

# EVALUATING THE ESSENTIALS

Whether your institution is the one merging into or absorbing another institution, the due diligence phase calls for an evaluation of a potential partner’s strengths. As a guide, here are the areas a credit ratings organization typically assesses when determining the probability of default on a debt obligation over a 30-year period and then the likelihood of recovery.

**Market strength.** What demographic trends are affecting the environment in which both institutions operate? How strong is the demand for the institution’s services? How stable is that market? How successful has the institution been in translating its market profile into revenue and resource growth?

**Operating performance.** Has there been growth, particularly in revenue streams? What does the expense profile look like? What trends are evident in each of the revenue and expense line items? Has the institution generated balance or better-than-balance operations performance on an annual basis? The answers all contribute to a determination of core operating strength.

**Wealth and liquidity levels.** Has the endowment shown growth or remained relatively flat? What is the level of reserves?

**Endowment.** Obviously, better endowed institutions have greater financial strength. But how much flexibility does the endowment have—for example, what percentage is restricted versus unrestricted?

**Debt.** How much debt does the institution have outstanding? How leveraged is it? How capital intensive is it? What are its sources of capital funding? For example, does the institution rely highly on debt, depend on a strong base of donors, or—if a public university—receive strong support from the state?

**Governance and management.** What are the institution’s broader strategies? How stable is its leadership? What business model does it use? For a public university, how strong or close is its relationship with the state? To some extent, an institution’s reputation drives student demand and donor interest and therefore, also contributes to its financial health.

## Documentation

Below is a list of documents you will need to begin the process.

### FINANCIAL MATTERS

- Financial statements
- Audits
- Internal Revenue Service (IRS) Form 990s
- A-133/Uniform Guidance
- Budgets
- Current-year results
- Financial forecasts
- Ratings outlooks and reports
- Donor participation rates
- Gift values and agreements
- Results of Strengths, Weaknesses, Opportunities, and Threats (SWOT) assessments

## FACILITIES, REAL ESTATE, AND ENVIRONMENT

- Titles
- Facilities Condition Index (FCI) reports
- Loans and mortgages (including ability to assume covenants)
- Physical inspections of facilities

## LEGAL MATTERS AND CORPORATE GOVERNANCE

- Articles of Incorporation, Charter, and Bylaws
- Material contracts and agreements
- Minutes of board meetings
- Claims or penalties for environmental matters
- Accreditation reports
- Memorandums of Understanding (MOUs) related to endowment
- Strategic plan
- Public safety and crime statistics
- Organizational chart
- NCAA reports
- Partnership agreements

## HUMAN RESOURCES

- Collective bargaining agreements
- Human resources policies and procedures
- Faculty and staff contracts and policies (including promotion, tenure, and compensation practices)
- Résumés of faculty and key staff
- Affirmative action plan

## INFORMATION TECHNOLOGY

- Network diagrams
- Contracts related to existing systems

Sources: *University of New Hampshire and Salem State University*

This checklist is an excerpt from the book *Winning Combinations: A Guide to Mergers and Acquisitions in Higher Education* (NACUBO, 2019). The book helps you understand potential challenges inherent in conjoining the programs and people from merging institutions.

As more institutions have considered the option of a merger or acquisition and have sought to understand the process involved, there has been a growing need for a guide addressing the critical questions:

- How do such conversations begin?
- How long can a merger take?
- Who needs to be involved in the work and when?
- What are the critical milestones along the way?

Written for both institutions considering their next big strategic move as well as for those wondering how they'll keep the lights on 10 years from now, this book taps into the collective experience of more than a dozen leaders in higher education who have initiated, observed, facilitated, participated in, contributed to, and analyzed all types of mergers, acquisitions, and consolidations. Purchase your copy today <https://products.nacubo.org/>

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