



To: Senator Matt Dolan, Chairman, Senate Finance Committee
Representative Jay Edwards, Chairman, House Finance Committee
Senator Vernon Sykes, Ranking Minority Member, Senate Finance Committee
Representative Bride Rose Sweeney, Ranking Member, House Finance Committee
Ms. Kimberly Murnieks, Director, Office of Budget & Management
Ms. Wendy Zhan, Director, Legislative Service Commission

From: Mike Duffey
Chancellor

Date: April 3, 2024

Subject: Second Quarter Financial Reports for FY24

Please find enclosed the quarterly financial reports for the second quarter of fiscal year 2024, which were submitted by Ohio's 37 public institutions of higher education. Pursuant to Ohio Revised Code §3345.72, these reports are to be distributed to you.

The report contains twelve questions to be answered by the campus fiscal officer or an appropriate designee. The questions are designed to probe for any serious cash flow problems and to provide early warnings of significant problems with the current year budget. The desirable answer to each question is *No*.

Of the 37 public colleges and universities, Eastern Gateway Community College (EGCC) and Lakeland Community College each answered yes to two of the twelve questions in their quarterly report. EGCC acknowledged that they have received advances of state subsidy and have been late in paying vendors. Lakeland acknowledged that they are experiencing declining fund balances. Additional information is provided in the attached.

Please note, senior management at ODHE and EGCC have weekly update calls to keep each other apprised of the current status of EGCC with respect to both the Higher Learning Commission and the U.S. Department of Education, and of new developments. You will recall our department recently also placed EGCC in fiscal watch status and they also announced plans to withdraw their accreditation.

In addition, ODHE has established a bi-weekly cadence of meetings with members of the General Assembly and their respective staff to ensure open lines of communication. ODHE is monitoring the financial status of all our colleges and universities very carefully, and we are willing to discuss the information in this report in greater depth if it would be helpful.

Should you have any questions concerning the content of the enclosed reports, you are welcome to contact me personally.

Enclosures

The following yes responses have been received:

Eastern Gateway Community College (EGCC)

- ❖ Reportable Events #1 Request an advance of state subsidy?
- ❖ Reportable Events #5 Fail to make payments to vendors, as scheduled, due to a cash deficiency or a substantial deficiency in the payment processing system?

Eastern Gateway Community College continues to be on Heightened Cash Monitoring HCM2 by the US Department of Education (USED). This is the result of USED findings of prior practices at EGCC that identified a lack of controls within the Financial Aid area and the submission of ineligible and inadequately documented recipients submitted to the Department for federal aid. Since being placed on HCM2, EGCC has been able to recover less than two-thirds of anticipated aid revenue from the 2022-23 academic year. In addition, the College has been unable to recover any aid from Fall 2023. Delays in federal reimbursement have further complicated EGCC's cash flow challenges. On December 18, 2023, the Controlling Board authorized an advance of SSI of the equivalent of \$6,091.917, or three months of SSI, through March 2024.

As of December 31, EGCC received an advance of \$600,000; in January, EGCC received additional advances of \$1.6 million in addition to the anticipated January monthly allocation. EGCC is taking measures to reduce spending and improve their ability to draw down federal financial aid reimbursements. The College is due to report back to the Controlling Board on their progress at the March 4, 2024, meeting.

ODHE notes: ODHE continues to monitor Eastern Gateway Community College very closely. ODHE staff monitors the college's cash balances and level of spending on a daily basis. During the second quarter of FY24, EGCC engaged additional expertise to assist with their financial aid reimbursement submissions to the USED. Early in the third quarter EGCC implemented a second reduction in force this fiscal year. EGCC is continuing a thorough review of expenses with the goal of eliminating all non-essential expenses. Additional reductions are being evaluated and planned to assure that EGCC can finish the spring term. However, even with these efforts cash flow will be a major challenge through the remainder of the fiscal year. Additionally, sustained operations beyond the end of the current fiscal year are not feasible at this time, based on cash flow projections, lack of personnel, and a voluntary withdrawal of accreditation from the Higher Learning Commission as approved by the EGCC Board of Trustees on March 20, 2024.

It should be noted that to the degree EGCC is awarding aid to students, they are creating a receivable of potential reimbursement from USED. However, to the degree such reimbursements are delayed, EGCC will face increased risk of running a cash deficit. This nuance is not reflected in EGCC's estimated SB 6 score that assumes they will eventually collect against the receivable. Thus, the estimated SB 6 score is overly optimistic.

Lakeland Community College (LCC)

- ❖ Reportable Events #6 Relative to its original budget for the fiscal year, experience any actual or anticipate any projected financial changes (such as unbudgeted decreases in

revenues or unbudgeted increases in expenditures) that will result in a substantially reduced fund balance or larger deficit this fiscal year?

- ❖ Additional Questions #2 An unanticipated decrease in operating cash and investments?

Loss of \$6.5 million Federal Stimulus revenue compared to previous year. The College has reduced operating expenses to offset some of the revenue loss and will continue to reduce expenses the rest of FY24 and into FY25.

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