of trustees who identified issue as one of the top three "concerns about the future of higher education"



Note: Respondents could choose up to three choices.
Percentages are calculated based on the number of respondents.

Affordability is top issue for trustees

"Confident my institution will be financially stable"



Over five years.........

63%

All institutions "agree" or "strongly agree"

62%

Public universities "agree" or "strongly agree"

61%

Nonprofit private colleges "agree" or "strongly agree"

Over ten years.........

53%

All institutions "agree" or "strongly agree"

47%

Public universities "agree" or "strongly agree"

57%

Nonprofit private colleges "agree" or "strongly agree"

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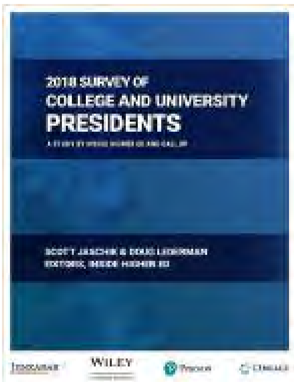

"Confident my institution will be financially sustainable over ten years"

Elite Private Universities	Elite Private Colleges	Public Flagship Universities	Private Colleges
84%	89%	68%	13%

Private tuition dependent colleges see themselves as most at risk!

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Price resistance

Price resistance is growing.

- 18.6% of students who were admitted to their top choice of college or university in 2016, but decided not to go there, turned it down because of the cost of attendance
- 39.9% who turned down their college of first choice did so for a reason related to cost, such as financial aid received from another college, non-need based scholarships, or "a college's value"
- Results not much different between SAT score levels or minority status

Reason for Not Attending College of First Choice	Percentage of Students Citing
Cost of attendance	18.6%
Campus environment	9.4%
Location of the school	9.3%
The financial aid I received	9.1%
Academic reputation	8.1%
Proximity to home	7.6%
Offered the major I wanted	6.6%
The merit-based scholarship I received	6.3%
Best value	5.9%
Reputation in my intended field of study	4.9%
The size of the school/number of students	3.8%
Athletic programs	3.3%
Overall Reputation	3.0%
Legacy/family member attended the school	1.8%
Amount of contact after admission	1.1%
Timing of my financial aid award	1.0%
Amount of contact before application	0.4%

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Price resistance

Price resistance is growing.

Last year, 69% of parents/prospective students eliminated some colleges from their selections because of cost, a number that jumped from 58% ten years ago.

Figure 5

Elimination of Colleges from Selection Set Due to Cost, over Time

Net tuition revenue pressures

Chronicle of Higher Education survey:

- Four in ten private colleges and almost three in ten public ones missed their goals for enrollment and net tuition revenue in 2016, a track record similar to the prior three years.

College Board:

- Net tuition revenue has been essentially flat in the two years most recently available, for private baccalaureate and master's level colleges

Moody's

- "Low gains in tuition revenue are the 'new normal' for colleges" and
- "Institutions that lack a distinct brand or strong value proposition are bearing the brunt of an increasingly value-oriented consumer"

Net tuition revenue pressures (continued)

NACUBO Tuition Discounting Study:

- Net revenue growth projected at just over 1% for freshman, a decrease from prior year, and 37.5% of institutions had enrollment declines among both first-year classes and their entire student bodies from 2014-15 to 2015-16.
- More than half of institutions, 51.2%, reported a decrease in total undergraduate enrollment, and 53.5% said freshman enrollment dropped.

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Endowment returns low over time

NACUBO/Common-fund Study of 809 endowments for FY2017:

- The ten year average annual return fell to 4.6% from 5.0%
- 65% of endowments reported increasing their effective spending rate; the median increase being 6.5%

Colleges and universities with spending rates above this annualized annual return:

- Could be eroding the purchasing power of their endowments over time.
- Should reassess their spending rates and consider lowering them.

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Top IT Issues in Higher Education in 2018

1 **Information Security**. Developing a risk-based security strategy that keeps pace that keeps pace with security threats and challenges

2 **Student Success**. Managing the systems implementations that support multiple student success initiatives.

3 **Institutional-Wide IT Strategy**. Repositioning or reinforcing the role of IT leadership as an integral strategic partner of institutional leadership in achieving institutional missions

4 **Data-Enabled Institutional Culture**. "Using BI and analytics to inform the broad conversation and answer big questions.

Institutions Reported in Trouble (in the last year)

Financial Distress

- Mills College
- Bard College
- SACS puts 5 college on probation
- Louisiana puts 4 universities on "watch"
- Sweet Briar College
- Hampshire College
- Colby-Sawyer College
- College of New Rochelle
- Hiram College
- Cheyney University
- Chicago State University
- Lincoln University
- Wilberforce University
- Rider University
- and others!
- Lincoln University
- Sage Colleges
- Warren Wilson College
- Jackson State U.
- Bethune-Cookman U
- Loyola U. New Orleans

Closing

- Burlington College
- Dowling College
- Paine College
- St. Catherine College
- Marian Court College
- Saint Joseph's College (IN)
- Whittier Law School
- Grace University (NE)
- Memphis College of Art
- St. Gregory's U (OK)
- Atlantic Union College

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Institutions Merging (announced in the last year or so)

- Wheelock College (into Boston University)
- Shimer College (into North Central University)
- Daniel Webster College (into Southern New Hampshire University)
- Episcopal Divinity School (into Union Theological School)
- Trevecca Nazarene University & Eastern Nazarene University
- St. Vincent's College ("management agreement" with Sacred Heart University)
- Andover Newton Theological School (into Yale University)
- Trinity Lutheran Seminary (into Capital University)
- Westminster Choir College (purchased by Chinese for-profit)
- Mount Ida College & … UMass Amherst?

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National Center for Education Statistics

- Sharp **drop in number of for-profit entities** gives impression that higher education is "imploding" (and those are some of the headlines)
- Number of private nonprofit colleges did decline by 33 from 2015-16 to 2016-17 (latest year), but…
  - There have been fluctuations up and down year by year **with little overall change** in nonprofit private sector
- Some of the changes in the public sector and nonprofit private sector are the result of mergers

Academic Year	All Institutions	Public	Private Nonprofit	For-Profit
2009-10	6,896	2,015	1,865	3,016
2010-11	7,178	2,043	1,869	3,266
2011-12	7,234	n/a	n/a	n/a
2012-13	7,416	2,009	1,880	3,527
2013-14	7,397	2,008	1,892	3,497
2014-15	7,310	1,991	1,883	3,436
2015-16	7,164	1,990	1,909	3,265
2016-17	6,760	1,985	1,876	2,899

Data for 2011-12 not available from National Center for Education Statistics

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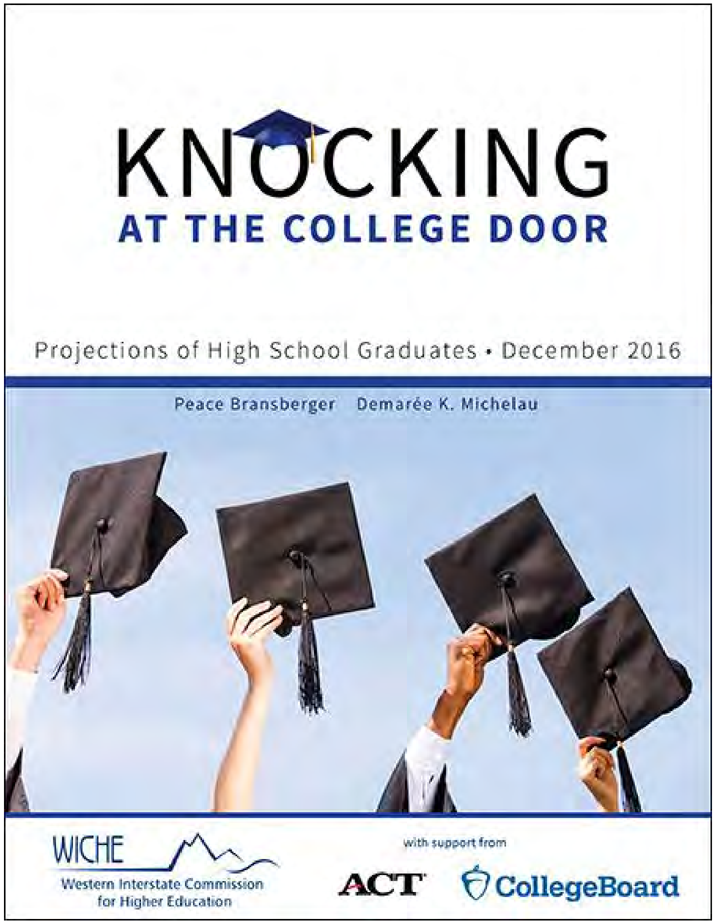
Demographics

- Number of high school graduates
  - Plateau nationally starting in 2019
  - Ongoing declines in East and Midwest
- Ethnicity of higher school graduates
  - Decline of non-Hispanic whites
  - Growth of Hispanics



WICHE 9th Ed., issued Dec. 2016

What are colleges doing to generate financial return?

Innovation/ Strategy

- Targeting new populations
- Different pricing strategies
- Different locations, including cyber & satellite campuses

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What are colleges doing to generate financial return?

Academic Modes

- Retention
- Online and hybrid programs
- Credentials (certificates & other "micro" credentials for competencies, 3 year degrees, joint degrees, masters)

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What are colleges doing to generate financial return?

Management

- Data analytics
- Understanding costs (& using that information for decision making)
- Sharing services
- Faculty productivity (workload, sabbatical policies, types of appointments)
- Outsourcing
- Budgeting by substitution

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What are colleges doing to generate financial return?

Governance

- Intensifying shared governance (working effectively with faculty).
- Board more focused on strategy than oversight
- Presidents are pro-active strategists, innovators, & risk takers

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What some universities are doing but should not

- Overspending from endowment
- "Borrowing" from endowment / restricted funds
- Using debt, in excess, for liquidity purposes
- Running deficits without a plan
- Overbuilding
- Selling physical assets without a plan
- Deferring maintenance

"A college's greatest enemies are complacency and nostalgia"

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Changes to consider going forward

- Making the case for the value of higher education
- Developing capacity for change
- Delivering education in different styles and formats (including cheaper)
- Finding paths to success for new student populations
- Adjusting to lower net student revenue and modest growth in government support
- Holding all stakeholders committed to common purpose

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Stimulating ideas for small colleges & universities

- Confirms the reality described in this update
- Offers "Five Contemporary Models of Small Colleges and Universities"

https://www.agb.org/sites/default/files/whitepaper_2017_small_college_imperative.pdf

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Additional resources

www.grantthornton.com/industries/NFP

grantthornton.com/highereducation

grantthornton.com/stateofNFP

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Board and Executive Institute

Keep on top of topics and best practices, and current and emerging accounting, regulatory, legal and operational business trends.

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Audit Planning Presentation

Appendix

Our Responsibilities

We are responsible for:

- Performing an audit under US GAAS of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP
- Forming and expressing an opinion about whether certain supplementary information, is fairly stated in relation to the financial statements as a whole.
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose.

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged With Governance and Management Responsibilities

Those Charged with Governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the Company's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Entity strategies and related business risks that may result in heightened risks of material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

Management is responsible for:

- Preparing and fairly presenting the financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and compliance with federal and state grant requirements
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with written representations

Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmark(s).

Entity	Benchmark
CSCU (4 campuses and system office)	Total Revenue
Charter Oak	Total Revenue
Community Colleges	Total Revenue
Magnet School (Great Path Academy)	Total Assets

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

Technology support as part of the audit process

Phase 1 – Understand and document business processes material to the audit

Phase 2 – Assess IT risks

Phase 3 – Identify IT controls that support audit objectives

Phase 4 – Test technology-related controls

An important component of our audit approach is to understand how IT is used in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

Use of the Work of Others

Specialists
GT Business Advisory Services – IT reviews of Banner ERP system (CSUS and CCC) and Jenzabar (COSC). CCSU will be in scope for FY18. GT Pricing Group – Valuation of investments GT Tax Group – Review of UBIT and tax positions
Other auditors
Each of the Foundations of the Universities, System Office, Community Colleges, and Charter Oak have a separate auditor. We will rely upon and make reference to the work performed by these other auditors within our audit opinion.

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link: https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.

This communication is intended solely for the information and use of management and the Audit Committee of Connecticut State Colleges and Universities and is not intended to be and should not be used by anyone other than these specified parties.

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Higher education

The State of Higher Education in 2018

Seventh annual report

"When Smith College required high-caliber professional service expertise, we knew we could count on Grant Thornton. This is a firm that provides a unique external perspective — drawn from experience with institutions both alike and different from ours — with real proficiency in higher education and a depth of expertise that goes beyond standard technical expectations.

We were impressed that the people leading the engagement were the senior team with whom we framed the project. From the start, the work was heavily driven by this team, not delegated down to a junior level. When a key member of our staff transitioned in the middle of our engagement, Grant Thornton quickly adjusted course and provided the leadership necessary to maintain momentum and keep the schedule from falling by the wayside.

With Grant Thornton, you get a true partnership — the perfect balance of technical expertise and leadership — which allowed us to maintain the right level of ownership. Early in, we had to rely on them more, but, when we were ready to take charge, they knew when to let go."

Mike Howard, Executive Vice President for Finance and Administration, Smith College

Contents

FIND AND SHARE THE REPORT ONLINE
The State of Higher Education in 2018
grantthornton.com/highereducation

VIDEO
Visit the State of Higher Education in 2018 to see Mark's video introduction to the report

Introduction

In this, our seventh annual *State of Higher Education* report, we offer our practitioner-based viewpoints, approaches and solutions that point the way to decision-making that will sustain institutions and position them to thrive for the long term.

While we will continue throughout the course of this year to provide webcasts, training and articles of interest, the purpose of this publication is to cover the trends and issues that are emerging or that we expect to emerge in 2018. As a leader in the higher education sector, we believe it is our responsibility to give back to this community we serve by providing these valuable insights.

Within these pages, you will find our guidance on important developments and challenges facing higher education leadership, including innovative strategies for growth; industry disruption; the use of shared services consortia for outsourcing; public-private partnerships; generational differences in fundraising; reputational risks brought about through social media; sector mergers, collaborations and partnerships; board approaches to measuring success; and other timely topics.

The articles in this report stem from knowledge gained through our professionals' direct interactions with their clients. Written by our client-serving professionals, they are the result of practical, hands-on experience gained by more than 500 Grant Thornton LLP professionals who serve over 200 eminent higher education clients. These insights are intended to be used by you — board members, executives, management and other leaders and stakeholders in higher education.

It is our view that leaders of colleges and universities have new opportunities, technologies and analytical tools to help them guide their institutions to greater success. They have transformational strategic options to pursue, growth initiatives they can undertake, and new ways to engage students, donors, trustees and other constituents.

Leaders are likewise dealing with challenges to success — in tuition and enrollment, operational cost management, use of physical assets, nontraditional competitors, reputational risks, and changing demographics.

This is a time of great potential for engaging a diverse constituency, collaborating with other institutions and private industry and effecting substantial operational change. Innovative thinking will be vital to successfully moving into the future and we hope these articles will help institutional leaders to do just that.

Our Not-for-Profit and Higher Education practices are committed to helping "organizations that do good" fulfill their missions. We understand that enhancing quality, protecting reputation and maintaining operational sustainability are all essential to colleges' and universities' ability to achieve success and further their cause. Our higher education knowledge is deep, and we offer it to assist higher education leadership with the challenges and opportunities addressed in this report.

On behalf of the partners and professionals of Grant Thornton's Not-for-Profit and Higher Education practices, I am pleased to present *The State of Higher Education in 2018*. We hope that you find this to be a valuable resource. As always, we welcome your feedback and are available to assist management teams and boards in addressing the challenges discussed in this report, or any other issues you may be facing.

Mark Oster
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Achieving growth strategies

Larry Ladd, Director, National Industry Specialist, Not-for-Profit and Higher Education Practices
Matt Unterman, Principal, Advisory Services, Not-for-Profit and Higher Education Practices

Given the continually changing environment in which colleges and universities operate, no institution can thrive without constant rejuvenation. Leading institutions are doing just that, with visionary leaders increasingly adopting growth strategies, finding *opportunity* where many others see only survival.

We are seeing more institutions choosing to follow a deliberate growth strategy, because the alternative is a slow death, except for the most elite and strongest brands. A degree of growth has been ever-present in the higher education sector, but a focus on enrollment and revenue growth has picked up and will continue to escalate for those institutions that are committed to their survival.

Choose the right path for growth

There are a number of different approaches that institutions have taken to achieve growth. Listed below are a variety of strategic alternatives to institutional growth strategies. We recommend that you plan your route to growth by considering these options, understanding that your path may involve more than one approach. Each assumes new, net positive revenue, either to offset declines in other revenue sources or to add to the institution's total net revenue.

Horizontal growth means expanding the market for an existing program or service, e.g., into new geographies. *Carnegie Mellon University Qatar* and *NYU's Stern School in DC*, for example, are cases where universities have established themselves far beyond their traditional campuses to reach new markets.

Vertical integration is another means for achieving growth. Universities are heavily vertically integrated, operating as small (or large) cities, offering everything from police departments to housing, dining and various other student activities — although these are not necessarily areas for growth. On the other hand, growth can occur when institutions expand their same "production path" into a new area, such as adding a master's program on top of an existing undergraduate program, using the same faculty, many of the same courses and with some overlap of students (enrolled in "4+1" programs). Many of these examples are included in the paragraph that follows.

Growth can be achieved through the expansion of existing offerings, or through the provision of new programs/products within the existing business model, e.g., the addition of new schools, departments and degrees. Some examples include:

- *Lehigh University* is starting a new "College of Health" that responds to a market opportunity that builds on existing institutional strengths and allows the university to significantly expand its enrollment (and net revenue).
- *Southern New Hampshire's* creation of its "College for America" (see "Competency and Affordability," *Inside Higher Ed*) is another example — this separate online college will broaden the institution's appeal to thousands of students who have never visited its physical campus.
- *Rowan University's* establishment of a school of medicine and acquisition of a school of osteopathic medicine.
- *Cornell's* establishment, with the *Technion-Israel Institute of Technology*, of the technology-focused graduate school *Cornell Tech* on a new campus on New York City's Roosevelt Island to "create the economy of the future for New York City," according to former New York City Mayor Michael Bloomberg (see "High Tech and High Design, Cornell's Roosevelt Island Campus Opens," *The New York Times*).

We are seeing more institutions choosing to follow a deliberate growth strategy, because the alternative is a slow death, except for the most elite and strongest brands.

Commonly, new products are product extensions, such as offering majors not only in conventional courses and degrees, but also in certificates and other types of credentials. That's one of the strategies leading to *Arizona State University's (ASU's)* growth from 8,000 to 24,000 students by appealing to those who have not been interested in a traditional degree program and offering multiple paths to a degree or another credential. ASU offers non-credit courses, workshops, and certificate programs in its core disciplines, opening up opportunities for far more students, uses four regional centers to reach more students, and offers continuing education credits (CEUs) as an alternative to traditional credit hours.

New product channels, such as internet delivered education, can also be utilized. *Purdue University's* acquisition of large online provider *Kaplan University* is perhaps the most dramatic recent example of this approach. *HarvardX* is an example of a new product channel developed inside a major university.

On the other hand, complementary products reach into an institution's already rich ecosystem, extending well beyond teaching through other important offerings. Existing services, such as housing, dining and athletics, can be extended to new customers beyond students. As one example, a new summer program for adults can increase the utilization of housing and dining at a time they are otherwise underutilized. Use of athletic facilities to run youth summer camps is another. Colleges and universities are also increasingly utilizing public-private partnerships (see *Using Public-Private Partnerships* within this report).

Use of coopetition, by partnering with a seemingly competitive entity, enables interests to converge while producing significant value for both entities. From an enrollment perspective, we see this happening on the programmatic side with cross-registration agreements between institutions. The Inter-University Doctoral Consortium in New York City, and the Higher Education Recruitment Consortium of Columbus, Ohio, are but two examples that allow colleges and universities to expand enrollment at lower cost.

Some growth is and will be top down, as in the case of expansion led by university administration. Growth will also come from the bottom up, through policies that encourage entrepreneurial activities within academic departments and centers.

Additive growth comes from acquiring an existing program or an entire academic entity and integrating it into the institution's governance and financial structure, thereby increasing program scope and enrollment. *Boston University*'s acquisition of *Wheelock College* and *Yale*'s acquisition of the *Andover Newton Theological School* are examples.

Organic growth comes from expanding on existing programs, as *Simmons College* did in expanding its school of management with an online model, generating $60 million in 2016. As opposed to a new product channel, the degree programs were fundamentally the same as the previously land-based programs, but the delivery method changed to appeal to a larger clientele. Some of *ASU*'s growth followed this approach as well.

Another way to look at growth is where it is initiated. Some growth is and will be top down, as in the case of expansion led by university administration. Acquisitions are almost always top down, for example. Growth will also come from the bottom up, through policies that encourage entrepreneurial activities within academic departments and centers. Organic growth commonly occurs through individual or departmental initiatives within the institution, encouraged, but not initiated, by top leadership. Policies that can encourage entrepreneurial activities include revenue-sharing plans that reward academic departments with some of their new net revenues to reinvest in their programs, and individual performance measures that reward such initiatives with compensation increases or other forms of special recognition.

APPROACHES TO ACHIEVE GROWTH

- Horizontal growth
- Vertical integration

- Expansion of existing offerings (including extensions)
- Provision of new programs/products

- New product channels

- Complementary products
- Coopetition

- Additive growth
- Organic growth

- Top down
- Bottom up

Set the stage

Leading institutions that have successfully adopted growth strategies exhibit the following common characteristics:

Visionary leadership that describes a compelling future to key stakeholders, so that donors and trustees embrace the vision, and faculty and alumni at least accept it

A business and academic plan that spells out the full extent and range of resources needed and when they are needed, as well as describing how they are to be obtained

A sufficient base of support within the administration, faculty and donors — and legislators, if public — that mobilizes human and financial resources for their growth strategy

Resources in place to support the strategy immediately, e.g., additional fundraisers or grant accountants to track activity; sometimes initiatives are under-resourced even when the need is spelled out

A growth strategy that is in alignment with core values, organizational culture and programs, and a reinforcement of that alignment in every public statement regarding the strategy

The sheer grit and determination to achieve success of all key players; a willingness to engage skeptics, overcome obstacles along the way and adapt to inevitable unanticipated impediments

With a productive environment established, follow these essential overarching principles:

- Growth strategies must be based on opportunities and not on the current condition of your organization. Resist undue thinking about internal fixes; look outward at the wide range of possibilities.
- The university must be prepared for continuous innovation. Significant change and the growth it brings about can improve the university's self-image and resource base, but it can also place a strain on existing infrastructure and embedded habits of doing business. Leaders must promote the benefits of growth while acknowledging and remedying the strains that might be associated with it.
- Leadership must be focused both on opportunities for growth and on the continued quality of existing programs, which sometimes can be ignored to the institution's detriment as attention is given to new initiatives.
- Growth requires careful planning and execution across all dimensions: academic, physical plant, financial and staff, including faculty. Too often, strategies for academic growth are developed without full consideration of accompanying financial and infrastructure requirements. Growth also depends on a credible assessment of the market. Enrollment increases aren't the solution to financial or other problems without seriously testing the feasibility of the increases and having effective strategies in place.
- Growth initiatives must acknowledge risk. New initiatives often bring risk, but that doesn't mean they should not be undertaken. By identifying growth strategy risks, management can develop and undertake mitigation activities to keep these risks within levels consistent with the institution's risk tolerance.

The future is growth

Encourage an orientation toward more aggressive growth throughout your institution. It isn't easy to do so, which is why most colleges and universities are comfortable with taking a "containment approach" that results in modest reactive changes within their existing business model in response to external pressures brought about by enrollment declines, demographic changes, revenue shortfalls, etc. Staying within the comfortable present doesn't create opposition from stakeholders. But because everything outside of the institution is changing, meaningful growth is essential to a sustainable future. Every successful institution can look to its history to see it achieved its most significant success when it was growing. Only strong leadership can build on that history into the future.

For more growth strategy guidance, see *Transforming Business Models in Response to Market Shifts*.

Prepare for disruption

Joseph Mulligan, Senior Manager, Advisory Services, Not-for-Profit and Higher Education Practices
Eric Mikanda, Manager, Advisory Services, Not-for-Profit and Higher Education Practices

Higher education, like many industries, is experiencing disruption. If you're in the dark about threats on the horizon, disruption will be startling and upending. If you're cognizant of marketplace happenings and mindful of future uncertainties, change can be anticipated and planned for. Although disruption is often perceived to be something that "happens to" entrenched market players, institutions should evaluate to what extent they should (and could) be instigating disruption, preparing for potential changes and being proactive in responding to what's coming.

To increase the likelihood of future success, keep your eyes, ears and mind open to the following key areas of potential disruption; your ongoing planning efforts should consider the various forces at play and determine whether your institution will be the disrupted or the disruptor.

Keep watch over rising global trade

Higher education is an increasingly global business with more and more institutions around the world competing for both domestic and international students. Its consumers are making buying decisions based on the same market factors and considerations that apply to other globalizing sectors — the number of available service providers; the depth/breadth of offerings; and quality, price, reputation, ease of access, etc. Marketplace shifts are being astutely observed by prospective students and their families, and their decision-making processes will continue to be made based on as much information as possible.

> "The two greatest enemies of every college and university are complacency and nostalgia."
>
> **Larry Ladd, Director, National Industry Specialist**
> **Not-for-Profit and Higher Education Practices**

South Korean students are increasingly choosing colleges and universities in China and other more affordable countries.

South Korean students are the third-largest source of foreign students in the United States

The world has "become smaller" in recent years — technology has helped society overcome geographical divides; long-haul air travel has never been more commonplace; and systems and processes are enabling global commerce and collaboration like never before. With the world getting smaller, buyers are increasingly considering institutions in other geographies[1] as viable contenders for their tuition dollars. Also driving this trend are employers who desire students with international experience. Although many non-U.S. students have historically attended college in the U.S., it is likely that this balance of trade can be expected to shift in years and decades to come as U.S. students will increasingly consider non-U.S. colleges and universities.

Countries that have traditionally supplied students to U.S. colleges and universities are increasingly opening world-class competitive higher education institutions within their own geographies. These investments and enhancements are intended to generate increased interest for resident students, but also for those students from surrounding geographies. It's working. These countries, including China, are pumping resources into their graduate schools to such a degree that U.S. institutions believe the number of international students applying to U.S. graduate schools, including Chinese students, is beginning to flatten.[2] South Korean students — the third-largest source of foreign students in the United States after China and India — are increasingly choosing colleges and universities in China and other more affordable countries.[3]

While the U.S. continues to offer excellent higher education options, actions by overseas governments and institutions must be thoughtfully considered as the number, quality and value propositions of new service providers expand on a global level. Power is shifting, and U.S. institutions won't be able to command wholly undiscounted tuition levels from international students in the years to come. In fact, international pricing practices will likely exert pressure on U.S.-based institutions.

1. Grant Thornton, "Transforming international student mobility," Higher Education report 2016.
2. Redden, Elizabeth. "New International Enrollments Decline," *Inside Higher Ed*, Nov. 13, 2017.
3. Mun-hee, Choi. "China Became the Largest Destination for S. Korean Students' Study Overseas, *BusinessKorea*, Nov. 14, 2016.

To address the potential disruption posed by rising global trade, U.S. higher education institutions must become globally astute, relevant to diverse students around the world, and have a presence where students are. This means more study-abroad opportunities, courses that reflect students' needs, and distance-learning platforms, among other solutions.

PREPARE FOR GLOBAL TRADE DISRUPTION

Become globally astute

Be relevant to diverse students worldwide

Have a presence where students are

Monitor changes in domestic government policy

During the 2016 election cycle, the U.S. population heard calls for free higher education. During the Democratic primary, Bernie Sanders advocated making tuition free at public colleges and universities throughout the country.[4] In April 2017, Senator Sanders and other representatives from Congress introduced The College for All Act in an attempt to rally support for this idea. Access to higher education, cost of attendance, use of endowment funds and the value of a college degree continue to catch headlines and resonate with the general public and with legislators.

Although nationalized higher education is unlikely to happen in the near future, some state and local governments have adopted policies or expressed a commitment to subsidize or fully cover tuition for certain students. As one example, New York State's Excelsior Scholarship Program proclaims, "We've made college tuition-free for middle class New Yorkers."[5] Implementation of such a policy is typically accompanied by a variety of intended and unintended consequences. Many smaller, private colleges have expressed concern and uncertainty regarding their ongoing ability to sustain existing enrollment and tuition models.

4. "It's Time to Make College Tuition Free and Debt Free," berniesanders.com.
5. Tuition-Free Degree Program: The Excelsior Scholarship, The State of New York.

Increased government involvement is customarily followed by calls for additional transparency and reporting. While there has been much attention and focus on access and outcomes as of late, tax-exempt organizations and accredited institutions will likely be increasingly held accountable regarding operating practices. With “free” potentially becoming a much more popular price point for higher education, concerns about how to fund higher education and equitable access to education will likely soon come into increased focus. If the federal government becomes the nation’s largest buyer of higher education services, net tuition rates can likely be expected to significantly decline.

In response to changes in domestic government policy, higher education institutions should develop new revenue models that allow them to rely less on tuition and state funding, and find ways to communicate to students the value of their education offerings, among other solutions.

PREPARE FOR GOVERNMENT POLICY DISRUPTION

Develop revenue models less reliant on tuition and state funding

Communicate to students the value of education offerings

Although nationalized higher education is unlikely to happen in the near future, some state and local governments have adopted policies or expressed a commitment to subsidize or fully cover tuition for certain students.

Be mindful of technological advancement

Technological innovation can be expected to affect how students learn, travel around campus and interact with others. Virtual reality and other collaboration advances will enable pedagogical advances. Distance and cross-border learning will become easier, and artificial intelligence (AI) should be expected to play an increased role in enabling learning and delivery. Enrollment in online courses, AI and technological adaptive learning simulations present significant opportunities for colleges and universities to meaningfully enhance service delivery, help students and departments identify and overcome competency gaps and tailor pedagogy.

A recent study alludes to the increasing receptivity of students to innovations in learning with roughly 6.4 million college students, or over 30% of all students, taking at least one distance education course in the 2015/2016 academic year.[6] Moreover, institutions like Indiana University Southeast have developed predictive models to help increase student retention.[7] Other institutions like the University at Albany have implemented early-warning systems that alert students when they are at risk for poor outcomes.[8] While the role of the professor will continue to be key, the balance between capital and labor, as in many industries, will be altered.

Roughly

6.4 million students,

over 30% of all students, took at least one distance education course in 2015/2016.

6. Schaffhauser, Dian. "Online Course Enrollment Sees Relentless Growth," *Campus Technology*, Jan. 22, 2018.
7. Burke, Michelle, et al. *Predictive Analysis of Student Data: A Focus on Engagement and Behavior*, NASPA, April 2017.
8. "UAlbany Advantage Takes Flight," *NewsCenter*, University at Albany, May 3, 2016.

Big data, analytics and adaptive learning are also positioned to disrupt higher education. Employers are analyzing data on graduates' hiring and job performance in order to evaluate their return on investment for university recruiting efforts. Technology makes it possible for both institution and prospective employer to measure and predict career readiness through admissions data, selection of majors and career tracks, grade point average, completion time, extracurricular involvement, competency tests, etc. Technologies like predictive analytics also enable institutions to make better decisions around student recruitment, retention, and financial aid. Washburn University used insights from predictive analytics[9] to expand its student employment budget after finding that students who work on campus have higher completion rates.

Beyond the formal achievement of a degree, big data, analytics and simulations that can provide insights into individuals' practical abilities to execute in the workplace enable employers to look beyond credentials and pedigree, and place greater emphasis on technical abilities, fit, and quality/speed in decision-making. Adaptive learning simulations and technical assessments will increasingly be used to overcome informational asymmetry in the recruitment process and support hiring decisions based on demonstrated skills/abilities vs. based on a degree or institutional reputation. As one example, EquitySim[10] (a recruiting start-up in San Francisco) uses online market simulations and games integrated into college courses to gather extensive data from potential job candidates about their suitability for positions within finance firms.

TECHNOLOGY FUELS SUCCESSFUL NOVEL AND HYBRID LEARNING APPROACHES

Online institutions — such as Western Governors University (WGU), a private not-for-profit online university based in Salt Lake City, Utah — are achieving remarkable impact. Enrollment at WGU is approximately 80,000; the university offers undergraduate studies for less than $3,200 per six-month term, student satisfaction is high and completion rates are generally strong. The integration of a scalable web-based platform, competency-based learning and an ability to address a diversity of student needs, coupled with a diminished need for sizable investment and maintenance in a physical plant, has translated into a sustainable competitive advantage.

To harness the power of the disruptions posed by technology, higher education institutions must develop a robust infrastructure that integrates formal, informal, workplace, and mobile/online learning, better addresses diverse student needs, and leverages information to drive decision-making.[11]

9. "Leveraging Big Data and Predictive Analytics for Better Student Recruitment and Retention," *Higher Education Marketing*, Feb. 15, 2017.
10. "Simulation Job Recruitment Platform Nabs $3.1 Million in Seed Round," *EdSurge*, Sept. 22, 2017.
11. Office of Educational Technology. *Reimagining the Role of Technology in Higher Education*, U.S. Department of Education, January 2017.

PREPARE FOR TECHNOLOGICAL DISRUPTION

Develop a robust infrastructure to:

- Integrate learning environments
- Address diverse student needs
- Leverage information for decision-making

Practice vigilance and action

Institutions cannot afford to let the future surprise them; they must be vigilant, find opportunities for change and take action. Disruption, while almost always disconcerting to contemplate, serves as a spur for sector participants to remain alert, look to the future, regularly re-evaluate existing models and methods and encourage creativity and thoughtful planning for what's to come.

Outsourcing via shared services consortia

Hassan Khan, Senior Manager, Advisory Services, Not-for-Profit and Higher Education Practices

Seeking to do more — continuous improvements to enhance quality of delivery and reducing operational costs — with less — reduced funding, stringent transparency requirements, increased scrutiny, lack of needed staff skills and a legacy technology infrastructure — higher education institutions are exploring the potential for outsourcing functions not considered mission critical.

Historically management has considered outsourcing synonymous with loss of control, hidden costs and threats to security or confidentiality, which is why mission-critical applications were not considered good candidates. However, institutions such as Middlebury College, Amherst College, Smith College and the University of Massachusetts Amherst have had success with outsourcing, allowing these institutions to reduce overhead costs, make more efficient use of limited resources, stay current with evolving technology capabilities, provide a single point of accountability and avoid investment in non-mission-critical skills. Spending less time and fewer resources on internal functions, an institution can focus on interacting with sponsors, alumni, donors and faculty — the community that drives the mission of delivering quality education to students — as well as on accelerating research.

With that in mind, leading colleges and universities are creating consortia that are focused on lowering costs and increasing collaboration between institutions in the areas of administrative services, e.g., finance, legal, HR, procurement, recruiting, professional development and technology. These consortia are typically governed by a steering committee drawn from its member institutions and are staffed by full-time employees dedicated to consortium operations.

The Green Mountain Higher Education Consortium and the Massachusetts Higher Education Consortium are two such examples. The Green Mountain Higher Education consortium was formed for the following three purposes: to secure favorable contracts that allow each member to save money on its purchases, to select a next-generation enterprise resource planning (ERP) system, and to provide for constituent well-being. The Massachusetts Higher Education consortium's goal is to provide and manage contracts for goods and services using group buying best practices for its member institutions. Participating institutions are controlling the costs to deliver higher education to students, as well as creating and fostering collaborative opportunities by serving as agents for economic and educational initiatives that bring value to all consortium members.

Take an incremental approach to outsourcing

Your institution could, as many do, begin an outsourcing partnership with a managed services provider (MSP) through a straightforward assignment of back-office functions, e.g., payroll, technology, accounting or HR. In such cases, you can eliminate the need to dedicate staff time or hire for a narrow skill set.

With a positive initial experience in these basic areas, institutions often move to contracting for assistance with complex functions, such as finance and compliance. The consortium model, aided by MSPs (to supplement subject matter expertise) can offer specialized services and access to up-to-date technology that could be unaffordable to an individual institution. For example, the New England Higher Education Recruitment Consortium provides a "job board" platform for faculty, staff and academic executives that features jobs from member colleges, universities and research institutes. Member institutions are committed to diversity hiring, covering a spectrum of business functions, academic disciplines and career stages. In addition, management can be quickly provided with information for more efficient decision-making and performance measurement. Institutions facing the pressure to handle these and other tasks are turning to the consortium model to significantly reduce overhead costs.

Outsourcing is enabling colleges and universities to gain better management of support services and achieve leading procurement practices through prescribed partnerships. Through such arrangements, the following principal benefits are being realized:

Added expertise and economies of scale

Contracts can be structured so that vendors bear the cost of acquiring new equipment and technology — enabling organizations to take advantage of investments made by the vendor that are spread over a wide customer base. Furthermore, organizations can take advantage of a level of vendor expertise that would not be possible to acquire or retain in-house.

Reduced costs

Competition can be introduced into campus services whereby consortia managers are forced to find the most cost-effective means to provide a service to ensure that operational costs are contained.

Risk avoidance

Risks, such as liability issues, can be transferred to the service provider, allowing the contracting agency to share or assume risks associated with providing a service.

Variable staffing

Contracting for seasonal work, such as lawn cutting and snow removal, can often be done on an as-needed basis. Using variable service contracts allows an institution to pay only for the services needed without incurring the overhead associated with hiring permanent staff.

Access to capital investment

The ability to raise capital for facility renovations may be built into a contract. Often, a contractor will fund facility renovations as part of its bid to provide a campus service. This option can often allow an institution to offer a competitive service to the community, such as a modern bookstore or dining space, which it might otherwise be unable to provide.

Decide if your issues could benefit from outsourcing

Colleges and universities, no matter their size or mission focus, generally face similar challenges in these key areas:

- **Finance**: Cash constraints resulting from declining revenue and a desire to redirect spending toward mission-critical functions drive the need to seek purchasing efficiencies.
- **Personnel**: Deep technical skill in-house is not available or is prohibitively expensive. Outsourcing key administrative functions and/or staff augmentation provides support and expertise as needed.
- **Technology**: IT management is burdened by having to maintain legacy systems that require legacy skills, making it hard to simultaneously have "next-generation" technology capabilities in-house.

Spending less time and fewer resources on internal functions, an institution can focus on interacting with sponsors, alumni, donors and faculty — as well as on accelerating research.

In establishing a relationship with an outsourcing partner, set in place appropriate service-level agreements, escalation procedures and key performance indicators. As you seek outsourcing partners, ask about experience in the following areas:

- **Scalability of solutions:** Do their solutions address your pain points, not just now but in the future? You will want a vendor that can provide a whole suite of connected services, and not just one that narrowly specializes in one area.
- **How secure and reputable is the vendor?** Review the provider's financial history, current holdings and growth projections.
- **Cultural compatibility:** It is important that your outsourcing partner understands your culture, so as to understand your institution and employees. This makes communication direct and easier, even when handling conflicts. The key is to acknowledge these differences and manage them sensitively.
- **"Best-in-class" technology services:** This includes, but is not limited to, maintenance and support of devices 24/7, an enterprise-class data center with advanced security and protection, industry compliance criteria, risk management, redundant connectivity and customizable backup and disaster recovery solutions. Furthermore, an overall IT strategy and complete IT support package to align technology, processes and people with key business objectives are important.

OUTSOURCING TECHNOLOGY

If the following describes your situation, outsourcing technology is probably right for your institution:

- Data storage requirements are outgrowing the IT infrastructure (i.e., physical capacity to retain data on premises).
- The IT infrastructure is fragmented and becoming more complex to manage and monitor.
- Legacy systems are quickly becoming obsolete and difficult to support.
- Risk, security and compliance management are more challenging than ever.
- IT maintenance is burdensome and contracts are becoming increasingly complex, with multiple stipulations removing liability from support vendors.
- Communications with stakeholders are not timely.
- IT personnel are plainly overwhelmed by IT issues.

In summary, external and internal stakeholders of the consortium are increasingly drawn to outsourcing agreements to facilitate educational excellence and financial sustainability for member institutions, academic and administrative collaboration of common purpose and interest, better problem solving and information sharing of ideas, and development of innovative systems to support future planning and higher productivity. The shared service consortium's main agenda item is to sustain an institution's mission by taking advantage of the opportunities offered by outsourcing. Like for-profit institutions, colleges and universities stand to reap significant advantages over a relatively short period of time.

Using public-private partnerships

Claire Esten, Partner, Audit Services, Not-for-Profit and Higher Education Practices
Natalie Wood, Senior Manager, Audit Services, Not-for-Profit and Higher Education Practices

More and more higher education institutions are beginning to innovate in the way they think about planning for future capital projects, especially as resources — whether time or money — become constrained. One way this is happening is through nontraditional agreements between not-for-profit higher education institutions and for-profit businesses. Outsourcing construction, financing and operation of facilities in the form of a public-private partnership, or P3, can relieve colleges and universities of those burdens, freeing up capital from construction efforts for investment in core mission activities that cannot be outsourced, as well as shortening construction timelines by utilizing private experts that specialize in overseeing such projects. Certain negative industry trends, such as endowment pressures and declines in state funding, have increased the appetite for P3 arrangements.

The idea is gaining traction because of multiple benefits, chief among them avoiding upfront financing and speed to completion. Fundamentally, in a P3, an institution engages a developer to construct, operate and sometimes own an on- or off-campus facility. Common examples are dormitories, parking garages, student centers, bookstores or energy-producing structures; thus far, P3s are not typically entered into for academic buildings, which are seen as core to mission. The financial arrangement entails either equity or debt financing by the P3 partner, or a combination of the two. Revenues (e.g., room rental, parking fees) are used to operate the facility and pay the debt issued to construct it, and to cover the developer's management fee. In most cases, the land is owned by the institution, and the developer makes ground lease payments.

Fundamentally, in a P3, an institution engages a developer to construct, operate and sometimes own an on- or off-campus facility.

Change does not come easily

A major draw of such arrangements is placing projects into the hands of experts. For many institutions, however, that appeal is offset by concerns around relinquishing control. A key factor for success in such deals is how comfortable an institution can become with transferring control along with risk. Colleges and universities often see themselves as a small town unto themselves and senior leadership as "elected officials," controlling the comings and goings inside campus borders. With P3 transactions, a level of control is turned over to the developer. In the case of a dormitory, that scenario could be seen as undesirable because of the responsibility for the student experience and safety. These concerns must be addressed with the prospective developer and the solutions explained to institutional stakeholders, especially trustees.

P3s offer institutions the opportunity to improve their credit rating (or at least maintain the existing rating in the face of other downward pressures), but it is important that prospective users of this vehicle understand the dynamics of the debt placement market, as such vehicles can also create downside consequences. Containing debt growth by shifting the financial burden of construction to the developer, showing deal creativity/flexibility to bolster institutional attractiveness through upgraded facilities, and creating new revenue streams can all boost a credit score while freeing financial resources for other core mission priorities.

However, in recent years, rating agencies have begun to analyze P3 transactions more closely, and in some circumstances ratings on bonds of separate but related entities have been downgraded. For example, the rating associated with the debt of a P3 at a college in the South was recently downgraded after the college entered into a P3 arrangement to develop the first housing on one of their urban campuses. The downgrade was the result of declining enrollment and lower than projected rent and occupancy levels on the P3-financed housing. Even though the college does not manage the property and is not legally obligated to make debt service payments on the bonds, the credit agency still took into consideration the college's involvement and support of the project in its determination to downgrade the rating.

Any short-term opportunities, whether financial or construction-related, must be weighed against the long-term implications of a P3 transaction. Many P3 deals extend 40 years or more. Given current demographic shifts, the growth of online education and other operating environment factors, some institutions are seeing a decrease in enrollment and thus less need for some of the more popular types of P3 agreements, such as housing and parking. Institutions must think critically about whether and how to incorporate P3 deals to avoid long-term arrangements that may prove problematic over time. Finally, consideration must be given to committing to an extended relationship with a third-party partner that might not be a good long-term fit culturally or otherwise.

CONSIDERATIONS FOR PUBLIC-PRIVATE PARTNERSHIPS

Short-term benefits

- Frees up capital to invest in core mission activities
- Avoids upfront financing
- Offers speed to completion
- Revenue covers operations, construction debt, management
- Projects are in expert hands

Long-term implications

- Deals can last 40 years or more
- Potentially transfers significant control and risk
- Requires equity, debt financing, or both
- Environmental factors affecting deals include:
  - Demographic shifts
  - Decreases in enrollment
  - Growth of online education
- Can potentially risk institution's credit rating
- Can affect cultural fit over time

Consider 4 keys to success

1 **Identify your most important criteria and decide whether you are proceeding for the right reasons.** Often, there are many parties involved in institutional decisions, and each has a different perspective on a project's benefits and risks. Because of the long-term nature of P3 arrangements, keep in mind that objectives must outlast those individuals making the decisions. Integrate the project into your long-term strategic plan and align it with that plan, rather than trying to accommodate short-term goals such as off-balance-sheet accounting or accelerated construction schedules. Be sure to evaluate all considerations including timing, stakeholder agendas and the current and future market in order to successfully achieve long-term expectations.

2 **It's called a partnership for a reason.** Be ready to work as a partner, allowing for give and take on critical items such as timing, pricing or usage. Given its typical term, a good fit that offers mutual benefits over the long term is essential. For the agreement to represent both parties' interests, a development partner needs to realize the same type of financial return as if operating with another private company. On the side of caution, understand the penalties for terminating the arrangement.

3 **Location, location, location.** Some campuses are better suited for transference of risk and control because of a greater need for the services the facility offers, e.g., housing, parking or a new student center with retail space for the surrounding community. Early dialog with a potential partner will establish your campus' suitability for meeting needs through a P3 arrangement.

A P3 SUCCESS STORY

The University of California has entered into or is in the process of executing more than 81 P3s,[1] allowing the school to dedicate capital to other strategic uses. It found P3s to be most effective for off-campus projects — and of a building type commonly developed privately — that can generate stable income. One notable project was a $280 million expansion[2] of the main campus at UC Davis to create a mixed-use community. The university's direct investment was only $17 million. As part of the agreement, the developer was responsible for the design, financing and construction of the project, and managed the leasing of the apartments and faculty housing, while the university kept ownership of the land through the lease term. Success was also due to the acceptance from stakeholders — students, faculty and others included in the planning process through public meetings.

1. Schanck, G. and Lamont, Tara. *Private Public Partnerships at the University of California*, Budget and Capital Resources, University Office of the President, revised June 10, 2013.
2. *Public-Private Partnership Policy Casebook/Higher Education*, Wikibooks, edited Nov. 21, 2016.

4 **Public support.** Some universities have encountered opposition from their local government, often a necessary approver of a transaction of this nature. Invest time and energy in the communication process so the benefits to the community are clearly articulated, and prepare to negotiate noncritical elements in order to get the support needed. This goes back to the first key to success — Identify the most important criteria; everything else is negotiable.

Merger, partnership and collaboration trends

‘May I have this dance?’

Larry Ladd, Director, National Industry Specialist, Not-for-Profit and Higher Education Practices
Bradley Chadwick, Principal, Advisory Services, Not-for-Profit and Higher Education Practices

Predictions of a wave of higher education mergers, partnerships and collaborations are rampant. Many institutions are logical candidates for some form of alliance. There are opportunities for larger institutions to expand their offerings and for small colleges, especially smaller tuition-dependent colleges that don’t benefit from scale or a strong national brand, to gain greater stability. However, institutions are only slowly considering such options. While the trend is occurring much more slowly than conventional business logic might dictate, there have been some recent successes of note (see the sidebar on page 30). For an institution contemplating uniting with another, a wise decision relies on an acceptance of the difficult realities and measured answers to key questions.

ADVANTAGES IN A MERGER, PARTNERSHIP OR COLLABORATION

Reduce overhead and other fixed costs

Eliminate direct cost duplications

Spread direct costs over a larger base

Benefits are usually recognizable; resistance is often fervent

What are the advantages of a merger, partnership or collaboration? In higher education, the key principles underlying merger considerations are the same as in any other industry. First, overhead and other fixed costs are reduced as a share of the overall cost structure. Second, duplications of direct costs can be eliminated (e.g., multiple Shakespeare scholars). Third, direct costs are spread over a larger base so profitability increases (e.g., a Shakespeare scholar teaching 50 students before merger, 80 students after).

The growth in successful higher education mergers is a consequence of going beyond just this conventional business logic. Successful mergers take into account factors that are unique to the sector.

In the for-profit world there is one issue: Will we be more efficient or expand market share (and therefore be more profitable) as a merged entity? Profitability is the one metric that matters. In higher education, financial sustainability is but one factor only; mission-driven identity is the core issue.

Identity is a history and tradition revered by stakeholders who have a strong desire to protect that identity from extinction. The college is identified as "special." There is a belief in the value of the college, whether or not market evidence proves that too few potential enrollees share that view. Identity can also be an attachment to place. If a merger will require eliminating one of the campuses, nostalgia resists such a "logical" move. The failure of Massachusetts' Montserrat College of Art to successfully conclude a transaction with Salem State University is partially the result of that phenomenon. Georgia and Vermont, both state systems with mergers, describe one of their successful approaches as involving alumni, faculty and students in selecting the names for the new institutions.

BEYOND IDENTITY IS PERSONAL LOYALTY — COLLEGES REALLY ARE FAMILIES

It isn't easy to let the beloved assistant registrar or alumni director go. Each of the colleges listed in the sidebar experienced this sense of loss. In the case of the acquirer, it's critical to find ways to publicly recognize the individuals and traditions of the entity being acquired. As Shimer College's president observed after its merger with North Central College, "While it is important to remember that other industries regularly merge and acquire, higher education has its own distinctions. In this, people matter."[1] Many merged entities find ways to continue employing key individuals and assure students continued enrollment in their chosen programs, as Wheelock College and Shimer College respectively did in their combinations.

Recent and pending mergers

- Kaplan University (for-profit) into Purdue University
- Wheelock College into Boston University
- Shimer College into North Central College
- Daniel Webster College into Southern New Hampshire University
- Episcopal Divinity School into Union Theological Seminary
- Andover Newton Theological School into Yale University
- Eastern Nazarene College into Trevecca Nazarene University
- St. Vincent's College into Sacred Heart University

1. Henking, Susan. "Lessons from a Merger: A Brighter Future by Expanding Our Vision," *The Chronicle of Higher Education*, Oct. 1, 2017.

Alumni are also a significant constituency likely to be deeply concerned, both because of their emotional connection to the institution and their concern that the value of their degrees may be compromised. Some Purdue University alumni, for instance, have objected to its proposed merger with for-profit Kaplan University for that reason. Mergers that have been the most successful have found multiple ways to communicate about the merger. The merging entities involve stakeholders in the process and use naming opportunities, of programs or buildings, to preserve the institution's former name or to honor legacy leaders.

Begin conversations with a realistic checklist

In most cases, one entity is weaker and needs to acknowledge that fact. Overestimation of power often leads to a failed merger. The weaker partner must start with a clear-eyed understanding of what is negotiable and what is not, making the following the only nonnegotiables:

- Maintenance of its broadly defined mission within the new entity
- Incorporation of its original name, somewhere within the new entity, to retain brand identity
- Preservation of alumni and donor relations

COLLEGE AND UNIVERSITY MERGE TO RAISE GRAD RATES

The 2016 merger of a community college and a state university began achieving its goal of raising graduation rates in its first year.[1]

The new Perimeter College at Georgia State University is the union of the former Georgia Perimeter College and Georgia State University in Atlanta. The intention was to plow merger-related savings back into programs to help students from varied backgrounds and limited resources achieve academic success through advanced guidance and online or on-campus attendance flexibility. By spring 2017, of the $6 million saved, half had gone to hiring advisers, financial aid counselors and other staff, and the graduation rate for students in the two-year programs doubled from 6% to 12%.

1. Quinton, Sophie. "Merging Colleges to Cut Costs and Still Boost Graduation Rates," *HuffPost*, March 29, 2017.

Wheelock's merger with Boston University is a good example of adhering to these important but limited conditions. Before serious conversations with a potential partner began, the Wheelock board had frank conversations about "bottom line" conditions for a merger that were realistic and wouldn't scare away a potential partner. They didn't "over ask." Potential partners recognized right away that the college was serious and that conversations were likely to be fruitful.

The stronger partner must be sensitive to the sense of identity and fear of loss felt by the weaker partner. Identity and loss can explain behavior by the weaker partner that otherwise is mystifying. Some stronger partners intentionally create identity markers that make the merger more palatable. For example, when Yale acquired the Andover Newton Theological School it created "Andover-Newton at Yale" as a marker. Boston University renamed its School of Education to acknowledge the Wheelock College name.

A SUCCESSFUL UNIVERSITY SYSTEM MERGER

The University of Georgia is the most extensive example of successful mergers, where 14 institutions have merged into 7 over the course of five years. In that case, cost savings were reinvested in the campuses themselves, which generated considerable good will. After an initial naming mistake when the process began, future names for the institutions were selected by an inclusive process that created a sense of loyalty to the new identity by alumni, faculty and students.

The merger and collaboration climate being described applies to both private and public higher education. One aspect unique to public higher education is that some of the merger activity has not been volunteered by individual institutions, but rather imposed either by a system, an office or state government directly. Such mergers have most notably occurred in New Jersey, Georgia and Vermont. In these cases, business logic does rule (tempered a bit by politics). States are deciding to lower costs and avoid duplication of programs.

The stronger partner must be sensitive to the sense of identity and fear of loss felt by the weaker partner.

After agreement on negotiables and nonnegotiables, each partner must identify a leader who:

- Has foresight on the imperative for change
- Envisions an improved future
- Communicates the vision
- Courageously executes on the plan

With this foundation laid, the discussion can be moved to primary questions:

- Can the missions of the two entities be re-envisioned into one compelling mission?
- Will there be commitment to success and plain dealing by each board and president?
- Are the reasons sufficiently compelling, and the plans and definition of the combined entity sufficiently robust, to make supporters of key stakeholders? Consider:
  - Faculty, staff, students, alumni and prospective students
  - Government (executive and legislative)
  - Collective bargaining units
  - Donors and other financial supporters
  - Communities
  - Regulators
- Can the new institution capture the imagination of current and potential supporters?
- Can academic programs be made stronger and more relevant, and duplicate or weak programs be eliminated?
- What is the scope of expected cost savings and efficiencies to reach financial viability? Consider:
  - Administrative overhead
  - Physical plant costs
  - Academic program consolidation and/or elimination
- Are there revenue opportunities (growth in existing streams or new streams entirely) that might result?
- How expensive will the merger process be in overall cost and liquidity?
- Will the merger create an institution invoking stakeholder pride?

Merging, partnering or collaborating with another institution could be the way to a thriving future for your college or university. The colleges and universities that have successfully merged speak of the difficulty of the process, but look back with pride at what was accomplished, preserving core missions in new ways for future generations. Success has been characterized by hard-nosed realism and a willingness to make significant, painful sacrifices on both sides.

Tailor fundraising to generational nuances

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Change is constant. Much of it is driven by societal changes, which in turn are shaped by generational demographics. Generational differences in giving need to be understood by higher education leaders. For fundraising and capital campaigns to succeed, institutions must address these differences by connecting through generation-appropriate channels, messages and activities.

The four main generations actively donating today are baby boomers, Generation X, millennials and Generation Z (post-millennials). Institutions certainly are familiar with the generational differences between alumni and current students. The question is, have donation appeals changed to suit those nuances? Take a deeper dive into traits common within the age brackets to best reach these potential donors.

Generation Z: Those in their late teens and early 20s

Gen Zers are currently enrolled in your institution or have recently graduated. These children of Generation Xers live online, spending as much as 10 hours a day on social media and the internet.[1] They tend to be competitive and, despite their electronic inclination, lean toward face-to-face interaction. They are more cautious about money than are millennials, having grown up during the recession. Gen Zers are "philanthroteens" who exhibit a strong desire to do social good. In fact, over half of individuals within this generation group who already focus on philanthropy volunteer their time. Thirty percent have donated[2] to a cause at least once, and one-quarter (26%) have raised money for one. They want to be involved.

30%

of Gen Zers have donated

26%

of Gen Zers have fundraised

1. Hotchkiss, Caitlin. "Learn more about the 'philanthroteens' of generation Z," *frontstream*, Jan. 11, 2017.
2. Wade, Abigail. "Nonprofits and Generation Z," GuideStar Blog, July 12, 2017.

TAKE ADVANTAGE OF GEN ZER COMPETITIVENESS

We all remember how successful the 2014 Ice Bucket Challenge was for the ALS Association.[1] Similarly, universities have seen significant benefits from "Days of Giving" that play out over one or several days and can include a variety of competitions or challenges. Examples include:

- Purdue University raised the most funds for a single-day campaign for two years in a row mainly through social media. In 35 separate challenges throughout the 23-hour period, Purdue encouraged friendly rivalry between academic and nonacademic units to compete for cash prizes while boosting and contributing to their favorite Purdue campus, college, school, program or student organization.
- By urging donors to share their own stories about giving to the school, Hamilton College effectively turned donors into advocates and fundraisers as they spread their messages via Twitter, but also through Facebook and LinkedIn. The single-day giving campaign surpassed the record for the most gifts in any single month in the college's history.
- Proving that even smaller institutions can get in the game, the College of the Holy Cross, focusing less on dollar amounts than on boosting donor participation, still raised more than $2 million in 48 hours, in large part due to social media. More than one-third of all traffic to the giving site was generated by individuals offering their reasons for giving or challenging fellow classmates via email, tweets, Facebook posts or short video clips.[2]

1. "Every Drop Adds Up," The ALS Association.
2. Bischoff, Melissa. "6 Hugely Successful Higher Ed Social Media Days of Giving," eCity Interactive, Oct. 20, 2016.

Allow Gen Zers the opportunity to lead student and alumni campaigns that include social interaction and competitions, and encourage them to engage in philanthropy toward your institution while they are still students, as well as after graduation. Include charitable clubs in student enrichment programs and plan on-campus socially focused events and activities. To satisfy their concepts of thrift, demonstrate the worthiness of the causes. Leverage Gen Z social media engagement and tailor your campaigns by understanding the platforms, language and even emojis they use, and provide avenues for crowdfunding, which is extremely popular with this generation.

Generation Y/millennials: Those in their mid-20s and 30s

A good portion of your alumni base is in this generation. In 2016, there were an estimated 71 million millennials (ages 20 to 35 in that year) compared with 74 million baby boomers (ages 52 to 70). The number of millennials is expected to reach 73 million in 2019, while boomer numbers are expected to decline to 72 million. Anticipated to peak in 2036, the millennial population could potentially become the largest in U.S. history.[3] Almost half the workforce is made up of millennials. They value collaboration and teamwork, and are as electronically connected as the younger Gen Z. They don't make donations the way prior generations do, as millennial contributions constitute only 11% of traditional charitable giving. To millennials, the cause matters more than the organization or institution. Their money also tends to go to crowdfunding, of which 33% of donations come from this generation. Compared with Gen Xers, millennials are 70% more likely to give to a crowdfunding campaign and three times more likely than baby boomers. As for where their dollars go, they demand transparency.[4]

Crowdfunding, which involves individuals/teams raising money online, is a great way to tap into the Gen Y desire for collaboration and teamwork. Such initiatives are often more cause-based than general institutional appeals. Health care and churches lead the way in crowdfunding, but higher ed can surely follow with specific fundraising initiatives associated with key campus constituencies, e.g., Greek life, clubs and organizations or sports teams.

Crowdfunding platforms provide tools to engage donors, and social media helps to virally engage teams' social networks through sharing of campaign goals, details and updates. Importantly, the platforms make it easy to regularly track donations and campaign metrics and express gratitude to donors.[5]

CROWDFUNDING ATTRACTS DOLLARS AND FIRST-TIME DONORS

In 2017, Virginia Tech raised more than $21,000 from more than 300 donors within two months via a crowdsourcing platform. They encouraged small donations from a large number of donors for less-popular or lower-cost programs (e.g., giving $6 so one child can attend an arts center performance) in order to build community giving. While this was not a large sum overall, the effort attracted donors who did not have a history of giving and were not attracted by Virginia Tech's traditional annual appeals, and it added to the institution's base of potential future donors.[1]

1. Nelson, Gayle. "Universities Experiment with Crowdfunding as Early Donor Engagement," *NPQ*, June 7, 2017.

Show millennials how their dollars will be spent and the impact their gift will have on the institution. Describe it through "storytelling" to create personal interest. Also provide the facts, detailing administrative costs, blueprints, construction schedules, etc. Provide technology-enabled experiences. Cast your appeals as socially driven — think specific cause rather than general fund.

3. Fry, Richard. "Millennials projected to overtake Baby Boomers as America's largest generation," Pew Research Center, March 1, 2018.
4. Bourque, Andre. "Are Millennials the Most Generous Generation?" *Entrepreneur*, March 29, 2016.
5. "5 University Fundraising Strategies for Standout Campaigns," *MobileCause*. July 7, 2017.

Generation X: Those in their 40s and early 50s

Having first experienced the internet as young adults, this generation has a solid technological foundation. Surprisingly, the heaviest social media user group isn't millennials. In fact, Gen Xers spend the most time on social media.[6] They were raised by the generation many believe is the hardest-working, the boomers. Exhibiting traits of their parents, including a work ethic, Gen Xers typically conduct due diligence before making a large gift. With that need in mind, make sure to have information that will inform giving decisions readily available and easy to access on your website, such as Form 990, annual reports and business plans.

While they seek enjoyable experiences in every part of their life, they want to make serious contributions with a demonstrable impact — they want to see how their money will be used.[7] Draw Gen Xers to golf outings and galas, but also to your campus for entertainment that showcases your theater, art gallery or concert center. Direct messages to them on Facebook and other social media to capture them via their preferred platform, which will increase the likelihood of a response. Keep in mind that as you engage these parents of your current or near-term student base, appealing to Gen Xers serves the multiple purposes of soliciting their funds, assisting in recruitment of their children to your institution and introducing their future graduates to institutional giving.

Baby boomers: Those in their mid-to-late 50s and 60s

The baby boomer generation has a track record of generous giving; they currently donate more than any of the other generations and are expected to donate approximately $8 trillion over the next 20 years. Boomers, like the others, want to know how their money is used, but further, they want to direct its use. As the generation that started restricted giving, boomers are more inclined than others to set up scholarship funds or endowed chairs. This generation has a strong desire for personalization and appreciation.

For this generation that is capable of making big gifts, find substantial opportunities for specific giving. With this older, more established generation that is shedding possessions and downsizing, also seek noncash gifts such as real estate and artwork.[8] Consider offering up naming rights to attract very large gifts.

Baby boomers are expected to donate

$8 trillion

over the next 20 years

6. Bromwich, Jonah Engel. "Generation X More Addicted to Social Media Than Millennials, Report Finds," *The New York Times*, Jan. 27, 2017.
7. Watson, Elwood D. "Generation X — Talented, Adventurous, Innovative and Resilient," *HuffPost*, April 10, 2015.
8. Hanc, John. "From Downsizing Boomers, A Flood of Donated Art," *The New York Times*, March 4, 2017.

GENERATIONAL DIFFERENCES IN GIVING

Generation Z (late teens and early 20s)

- Enrolled or current grads
- Live online but like live interaction
- Recession childhood, so appreciate thrift
- Volunteer
- "Philanthroteens," attracted to worthy causes
- Crowdfunding competitions
- Share experiences via social media

Generation Y/ Millennials (mid-20s and 30s)

- Big part of alumni base
- Now largest generation, almost half the workforce
- Value collaboration, teamwork
- Technology-adept, socially driven
  - Drawn to causes more than general appeals; crowdfunding
  - Like hearing impact of gift via personal interest stories
- Demand transparency on spending

Generation X (40s and early 50s)

- Parents of your student base, so can help you recruit, introduce grads to institutional giving
- Solid technology foundation; reach them via social platforms
- Raised by boomers
  - Strong work ethic
  - Informed decisions via due diligence
  - Give for demonstrable impact
- Like giving via enjoyable experiences, events

Baby boomers (mid-to-late 50s and 60s)

- Strong giving track record, more than any of the other generations
  - Capable of big gifts
- Downsizers, so primed for noncash gifts
- Generation known for restricted giving — how, where funds used
- Desire personalization and appreciation
  - Targeted capital campaigns
  - –- Special-purpose endowments

Find commonalities as well as differences

Be creative and accommodate generational differences in your special events, e.g., parties and sports outings for Gen Xers and boomers; relaxed social gatherings for Gen Zers and millennials, hosted by them if possible.

While it's critical to match your appeals to generational differences, it's also important to be consistent in your overall messaging. Descriptions of your institution's mission and mission achievements should be presented as a matter of course, and email and social campaigns should contain links to further generate interest in your programs. Address common intergenerational expectations in all outreach actions, and always:

- Specify and detail the need
- Show the impact of gifts
- Be transparent
- Establish online giving portals and recommend flexible payroll deductions
- Link to charitable programs and projects from every email and posting

Use IV&V for cloud implementation success

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Independent verification and validation (IV&V) helps organizations build quality into IT systems by providing an objective third-party assessment of system development and implementation products and processes throughout the system implementation life cycle. Organizations have been using IV&V to enhance the oversight of their complex IT projects for years. The migration to cloud-based technologies has not reduced the value of IV&V; instead, it is changing how IV&V is executed and the way that it reduces project risk.

Cloud-based solutions: A model for technology adoption

Over the last several years, organizations across all sectors have been migrating mission-critical IT systems from traditional on-premise installations to the cloud. Cloud-based computing offers multiple benefits, including:

- Lower total cost of ownership
- Ability to scale usage as needs require without fixed commitment and costs
- Moving IT system costs from capital to operating expenses
- Reduced need for hard-to-retain technical resources
- Faster implementation

Higher education institutions have not been immune to this trend. Colleges and universities are implementing cloud-based solutions for everything from enterprise resource planning (ERP) and student administration to management of learning and enterprise assets. Cloud-based system implementations are in some ways similar to traditional on-premise systems, but there are significant differences in how institutions plan, implement and maintain project management and oversight.

TYPICAL IV&V SCOPE

- Project management and governance
- Requirements management
- Quality management and testing
- Organizational change management and training
- Technology infrastructure and development
- Benefits realization, return on investment and business process optimization

IV&V best practices are critical to cloud implementations

Technology projects are growing larger and more complex. Results and value delivered are closely scrutinized; successes and failures are increasingly public and have greater impacts on reputation and budget. IV&V provides a critical focus on risk and quality through an ongoing assessment of all aspects of an IT project. Its three characteristics recognized as the most valuable by surveyed CIOs are:

- Truly independent and objective
- Focused on overall project health and on project success
- Providing recommendations, not just pointing out problems

Some changes to IV&V are necessary to deliver high value in response to cloud-based development characteristics:

- **Speed:** Cloud-based projects move faster and are focused on delivering business benefits as quickly as possible. Iterative approaches to software development (e.g., agile) can make software available to users much sooner than traditional development methodologies, but they also require significantly more user engagement and decision-making, as well as enhanced project governance. As a result, IV&V efforts have changed their focus from compliance to efficient collaboration and communication, and are placing a premium on the rapid delivery of working software over the production of voluminous documentation.

- **Limited customization and significant change management:** Historically, when implementing large IT systems, institutions planned to limit customizations and instead used software products out-of-the-box where possible. In practice, many purchases were customized, essentially becoming custom systems. This option isn't practical with cloud-based solutions, because a single set of base software is shared by multiple customers. As a result, institutions must change their business processes to align with the software functionality. In turn, IV&V must focus to a greater extent on whether end-to-end business processes meet stakeholders needs, and also whether the important "people element" of the project is being effectively managed. This function is much more valuable than simply validating that customizations map to business and technical specifications, but, to be successful with minimal customization, IV&V now requires significant communication, training and change management.
- **Contract terms:** Contracts for cloud-based solutions contain terms and conditions different from those of traditional on-premise software. An important example is data rights — identifying who owns the data, how it will be protected and the way it will be returned when the contract expires. Other examples are service-level agreements, application and data security and arrangements for pricing and disengagement from the contract. IV&V can assist institutions in understanding the impact of cloud contract terms and in mitigating contractual risk.

By adapting traditional IV&V practices to these new realities, institutions are improving the likelihood of success, as well as their return on investment from cloud-based software implementation projects.

CHARACTERISTICS OF HIGH-VALUE IV&V

1 Providing truly independent assessments of the health of this project

2 Validating that the project vendors are effectively fulfilling their responsibilities and are providing the institution with accurate information about project performance

3 Serving as an advisor to project management to help ensure that the project is successfully completed

4 Validating that institution team members are effectively fulfilling their responsibilities and are providing accurate information about project performance

Innovations in campus facilities usage

Brian Page, Partner, Audit Services, Not-for-Profit and Higher Education Practices

Administrators remember the simplicity of campus planning as recently as 10 years ago. The basic structure of a university's physical needs was largely known — offices for administration and faculty, lecture rooms for classes, labs for hands-on learning and residence halls for housing. Parking garages, the library, the campus store, the student center and the like all had their place to fulfill functional needs. Any differentiation concerned design and aesthetics, while the basics of each of these buildings were similar. Buildings were built to last 75 years and be used for the same purpose for their entire functional lives.

Fast forward to 2018, when technology and the ability to connect and collaborate through digital learning and student experience platforms have become critical to a student's educational experience. Colleges and universities have reacted in turn by using the basic physical footprint of the campus to incorporate technology that adapts to address the needs and wants of the learning community.

Reimagining at a rapid pace

How are leading institutions starting to reimagine what their campus footprint will look like 5–10 years from now, and what steps are they taking today to put them on a path to achieve that vision? As student expectations of the educational model and living environment continue to change, institutions are learning to adapt at a rapid pace. The focus of many new capital projects or planned future construction has been on incorporating innovative technology and equipment into campus facilities that enable peer-to-peer learning, and development of social and academic connections locally and globally.

Examples of trends in university environments include:

1 Constructing new environments, the design of which fosters multidisciplinary collaboration to encourage creative generation of new ideas and not just classroom learning of traditional educational topics. Often labeled as innovation hubs or incubators, these facilities also typically focus on entrepreneurship. Joseph C. Tsai, whose foundation provided the gift for Yale University's new innovation center (see "Yale announces Tsai Center for Innovative Thinking," *YaleNews*), summed up the concept, "For me, it is especially vital that young people in the world today gain comfort with taking risks — with framing the problem, thinking in an interdisciplinary way, and trying 'out-of-the-box' approaches."

   Due to the varied nature of these spaces, design is often flexible (e.g., a multiuse technology lab space mixed with office space) to meet the varying needs of the students and the nature of the collaborative project or class.

DESIGNING MULTIPURPOSE TECH SPACE

For example, consider the Lassonde Entrepreneur Institute at the University of Utah, whose "hangar" houses a 3D printer lab, workshop space, meeting rooms, classroom space, event space and business center all within proximity to each other to facilitate all phases of the student's needs for developing new products or ideas. Additionally, the institute houses residential facilities in the same building that are structured by theme (e.g., a games and digital media floor) and have common areas that provide collaborative space based on that theme.

2 Equipping many learning spaces as "smart environments" with cutting-edge technology that is being used with new education learning techniques and in connection with research already being performed on campus. This technology includes 3D printers, virtual simulation equipment and high-speed, high-capacity processing capabilities to be used with big data. One such example of facility technology investment is Stanford University's 2016 opening of a Neurosurgical Simulation and Virtual Reality Center, which uses patient-specific, 3D virtual reality technology across their clinics and classrooms. Instructors educate on surgical techniques for certain procedures, like removal of a brain tumor. Through the technology, they can highlight areas to avoid during surgery as rendered in a 3D virtual simulation, which could previously be conceptualized only in 2D.

3 Following the more modern business models championed by services like Airbnb for using excess capacity in multifunctional ways. Many institutions are switching to virtual mailboxes, whereby students receive a notification email and PIN when mail or a package is delivered and must pick it up from a specific mailbox within 48 hours. This leads to a smaller footprint and fewer resources necessary to manage the mail room, even though online shopping by students has grown exponentially.

   Similar concepts may be used in the future for campus parking. As ride services Uber, Zipcar and Lyft have gained in popularity, along with such emerging concepts as autonomous vehicles, universities are rethinking their parking space needs and considering more pickup/drop-off points, potentially fewer permanent parking spaces, and parking lot designs that can be retrofitted for other purposes if demand were to decrease.

   Similarly, campus libraries are being designed to use excess capacity to house multimedia labs, bioinformatics labs, group study rooms and digital archives of videos that act as natural complements to the study and research taking place in the library.

4 Finding creative ways to repurpose unused campus space by partnering with other entities to provide financial benefit in line with campus culture and mission. For example, Arizona State University is part of a joint venture that is creating Mirabella, a retirement community for alumni, faculty and staff, as well as the general public. Mirabella residents will have access to classes at the university, as well as to the artistic, athletic and social activities and services associated with a college campus.

The pace of change is accelerating for varying physical and technological campus demands. Colleges and universities of every size need to learn to adapt. Cognizant of trends, they are investing where they can in state-of-the-art facilities and equipment, remaining flexible with campus planning and construction designs to ensure competitiveness now and for the future.

The focus of many new capital projects or planned future construction has been on incorporating innovative technology and equipment into the learning environment, peer-to-peer learning, and developing connections locally and globally.

Prepare for social media reputation risks

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Far reaching and instantaneous, social media is both a valuable tool and a dangerous risk. It can enhance reputation or it can ruin it. It can do wonderful things for your institution, but all it takes to turn public sentiment against you is an ill-considered photo, an inappropriately worded tweet or a complaint from a disgruntled faculty member. Higher education institutions that have adequately prepared for the worst by putting into place proactive prevention strategies and response scenario action plans will be better off than those that simply wait and react.

Develop proactive, prevention-based strategies

Proactivity assumes that you have an established voice on social media. Consistently posting content that reaches students, faculty, donors, trustees and other stakeholders, and describes your mission and values, puts your familiar reputation at an advantage when it is threatened.

Base your plan on information gathering and dissemination:

1 Identify social media users who affect your online reputation — yes, your institution's official accounts, but also your president's personal Twitter account, trustees' various accounts, those of high-profile alumni, etc. Keep in mind that employees may acknowledge their professional affiliation on LinkedIn and elsewhere. Your prevention plan will pertain to your sphere of influence. Acknowledging that negative postings are often external, take control of stakeholder postings to the extent that is reasonable. The list should include related organizations (e.g., partners and vendors) and staff publicly affiliated with your institution.

2 Expand your communications policy to include a social media policy. In it, describe how employees should present themselves online outside of work (e.g., nonpublic information should not be posted), and limit access to posting to your official social media accounts. Include guidelines to clearly define what is acceptable and unacceptable in postings related to your institution, whether in public or private accounts. Incorporate clauses that reference the policy into any applicable employment contracts.

3 Publicize the communications/social media policy throughout the institution. Just as important, conduct training to include communications staff, employees and board members. Point out the value of social media as a tool and encourage its use, and explain why and how to avoid reflecting badly on the institution. As with any policy, communicate the impacts and repercussions of violations, particularly if they constitute a data breach, i.e., leaking confidential information or intellectual property.

Establish a monitoring function

After identifying and educating your stakeholders, practice vigilance. A negative post requires immediate action but, to act quickly, you need to know about it. Activate social media monitoring of your direct accounts, as well as of your institution's name, key programs and related accounts such as key employees or alumni. Assign staff to regularly check various channels for mentions of your institution, or invest in social listening technologies (e.g., Hootsuite, Sprout Social) to receive alerts when the institution is trending, positively or negatively. While some posts can't be deleted or their effects erased, you'll be aware of them for remediation.

Build action plans for various response scenarios

At some point, something inappropriate will happen. An employee might post Facebook photos of a departmental night at the bars, or a celebrity wearing a cap displaying your logo may be photographed and tagged while espousing a distasteful opinion. You need to have a plan in place, and you need to implement that plan right away if circumstances require. The plan should address the key components — the offending post and responsible individual, the post's impact and the subsequent changes to practices in order to minimize the chances of a similar event happening again.

Your scenario plan should address the key components in a detailed manner:

- Determine how the communications department should react. For example, a genuine public outcry may require an all-out response, with statements from university leadership, and involve an external public relations firm and internal communications to students. Some negativity is best ignored. Don't fall into the trap of engaging with those who just want an argument (e.g., internet trolls); you're unlikely to change their minds, and you'll risk harm by elevating their points.

KEY COMPONENTS TO INCLUDE IN YOUR PLAN

Determine communications department reaction

Define escalation procedures

Evaluate actions post-event

Activate social media monitoring of your direct accounts, as well as of your institution's name, key programs and related accounts such as key employees or alumni.

- Define escalation procedures, including the point person and whom to contact, e.g., general counsel, president and/or board members. Have their contact information in an easily accessible place.
  - Distance your institution from the offending post. Create a templated, formal response that will distance the institution from the poster and the post (e.g., emphasize that the poster's values do not align with the institution's values). This response should be posted on social media, as well as through traditional channels, e.g., website and press release.
  - Publicly reinforce your institution's good reputation. Release photos and stories that take the offensive as reminders of your mission and core values. Where possible, speak specifically to the subject of the negative post. For example, if a tweet implies your institution doesn't support the community, show proof of outreach programs.
- Evaluate actions post-event. After any significant event, work with the communications department to review the public reaction and your institution's response, and evaluate your institution's actions. If needed, update any policies or practices based on learnings (e.g., what types of organizational postings were well-received, updated escalation procedures, etc.) so that the organization can minimize the chances of a similar event reoccurring and enhance institutional response for any future events.

SOCIAL MEDIA LISTENING

You are probably monitoring your social media accounts — looking at your mentions and your hashtags, and reading through comments. But are you actually engaging in the conversation? The benefit of social listening tools is that they enable institutions to identify social media-based risks and mitigate them by addressing the root cause of the social media angst (if appropriate). That benefit is amplified when institutions then directly engage in the conversation to share how they are responding to the poster. This truly demonstrates that you are not just hearing, but also acting.

These technologies allow you to better connect with your audience across platforms. They ensure you see the likes — and dislikes — on Facebook, the comments on LinkedIn and the mentions on Twitter. They also tap into less-well-known social media channels, uncovering nascent risks before they gain momentum. With social listening, you can craft an overall message in response to a common theme as it is emerging. This response not only deepens your connection with your audience, but also affords some measure of control when an issue is still a growing whisper and not yet a full shout.

The plan should address good postings as well. If a celebrity gives you a shout out at an awards show, how will you capitalize on that? Using your social listening will allow you to amplify beneficial chatter.

With the wide use of social media, your organization as a trending topic, whether good or bad, is inevitable. Do what you can to protect and control your reputation.

How should boards measure success?

Larry Ladd, Director, National Industry Specialist, Not-for-Profit and Higher Education Practices

Colleges and universities have long struggled to measure whether they've been successful. There is much long-term evidence of success — alumni life achievements, faculty research productivity and the institution's growing resource base of students willing to pay and donors willing to give. Useful indicators all, but they take a good deal of time to develop, are lagging versus leading indicators (in that they are more historical than predictive in terms of gauging institutional success), and give no immediate guidance to boards and administrators for planning the next five to 10 years. Colleges and universities continue to grapple with how best to create concrete planning objectives and effect midcourse corrections based on measures that gauge success.

For the most part, colleges and universities rely on data that is presented to them by individual departments, primarily financial information from finance, admissions data from enrollment management and fundraising reports from development. Boards also receive updates from the president and provost about specific academic and programmatic achievements. All of this information is important but is a presentation of what's available, sometimes selectively chosen, rather than a response to finely honed strategic questions.

Rarely are boards given consistent, systematic reports on external trends that are likely to impact their institution, with context from management regarding questions such as how are other institutions adapting their business models, are competitors getting more or less affordable and how that is impacting the institution's strategy.

BOARDS NEED SYSTEMATIC REPORTS ON EXTERNAL, LIKELY IMPACTFUL TRENDS, WITH CONTEXT FROM MANAGEMENT ON QUESTIONS SUCH AS:

"How are other institutions adapting their business models?"

"Are our competitors getting more or less affordable?"

How do these factors impact our strategy?

Boards need to know the extent of overall fiscal health issues such as deferred maintenance, which for many colleges and universities is a major hidden expense that is growing rapidly but is poorly tracked. Too many boards get insufficient answers to questions that are essential to their fiduciary role. Few boards receive regular and consistent reports in this area, or even credible explanations as to why they don't.

Except for institutions with large financial resources, cash is important to track on a regular basis and is often obscured in traditional reporting to boards. Low cash balances, with borrowing from endowment or from banks, can be an early indicator of financial trouble. Cash is indeed reported in the audited financial statements, but because that's once per year, a low cash balance is often explained as "timing" when it might mask a more serious issue.

Additionally, often institutional activities (and their associated annual budgets) are planned and executed independently from consideration of whether activities directly support implementation of the strategic plan, so budget information isn't necessarily helpful in assessing strategy.

INSTITUTIONAL PERFORMANCE

Some examples of issues boards face when asking questions about institutional performance:

- How do we understand whether faculty — as teachers, researchers and citizens of the institution — are performing better or worse? Few institutions have quantitative measures beyond student evaluations and publication quantity, each highly limited and potentially misleading.
- Student satisfaction is another area where simple quantitative measures can't come close to fully gauging sentiment.
- When fundraising numbers are lower than expected, we often see presidents speak with high expectation about hot prospects about to make big gifts, with no quantification of pending gifts, or the probability of their realization, over time.
- We've also seen measures done episodically rather than on a consistent basis, with snapshots of performance that don't offer a sense of forward or backward movement and provide no context as to how trends will affect future performance and decision-making.

Budgets are often just a reflection of past objectives, with slight modifications, rather than an embodiment of current strategy.

Traditionally, dashboards measure admissions/enrollment, fundraising and finance based on data generated internally and sometimes on comparative/benchmarking data. Institutions too often choose to focus on the wrong measures and omit tracking of critical categories of success.

Board members and other stakeholders are becoming increasingly insistent about obtaining more strategic and comprehensive answers from management. Trustees want to better understand the effectiveness of mission achievement; government, the public and potential students are asking if degrees are worth the cost; accreditors are placing greater emphasis on assessment; and donors — particularly younger ones — are demanding more immediate evidence of results.

Every institution is a system, with each stakeholder having a role, but with strong interdependence among the parts. Following is guidance on developing measures in that multiparty context.

First, decide what to measure

The first, but also ongoing, question is "Are we measuring the right things?" To answer this question, determine the factors that are essential to your institution's success:

Mission and standards are primary. Confirm the validity of the institution's mission, vision and values and, assuming they still resonate, that overall direction adheres to mission and avoids mission creep. Make sure that the institution remains true to culture and behavioral standards. If the times require modification, do so purposefully rather than by accretion.

Strategy follows. Review strategic objectives, then ensure budget and related plans are consistent with the strategy as a whole. Budgets are often just a reflection of past objectives, with slight modifications, rather than an embodiment of current strategy.

Implementation of strategy is next. Are incentives in line with mission, culture and standards? Do they align with strategy? Are there productive connections with key stakeholders?

Operations is the final component. Are administrative functions being run efficiently? Do they provide good customer service?

Strategic planning methodologies that incorporate measurement techniques include balanced scorecard (see "Balanced scorecard," Wikipedia), performance prism (see "Summary of the Performance Prism," Value Based Management.Net) or six forces model (see "Six forces model," Wikipedia).

DECIDE WHAT TO MEASURE

Mission and standards

Strategy

Implementation of strategy

Operations

Next, decide how to measure

Don't let the question of whether you can measure an item keep you from seeking information. Everything can be measured in some fashion. Boards should look to management to consider these four meaningful ways to measure:

- Hard data, the most typical way. Financial and admissions data are first and foremost among the key areas that can be quantified. They are important areas, but unlikely to be the only ones important to your institution.
- Surveys and structured face-to-face conversations, such as focus groups.
- Asking groups to assess a particular topic on a scale, such as 1 to 5. Responding to "We are making progress in making our culture more inclusive" is one such example.
- A special assessment committee charged to answer "How are we doing?" An advantage of such a group is that it can be used when hard data is insufficient to address qualitative issues that are not readily measured. Base committee membership on knowledge and expertise.

The board has to be satisfied that a rich array of data analytics is used and participants are informed about what is being measured and how that information will inform decision-making.

4 WAYS TO MEASURE

Hard data

Surveys and conversations

Group responses

Special assessment committee

Institutions too often choose to focus on the wrong measures and omit tracking of critical categories of success.

Then, use the measurements

The most important role of measurement is to identify trends over time and to use those trends to inform decisions and take action going forward, e.g., is a situation is getting better or worse, or is a department/curriculum/function moving in the right direction. Such actions can just as much center on doing more of what is working as they can on remediating what is not. Historical metrics can also form the baseline for projections into the future.

A high-level summary of key measures might be all the board requires. Measurement appropriate to board and C-suite attention must be kept focused, e.g., fewer than 10 items, and directed toward critical issues. Refer constantly to the questions of what success looks like for your institution — kinds of growth, changes in the student profile, financial results?

VIEWS OF SUCCESS

Survey of students

Survey of faculty and/or staff

5-year lookback at financial results or indicators

What might success look like? Among the possibilities are the following qualitative and quantitative assessments. In each of the two surveys, and as noted earlier, what matters aren't the absolute results, but rather trends over time.

- Twice-yearly survey of students — reported to and discussed on a timely basis by the board — on key factors where the college or university wants to succeed. Examples of topics could be satisfaction with availability of courses, accessibility of faculty outside of class, student debt levels or extent of worries about career opportunities after graduation.
- A similar survey of faculty and/or staff that might focus on elements of the institution's strategy and how they fit into it, awareness of sexual abuse policies and procedures, satisfaction with classroom or office conditions or preparedness of students for college-level work.
- Presentation of key financial results or indicators that looks back over five years (or more), rather than the usual two years, with comparisons of those results to specific, predetermined targets.

Your board should consider some structural changes that will make measurement more strategic:

- A dashboard with columns that show the core strategic objectives of the institution, followed by the metrics to measure those objectives, with the measures consistently defined and trackable over a five-year time horizon.
- The structured incorporation of performance (as it relates to strategy) at every board meeting, as opposed to reports, with limited discussion, of activities. (The Association of Governing Boards has even recommended that board committee structures be revised to parallel strategy rather than function, as they typically do.)
- Reliance on both quantitative measures and "softer" measures like surveys and focus groups.

FOUNDATIONAL ELEMENTS OF DATA ANALYTICS

- With comprehensive data integration now possible, data from multiple sources can be used to quantify performance, provide a clearer picture of what is working and assess where improvement is needed.
- University leadership must be the champion, overcoming skepticism and bureaucratic resistance.
- Student success, especially retention, presents one of the most potent areas of opportunity when it comes to using data analytics to impact mission outcomes.
- Serious intent can be demonstrated to stakeholders expecting accountability for resource use.

Be watchful in assessments

- Avoid embracing the illusion of certainty; there are always flaws in data. For example, a specific point in time result can be misleading because that point might be just before significant upward or downward movement. A form of moving average can hide sharp deviations that may not be meaningful.
- A matter could have several different measures, none of which is perfect but when taken together give a sense of how you are doing. For example, in admissions, the combination of selectivity and yield provides more perspective than either would on its own.
- Stay on guard for unintended consequences of measurements. One good example is focusing too much on lowering the discount rate rather than focusing on growing net tuition revenue. Some colleges have hurt themselves by having a low discount rate but failing to achieve the intended revenue targets. The targets aren't achieved because "money is left on the table" — for instance, if you have the capacity, a student paying $15,000 in net tuition is better than not having that student. Colleges and universities must have an unrelenting focus on net tuition revenue, with discounting only one component of that focus.

Keep the process simple, focused and continuous

"Simple and focused" sounds easy, but there will be a strong temptation to satisfy everyone with influence, each of whom will have his or her own ideas and want to put a fingerprint on the process. As examples, students will want multiple measures of satisfaction because they want to see improvements in many areas of student life, and faculty will want far fewer measures about their own performance than other constituencies. Institutions need to be disciplined and resist the entreaties of constituents to track issues they advocate, and rather choose those measures that are most indicative of current and future institutional success.

There will also be the temptation to get overly complex. Nuance is important, but soon you can't see the forest for the trees. You want to only highlight key issues, not to have a deep dive on them. You don't want the board to spend so much time on the nuances that they have less time to focus on the larger issues themselves. For board-level purposes, you'll want to synthesize departmental and programmatic details into a few broad categories and measures (e.g., enrollment by school only and full-time equivalents versus specific types of students).

The board must avoid micromanagement of the administration. The board's role must be kept at a high level — asking questions; understanding general procedures that will obtain the answers; and ensuring the administration is making responsible decisions, not second-guessing. While good information improves the ability for the board to fulfill its oversight duty, it also creates a temptation to dig too deeply. By receiving information in aggregated form, as suggested earlier, the board can ask good questions without specifically having a long conversation on specific programs, which isn't really board work.

Be explicit about who is responsible for each item measured. Create a chart of assessments and follow-up plans, accessible to key stakeholders, with regular review and discussion of what the chart indicates.

Institutions often fall into a pattern of annual evaluations and planning/budget exercises, but success depends on creating a continual process of assessing whether your institution is doing the right things and doing them well. When a goal is established, simultaneously determine how you will assess it. As progress is made toward that goal or key milestones are reached, assess accomplishments against planned metrics and chart a future course based on that assessment.

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Grant Thornton LLP has a well-earned reputation for understanding the needs of colleges and universities, providing them with in-depth knowledge to improve their operations, seize opportunities, address challenges and mitigate risks. When we assist them to become more effective at what they do, the benefits cascade through all the communities they serve.

More than 500 industry professionals serve the audit, tax and advisory needs of over 200 public and private higher education institutions — community colleges, liberal arts colleges, universities, research institutions, graduate schools and multicampus state systems. While this statistic is notable, what is more important is the prestige of our higher education clientele; we serve a noteworthy 27% of the top 100 ranked institutions listed in *U.S. News and World Report*'s "National University Rankings" for 2018.

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Some of the ways we serve the higher education sector

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Each year, leaders from Grant Thornton's Not-for-Profit and Higher Education practices provide learning opportunities through our webcast series. These sessions cover a wide variety of trending topics and regulatory updates relevant to higher education management and trustees.

Half of the series is reserved exclusively as a benefit for our clients, in appreciation to those institutions that have chosen Grant Thornton to help meet their audit, tax and advisory needs.

Client-reserved webcasts are password-protected; contact a member of your Grant Thornton engagement team if you have registration questions. The other half is open to anyone associated with the higher education sector who may be interested in learning more about these important industry topics. Visit grantthornton.com/nfp "Upcoming webcasts" for more information about upcoming webcasts or to access past webcasts.

OPEN WEBCASTS*

- The clock is ticking on revenue recognition and leases. Are you ready for implementation? — JAN 24
- State of the not-for-profit and higher education sectors — APR 18
- Nonprofit accounting, regulatory and Uniform Guidance update — JUL 18
- Understanding the global landscape for human capital issues — OCT 17

CLIENT-RESERVED WEBCASTS*

- More than ever, the C-suite must be proactive and decisive yet collaborative! Why and how — FEB 21
- 'May I have this dance?' Overcoming the serious obstacles to mergers, partnerships and collaborations — MAY 16
- Generational differences in giving — AUG 15
- Achieving programmatic results through organizational dashboards — NOV 7

*All webcasts are 2–3:30 p.m. ET.

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Not-for-Profit and Higher Education practices

These client-serving partners and professionals of Grant Thornton's Not-for-Profit and Higher Education practices contributed to this year's *State of Higher Education in 2018* (grantthornton.com/highereducation). They are available to share their knowledge and experience with higher education leaders.

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