REGENTS - PARTICIPATING (Y = yes / N = no)

<table>
<thead>
<tr>
<th>Name</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elease Wright, Committee Chair</td>
<td>Y</td>
</tr>
<tr>
<td>Rick Porth</td>
<td>Y</td>
</tr>
<tr>
<td>JoAnn Ryan, BOR Chair</td>
<td>Y</td>
</tr>
<tr>
<td>Ari Santiago</td>
<td>N</td>
</tr>
</tbody>
</table>

CSCU STAFF:
Lloyd Blanchard, VP of Administration / Chief Financial Officer
Rachel Cunningham, Admin Assistant to Lloyd Blanchard
Peter Carey, Chief Information Systems Officer
Melinda Cruanes, Controller
Pamela Heleen, Secretary of the Board of Regents
Jim Vasquez, Chief Information Officer

GUESTS:
Chris Bradford, Grant Thornton
Claire Esten, Grant Thornton
Dave Stoffel, Grant Thornton
Carolyn Kurth, Cohn Reznick

CALL TO ORDER:
Committee Chair Wright called the meeting to order at 10:02 a.m. Following the roll call, Pam Heleen recorded a quorum present.

APPROVAL OF PREVIOUS MEETING MINUTES:
Chair Wright requested a motion to accept the minutes of the May 9, 2023, seconded by Regent Porth, which were approved by a unanimous vote.
**DISCUSSION ITEMS:**

- **Update on Audits of the Auditors of Public Accounts (APA)** - Melinda Cruanes

The APA is currently performing the statewide single audit, which looks at compliance of grants including compliance for CSCU federal grants. It is still in process and there is nothing to report at this time.

In accordance with CT General Statute section 2-90, which are the departmental statutory required audits, 2 reports have been issued during calendar 2023 as follows.

Eastern’s financial report had 7 total findings for FY 2021 and FY 2022:
- 3 related to payroll and HR recordkeeping
- 1 related to the termination of system access after employees left the system
- 1 related to the dating of certain receipts
- 2 related to inventory of stores and supplies and inventory of software

Eastern management has responded to all the findings and is working to resolve them and avoid them in future audits.

Central was issued 1 finding for an NCAA agreed-upon procedure report from the APA for FY 2021 related to endowment funds in the NCAA database.

For the remaining institutions, the APA is working on FY 2021 and FY 2022 and there is nothing further to report.

- **Year-end Audit and Discussion**

Grant Thornton shared the results of the audit for FY 2023 ending June 30th which included 3 major events this year - the CT State Community College merger, changes made by the state with the fringe methodology, and the new GASB 2024 accounting standards.

- **Management Update**

FY2023 financial statements will be the last to be presented as in previous years. Next year for FY2024, the format of the statements will be updated to reflect the community college merger.

- **Fringe Changes**

State funding of the retirement costs must be recorded on revenue and expenditure statements and will show a net to zero.

- **Accounting Standards Update**

GASB 96, the newest significant update, is a software subscription-based information technology arrangement that now requires institutions to recognize a software subscription liability and an intangible right to use subscription assets to enhance consistency in compiling data.

In total as of June 30, 2023, CSCU recorded 90 subscription assets of over $5,000, $46 million in net subscription assets, and $31.2 million in subscription liabilities on the balance sheet across the system.
GASB 68 & 75 pension and OPEB liabilities adjustments decreased due to the state contributing a significant surplus to the retirement plan from the state’s budget reserve fund and the general fund surplus, decreasing CSCUs proportionate liability. As a result of the decreased share, a reduction was posted to the fringe benefit expense this year. There will be a large decline in fringe benefits on the financial statements this year due to the change.

There were 2 audit adjustments identified both related to the change in the fringe benefit calculation.

- For Central, the identified adjustment was not booked due to the late timing of the identification and immateriality in the financial statements.
- For Charter Oak, the identified adjustment was booked and is included in the financial statements.

Q: CFO Blanchard asked for clarification on the comment about Central’s identified adjustment and materiality. (Attachment A, slide 9 updated)

M. Cruanes responded that because the audit adjustment was not material to the financial statements for Central it was not required to be booked.

Q: Regent Porth asked if there are any compliance issues with GASB regarding the new instructions with the fringe methodology changed by the state.

M. Cruanes explained that CSCU had to adjust accrual entries and record the gross revenue received and paid on behalf of the system by the state. It will show as a revenue and an expense on the financial statements with no compliance issues.

- Draft CSCU 2020 Construction Expenditure Audit

Fieldwork for the audit is completed during the summer, but the report is held until December for review by the Audit Committee. All deliverables were timely and went very well, CohnReznick will provide a detailed report.

All CSCU Foundation statements are a component of the financial statements and will show a balance sheet and income statement with clean unmodified opinions. The total net position for the Foundation as of June 30, 2023, is approximately $277 million across the system.

Q: Chair Wright asked if all the financial statements have been received.

M. Cruanes confirmed all the statements have come in but are currently in draft form.

Report by Grant Thornton - Claire Esten, Chris Bradford, Dave Stoffel

C. Esten provided a summary of the results of the three audits performed.

Results of Procedures/Significant Risks (slides 2-6)
Testing of Adoption of GASB 96 (slides 7-14)
Change in Fringe Accounting (slide 8-10)
Other required communications (slides 11-14)

Chair Wright recognized M. Cruanes for her contributions.
Q: Chair Wright asked if the changes to how the state is handling fringe are common practice.

Q: Regent Porth asked why the CSCU system is being treated differently than other state entities and if other states follow the same practice in their higher education systems.

C. Esten responded she hasn’t seen it in the other areas she works in (NY and NV), but she will find out what other states are doing from her colleagues.

Q: Chair Wright asked if the outlook on the higher education sector has improved in comparison to recent years.

C. Esten stated the challenges continue in the northeast due to declining enrollment, state appropriations, and cost containment of administrative costs and programs.

Q: Regent Porth stated he appreciates the industry info that is reported as a benchmarking tool and asked if it is accurate to state the CSCU system has reported a clean audit with no material findings and in general is an organization that is carefully run.

C. Esten confirmed that CSCU has a clean audit.

Regent Porth emphasized how important it is for the public and elected leaders to understand how transparent and careful the system is in using the funds from the state and tuition dollars.

Chair Wright responded and agreed that it should be shared with the entire BOR and explained that campuses have come up with better ways to run each institution more effectively in a way that is financially responsible and moving in the right direction.

2020 Construction Expenditure Audit by CohnReznick - Carolyn Kurth

C. Kurth echoed the comments of the amazing job by Melinda Cruanes since joining CSCU, all audits have been clean, on target, and very professional.

There were no findings for the 2020 Construction Expenditure Audit ending June 30, 2023. A clean unqualified opinion will be issued; there were no systemic issues noted; no material weaknesses or significant deficiencies were noted; all disclosures are neutral, consistent, and clear; there were no corrected or uncorrected misstatements, no disagreements with management, and no difficulties encountered during the audit. The work was completed over the summer and sits in draft for management review and then presented to the Audit committee. Once accepted, the management representation letter will be presented with a final communication for reports to be issued as of today.

ADJOURNMENT

Chair Wright thanked everyone for their contributions to the clean audit report and made a motion to go into Executive Session for the purposes of discussing security issues, Regent Porth seconded. Committee Chair Wright announced that no votes would be taken in Executive Session. Following a unanimous vote, the Committee moved into Executive Session, and the meeting adjourned at 10:49 a.m.
FY23 Annual Audit Presentation
Connecticut State Colleges and Universities
December 19, 2023

This communication is intended solely for the information and use of management and those charged with governance of Connecticut State Colleges and Universities and is not intended to be and should not be used by anyone other than these specified parties.
**Audit status as of December 12, 2023**

**Open Items**

- Certain support to complete testing (e.g. COSC cash confirmations)
- Final review and tie-out of the financial statements
- Legal letter updates
- Concluding management inquiries
- Signed management representation letter
- Final Manager and Partner Reviews
Significant risks

The following provides an overview of the areas of significant audit focus based on our risk assessments. Our audit was executed in accordance with the audit plan presented to the Audit Committee in May 2023, unless noted below.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management override of controls – (presumed fraud risk and therefore significant risk in all audits)</td>
<td>• Consider the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud.</td>
</tr>
<tr>
<td></td>
<td>• Assess the ability of each entity to segregate duties in its financial reporting, information technology, and at the activity-level.</td>
</tr>
<tr>
<td></td>
<td>• Conduct interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period.</td>
</tr>
<tr>
<td></td>
<td>• Perform risk assessment for journal entries and detail test a sample of journal entries based on our risk assessments to ensure propriety of the entries.</td>
</tr>
</tbody>
</table>

No exceptions noted.
The following provides an overview of our response to the presumed fraud risk of management override of controls.

We performed Whole Ledger Analytics on all journal entries (manual and automated) to pinpoint and identify transactions that appear to have a higher risk of management override of controls based on the cumulative risk score. The cumulative risk score is generated based on how the individual transaction performs against 38 routines, which have been designed to identify unusual transactions or those that could indicate fraud (e.g., abnormal size, abnormal volume, unusual account combinations, etc.). We subject entries with high cumulative risk scores to further analysis and isolate a subset of these entries for testing. For entries tested, we obtained underlying support, evaluate for validity in the normal course of business, and obtained evidence of approval.

Whole Ledger Analytics for Connecticut State Colleges and Universities are depicted in this scatterplot, which shows the cumulative risk score on the x-axis and the financial statement impact on the y-axis. Each dot represents a transaction, while the color indicates the individual who posted the transaction.
## Areas of audit focus

<table>
<thead>
<tr>
<th>Areas of focus</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition revenue, auxiliary enterprises and related receivables/deferred revenue</td>
<td>• Perform disaggregated revenue analyses analyzing student tuition, fee, and auxiliary revenue relative to enrollment data  &lt;br&gt; • Perform detailed testing of a sample of revenue and aid transactions, agreeing to source documentation  &lt;br&gt; • Perform deferred revenue testing to determine proper cut-off.  &lt;br&gt; • Tested a sample of student receivable balances by inspecting supporting cash receipt and/or ensuring management’s reserve/collections policy was followed (only at COSC)  &lt;br&gt; • Assess management’s analysis of allowances for doubtful accounts for reasonableness, consistency with methodology and accuracy of inputs (only at COSC).  &lt;br&gt; <strong>No exceptions noted.</strong></td>
</tr>
<tr>
<td>Grant revenues</td>
<td>• Performed detailed transaction testing of revenue recognized in the current year  &lt;br&gt; <strong>No exceptions noted.</strong></td>
</tr>
<tr>
<td>Net position</td>
<td>• Tested net asset proof to ensure proper classification between net asset categories  &lt;br&gt; <strong>No exceptions noted.</strong></td>
</tr>
</tbody>
</table>
## Areas of audit focus (continued)

<table>
<thead>
<tr>
<th>Areas of focus</th>
<th>Results</th>
</tr>
</thead>
</table>
| Capital Assets                                                                | • Rolled forward account balances to ensure completeness  
|                                                                               | • Sampled current year additions by vouching capitalized amount to supporting invoices / contracts  
|                                                                               | • Ensured reasonableness of depreciation expense recorded in the period  
|                                                                               | **No exceptions noted.**                                                                                                               |
| Debt                                                                          | • Confirmed amounts outstanding  
|                                                                               | • Ensured reasonableness of interest expense  
|                                                                               | **No exceptions noted.**                                                                                                               |
| State appropriations                                                          | • Obtain detail of appropriations received from the state and reconciled to the GL  
|                                                                               | • Confirm amounts with the state, agree to revenue recorded in the general ledger  
|                                                                               | • Review receivable balance, reconcile the cash received to amounts outstanding based on confirmations  
|                                                                               | **See slides 9/10 for auditor identified adjustments.**                                                                                  |
| Net pension & OPEB liabilities (and related deferred inflows / outflows and expense) | • Review the analysis of accrued postretirement benefit obligations  
|                                                                               | • Assess the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others  
|                                                                               | • Test participant census data  
|                                                                               | **No exceptions noted.**                                                                                                               |
## Areas of audit focus (continued)

<table>
<thead>
<tr>
<th>Areas of focus</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>• Confirmed material balances and tested reconciliations to the GL</td>
</tr>
<tr>
<td></td>
<td><strong>No exceptions noted.</strong></td>
</tr>
</tbody>
</table>
| Adoption of GASB 96 – Subscription-Based Information Technology Arrangements | • Performed detail testing to ensure the completeness of subscriptions considered for implementation  
• Selected a sample of subscriptions in the population to test accuracy of the inputs  
• Reviewed management’s methodology and journal entries to record the GASB 96 adoption entries  
• Compared draft disclosures to disclosure requirements to ensure completeness and accuracy of presentation/disclosure |
|                                                    | **No exceptions noted.**                                                                                                                                                                                  |
| Accounting estimates                                | • The preparation of the CSCU’s financial statements requires management to make multiple estimates and assumptions that affect the reported amounts of assets and liabilities as well as the amounts presented in certain required disclosures in the notes to those financial statements. The most significant estimates relate to the net pension & OPEB liabilities, compensated absences liabilities, useful lives of depreciable assets, allocation of expenses among functional expense classifications, and allowances for student receivables. Our procedures were executed in part, to review these estimates and evaluate their reasonableness. |
|                                                    | **No exceptions noted.**                                                                                                                                                                                  |
| Financial statement disclosures                     | • Our procedures included an assessment as to the adequacy of the CSCU’s financial statement disclosures to ensure they are complete, accurate and appropriately describe the significant accounting policies employed in the preparation of the financial statements and provide a detail of all significant commitments, estimates and concentrations of risk, amongst other relevant disclosures required by US GAAP. |
|                                                    | **No exceptions noted.**                                                                                                                                                                                  |
Adoption of GASB 96 – Subscription-Based Information Technology Arrangements (SBITAs)

Summary

• In fiscal year 2023, the CSCU adopted GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA).
• Subscription liabilities represent CSUS’s obligation to make future payments to a third party for SBITAs (for example, a Blackboard or Ellucian license), measured at the present value of subscription payments over the remaining term. Subscription liabilities are recognized at the SBITA commencement date (contract start date). Short term subscription liabilities, those with a maximum period of 12 months (or less), are expensed as incurred.
• As a result of this adoption, each entity recorded the following assets and liabilities as of July 1, 2022 (adoption date):

<table>
<thead>
<tr>
<th>Entity</th>
<th>Right of Use Subscription Asset</th>
<th>Subscription Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSUS</td>
<td>$20.2M</td>
<td>$20.2M</td>
</tr>
<tr>
<td>CCC</td>
<td>$25.3M</td>
<td>$25.3M</td>
</tr>
<tr>
<td>COSC</td>
<td>$300K</td>
<td>$300K</td>
</tr>
</tbody>
</table>
Change in Fringe Accounting Policy

Summary

• In June 2023, the Connecticut General Assembly passed a state budget for the 2024 and 2025 biennium. The new budget changes the way fringe is paid for institutions of public higher education in CT, and ultimately, CSCU’s employee benefit retirement costs will be paid by the state Comptroller’s Office effective July 1, 2023. This change in methodology results in the State of CT funding employee retirement costs and CSCU funding all non-retirement fringe costs. Although the change is effective in fiscal 2024, because the State reports payroll costs on a cash basis, the final payroll accrual and accrual for accumulated compensated absences as of June 30, 2023 are reduced (and therefore so are the fringe benefit expenses for that final pay period) by the amount the State of CT paid in the first pay period of fiscal year 2024.

• In fiscal year 2024 and future periods, as a result of the change in funding of fringe by the State of CT, CSCU will report “on-behalf payments” related to the amount of fringe for retirement benefits that the State pays on behalf of CSCU. This will be presented as a revenue and offsetting expense in the Statement of Revenues, Expenses and Changes in Net Position.
Summary of misstatements (CSU)

<table>
<thead>
<tr>
<th>Description</th>
<th>Assets</th>
<th>Change in Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Material, corrected misstatements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None noted</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Uncorrected misstatements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To update CCSU’s Due From State Calculation for the change in fringe reimbursement methodology by the State.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease: State Appropriations revenue</td>
<td>(1,929,353)</td>
<td></td>
</tr>
<tr>
<td>Increase: Due from State- Salary</td>
<td>(1,387,195)</td>
<td></td>
</tr>
<tr>
<td>Increase: Due from State- Fringe</td>
<td>(542,158)</td>
<td></td>
</tr>
<tr>
<td>Net impact</td>
<td>(1,929,353)</td>
<td>(1,929,353)</td>
</tr>
</tbody>
</table>

Financial Statement line item

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>% Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,924,208,490</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>213,031,392</td>
<td>-1%</td>
<td></td>
</tr>
</tbody>
</table>

Management believes the uncorrected misstatement is immaterial to the financial statements of CSUS. Uncorrected misstatements could be potentially material to future financial statements.

Disclosure misstatements

Material, corrected
- None noted

Uncorrected
- None noted
Summary of misstatements (COSC)

<table>
<thead>
<tr>
<th>Description</th>
<th>Increase (Decrease) to:</th>
<th>Change in Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corrected misstatements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To update COSC's fringe expense and State appropriation revenues to agree with balances per the State</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase: State Appropriations revenue</td>
<td>$</td>
<td>137,279</td>
</tr>
<tr>
<td>Increase: Fringe Expenses</td>
<td>$</td>
<td>(137,279)</td>
</tr>
<tr>
<td>Net impact</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Financial Statement line item</td>
<td></td>
<td>10,224,505</td>
</tr>
<tr>
<td>% Impact</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td><strong>Uncorrected misstatements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None noted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Disclosure misstatements

**Material, corrected**
- None noted

**Uncorrected**
- None noted

Management believes the corrected misstatement is immaterial to the financial statements of COSC. Uncorrected misstatements could be potentially material to future financial statements. As such, we agree with the decision to correct the misstatement.
### Other required communications

Professional standards require that we communicate the following matters to you, as applicable:

<table>
<thead>
<tr>
<th>Going concern matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud and noncompliance with laws and regulations</td>
</tr>
<tr>
<td>Significant deficiencies and material weaknesses in internal control over financial reporting</td>
</tr>
<tr>
<td>Use of other auditors</td>
</tr>
<tr>
<td>Use of internal audit</td>
</tr>
<tr>
<td>Related parties and related party transactions</td>
</tr>
<tr>
<td>Significant unusual transactions</td>
</tr>
<tr>
<td>Disagreements with management</td>
</tr>
<tr>
<td>Management’s consultations with other accountants</td>
</tr>
<tr>
<td>Significant issues discussed with management</td>
</tr>
<tr>
<td>Significant difficulties encountered during the audit</td>
</tr>
<tr>
<td>Other significant findings or issues that are relevant to you and your oversight responsibilities</td>
</tr>
</tbody>
</table>

**Modifications to the auditor’s report**

We have added an emphasis of matter paragraph related to the adoption of GASB 96 for CCC due to the materiality of the impact of the adoption. No emphasis of matter was included for CSUS or COSC due to the relative immateriality of the impact.

**Other information in documents containing audited financial statements**
### Quality of accounting practices

<table>
<thead>
<tr>
<th>Accounting policies</th>
<th>Other than the adoption of GASB 96 and the change in fringe methodology, there were no significant changes to accounting policies during the period.</th>
</tr>
</thead>
</table>
| Accounting estimates | Significant estimates include:  
  • Net pension and OPEB liability, and related deferred inflows / outflows  
  • Liability for compensated absences  
  • Useful lives of depreciable assets  
  • Allocation of expenses among functional expense classifications  
  • Allowance for student receivables  
  • Term of certain leases and subscription based IT arrangements with option periods to be exercised at a future date |
| Disclosures          | Disclosures within the financial statements are materially complete and accurate.  |
| Other related matters | None noted  |
## Use of the work of other auditors

<table>
<thead>
<tr>
<th>Component</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundations</td>
<td>Each of the Foundations has a separate auditor. In our auditor’s report on each entity’s financial statements, we make reference to the audits performed by the other unaffiliated auditors.</td>
</tr>
<tr>
<td>Net Pension and OPEB Liabilities and related accounts</td>
<td>The State engages the State Auditor of Connecticut to perform the audit of the valuation prepared by independent actuaries as part of recording the Net Pension and OPEB Liabilities and related deferred inflows/outflows and pension/OPEB expense. Grant Thornton assesses the qualifications of the APA and takes responsibility for their work.</td>
</tr>
</tbody>
</table>
Other information in the University’s annual report

Management responsibilities

Management is responsible for the other information included in the annual report. The other information comprises Management’s Discussion and Analysis, Required Supplementary Information, and Supplementary Schedules.

Auditor responsibilities

Our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Procedures performed

We read the other information and compared selected amounts or other items in the other information with such amounts or other items in the financial statements.

Results

We did not identify any material inconsistency between the other information and the financial information.
Appendix

1) GASB pronouncements effective in FY24 and beyond
2) Industry updates
3) Management representation letter (draft)
Technical updates - GASB
GASB Statement 101, Compensated Absences

Summary

- This Statement updates the recognition and measurement guidance for compensated absences to better meet the needs of financial statement users.
- Requires recognition of a liability for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means.
- Liability should be recognized for leave attributable to services already rendered, if the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.
- Amends existing requirements to disclose the gross increases and decreases in a liability for compensated absences to allow disclosure of only the net change in the liability.

- Effective for fiscal years beginning after December 15, 2023, with early application encouraged. CSCU intends to adopt this new standard in FY24.

Potential Impact

- This guidance will have a significant impact on the recognition of compensated absences. Universities should start early on to inventory all compensated absence programs, including the following examples:
  - vacation and sick leave
  - PTO
  - holidays
  - parental leave and
  - sabbatical leave

These programs should be evaluated against the updated recognition criteria, exceptions to general recognition, and measurement provisions.
Insights from industry luminaries
Current higher education environment and emerging issues for consideration

Institutions of higher education are considering how the tenets of ESG will impact operations, delivery of mission and governance structures.

Flexibility in terms of working remotely will be critical to retaining employees looking for hybrid options.

One stark reality of the pandemic is that it has significantly affected the mental well-being of students and employees.

Now is the time for all institutions to earnestly re-evaluate the "completeness" of their ERM risk registers.

We believe institutions will always operate best as a community of in-person students and faculty learning and collaborating in immersive campus environments. These changing times require that institutions be introspective to ensure they are adapting to the evolving expectations of stakeholders.

The propensity of donors to give has endured (and grown).

A greater emphasis should be placed on process re-engineering and innovation to drive economies of scale.

An increased focus on student retention combined with creating different channels to attract new student cohorts is crucial.

Long-term strategic plans are being reviewed to ensure relevancy in a changing world.

Currently released Grant Thornton articles include:
• Rethinking revenues, preserving resources in higher education
• Budget cuts alone won’t amount to financial stability
• Staff and program reviews inform expense decisions
• Operational and real estate choices aid smart budgeting
S&P’s 2023* outlook for the Higher Education sector has changed to “mixed” from ”stable” in the prior year

“As Pandemic Risks Abate, Enrollment Pressures Persist”

Positive Developments

• Moving past the pandemic with generally positive fiscal 2022 financial performance mainly due to federal emergency funding
• After fiscal 2022 market volatility, fiscal 2023 market return are strong
• Highly selective institutions are in a very strong financial position with high demand

Risks to Monitor

• 2023 operating margins suffer from inflation and related increased salary costs
• Borrowing costs are rising making new borrowing more costly for institutions after a long period of low interest rates
• Enrollment challenges exist with “demographic cliff” on the horizon and competition for students increasing discounts and decreasing net tuition

Bottom line→ Higher education sector is facing significant risks regarding future enrollment levels, rising costs with lower rated institutions at risk to close or merge contrasted with highly selective institutions in as strong of a financial position as they have ever had.

* Outlook as of January 2023 and re-affirmed in July 2023

Of their over 400 rated institutions they rate 8% as having speculative graded debt, however, 85% of outlooks are stable.
Highest rated institutions (AAA) saw fiscal 2021 applications and enrollments dip 10% but fully rebounded and more with 15% increase in enrollment in fiscal 2022.

Sector-wide, fiscal 2021 declines have yet to fully rebound.
While enrollment by sector shows a wide range of variance in enrollment changes, when the sectors are combined enrollment had a small (0.5%) decrease from Spring 2022 to Spring 2023, smaller than the past 3 years declines.

* PABs are “primarily associate degree granting baccalaureate institutions“
Student Loans

As of 6/30/2023 there is over $1.774 trillion estimated in outstanding federal student debt*.

Figure 30 shows the percent of adults who at one time acquired debt by age and education.

Figure 28 shows opinion on the benefits of education exceeding costs declines by age group and education obtained.

*Per data posted by the Board of Governors of the U.S. Federal Reserve System
Discount rates continue their steady climb to record highs projected for 2022-23.

Trends in tuition discounting

Figure 1: Average Institutional Tuition Discount Rate, by Student Category

Source: NACUBO Tuition Discounting Study, data as of April 2023.
*Preliminary estimates.
The impact comes from the record high projected first-time undergraduate discounts up nearly 10 percentage points from 2013-14.
What presidents are saying:

"Confident my institution will be financially stable"

Over five years…

83%  
All institutions "agree" or "strongly agree"

81%  
Public universities "agree" or "strongly agree"

85%  
Nonprofit private colleges "agree" or "strongly agree"

Over ten years…

77%  
All institutions "agree" or "strongly agree"

76%  
Public universities "agree" or "strongly agree"

81%  
Nonprofit private colleges "agree" or "strongly agree"

This most recent survey was completed in April 2023
What presidents were saying in 2019, pre-pandemic:

"Confident my institution will be financially stable"

<table>
<thead>
<tr>
<th>Over five years...</th>
<th>Over ten years...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>66%</strong> All institutions &quot;agree or &quot;strongly agree&quot;</td>
<td><strong>57%</strong> All institutions &quot;agree or &quot;strongly agree&quot;</td>
</tr>
<tr>
<td><strong>66%</strong> Public universities &quot;agree or &quot;strongly agree&quot;</td>
<td><strong>52%</strong> Public universities &quot;agree or &quot;strongly agree&quot;</td>
</tr>
<tr>
<td><strong>66%</strong> Nonprofit private colleges &quot;agree or &quot;strongly agree&quot;</td>
<td><strong>60%</strong> Nonprofit private colleges &quot;agree or &quot;strongly agree&quot;</td>
</tr>
</tbody>
</table>

GrantThornton
Two-thirds of surveyed presidents said their institution was more financially stable than in 2019.

These responses provide context for the basis of that sentiment.
What chief business officers say overall:

"Confident my institution will be financially **stable over ten years**"

65% in 2023

65% in 2022

73% in 2021

This most recent survey was completed in **July 2023**
What chief business officers said in 2019, pre-pandemic:

"Confident my institution will be financially **stable over ten years**"
What chief business officers say overall:

The top 2 concerns of CBOs are around rising costs of labor and non-labor.

The 3rd and 4th concerns are around enrollment and declines in net tuition.
What chief business officers say on understanding financial challenges:

- Senior administrators are aware of and understand the financial challenges confronting my institution. (n=212)
  - Strongly disagree: 2%
  - Somewhat disagree: 6%
  - Neither agree nor disagree: 33%
  - Somewhat agree: 33%
  - Strongly agree: 58%

- Trustees are aware of and understand the financial challenges confronting my institution. (n=212)
  - Strongly disagree: 3%
  - Somewhat disagree: 8%
  - Neither agree nor disagree: 38%
  - Somewhat agree: 48%
  - Strongly agree: 9%

- At my college, we have the right tools and processes to respond quickly to needed changes. (n=212)
  - Strongly disagree: 4%
  - Somewhat disagree: 27%
  - Neither agree nor disagree: 16%
  - Somewhat agree: 44%
  - Strongly agree: 14%

- At my college, we have the right mindset to respond quickly to needed changes. (n=212)
  - Strongly disagree: 7%
  - Somewhat disagree: 24%
  - Neither agree nor disagree: 19%
  - Somewhat agree: 36%
  - Strongly agree: 14%

- Faculty members are aware of and understand the financial challenges confronting my institution. (n=212)
  - Strongly disagree: 6%
  - Somewhat disagree: 30%
  - Neither agree nor disagree: 19%
  - Somewhat agree: 39%
  - Strongly agree: 6%

- Our current governance structure is a significant obstacle to a sustainable financial future for my institution. (n=209)
  - Strongly disagree: 16%
  - Somewhat disagree: 23%
  - Neither agree nor disagree: 21%
  - Somewhat agree: 27%
  - Strongly agree: 13%

- A lack of adequate data and analytic capacity is a significant obstacle to a sustainable financial future for my institution. (n=212)
  - Strongly disagree: 11%
  - Somewhat disagree: 31%
  - Neither agree nor disagree: 22%
  - Somewhat agree: 27%
  - Strongly agree: 9%
What chief business officers say on mergers:

How likely is your institution to merge into or be acquired by another college or university in the next five years? (n=212)

- Not likely at all: 66%
- Not too likely: 27%
- Somewhat likely: 5%
- Very likely: 2%

Do you think your institution should consider merging with another college or university in the next five years? (n=214)

- No: 71%
- Yes: 25%
- Don’t Know/Does Not Apply: 5%
What chief business officers say on shared services:

How likely is your institution to share administrative functions with another college or university in the next five years? (n=210)

- Not likely at all: 26%
- Not too likely: 28%
- Somewhat likely: 32%
- Very likely: 14%

Do you think your institution should share administrative functions with another college or university in the next five years? (n=214)

- Yes: 61%
- No: 34%
- Don't Know/Does Not Apply: 5%
What chief business officers said in 2019 on mergers and shared services:

On mergers (next five years)...

- **12%** Institution had serious talks with another
- **18%** Believe their institution should merge with another
- **1%** Institution likely to merge with another

On shared services or programs (next three years)...

- **43%** Likely to share administrative services with another
- **62%** Should share administrative services with another
- **66%** Should combine academic programs with another
Thought Leadership for Higher Education Institutions
Governance IQ – Strengthen your board and audit committee

Addressing today’s not-for-profit and higher education governance challenges to effectively advance your mission

- Monthly governance insights
- Comprehensive board guidebooks
- Dedicated to serving our clients

Sign up at: https://www.grantthornton.com/industries/nfp-higher-education/governance-iq
Additional Higher Education resources

ARTICLE
6 actions to take to avoid conflicts of interest

ARTICLE
3 challenges put higher education leaders to the test

ARTICLE
3 legal duties every board member must follow

ARTICLE
How higher education can weather endowment declines

Find all of these articles and more at: https://grantthornton.com/nfp
Management representation letter (draft)