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Methods to Control Financing Risks in Colleges and Universities

S.H. Zhang[1, a]

[1]Financial Department, Changzhou Institute of Technology, Changzhou, Jiangsu, 213002,China

[a]zhangsh@czu.cn

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Abstract: With the great development of higher education and more and more autonomy in college running, the financing risks in college finance management have become increasingly foregrounding in China. Under such a new situation and condition, it is necessary to strengthen research and practice of the risk control of college financial affairs management so as to accelerate the sustained development of various tasks in Chinese colleges and universities.

Introduction

According to the authoritative data issued by the Education Ministry of China, the loan balance of public colleges and universities has reached 2 6490 million RMB by the year of 2007. Among the total, local colleges and universities have loaned 21130 million RMB, occupying 80%; MOE-administrated colleges and universities and other central ministry and commission administrated universities have loaned 4140 million RMB and 1220 million RMB respectively, which add up to 5360 million RMB, occupying 20% among the total amount of loans. With the scale expansion, the national public colleges and universities need to invest about 103850 million RMB for infrastructure, in order to satisfy the basic school-running requirements, but contemporaneously the state, based on the national budget, provides only 840 million RMB with national debt fund included, occupying les than 10%. Under the situation of national inadequate finance input, loans have made a great contribution to the great-leap-forward development in supporting higher education.

However, around the year of 2008, loan refunding reaches its peak and banks adjust their loan rate, leading to the increasing burden for those colleges and universities that have to pay loan and interest. The potential risk from such a heavy debt has shown direct impact on the harmony and stability as well the sustained development of colleges and universities. Some colleges and universities have even got new loans to repay former loans, and some have used temporary loans as long-term loans to reduce the payment of loan interest, which may cause fund chain break at any time. New campus projects under construction in some colleges and universities have to stop because of shortage of fund sources, a minority of colleges and universities that have got larger loans even cannot offer salaries to their staff members for the overburden of interest payment, and quite a few colleges and universities have utilized special-purpose funds for interest payment, forming big “internal debts” (internal debts of MOE-administrated colleges and universities have totaled 3280 million RMB by the year of 2007). All these have seriously influenced various routine works, teaching activities, scientific research rank construction as well as improvement of teaching quality at colleges and universities.

Under the new situation and conditions, actual circumstances force colleges and universities to pay enough attention to the control of financing risks. So colleges and universities have to take effective measures to perfect financial system, standardize financial affairs completely, and ensure the unity of financial affairs management and quick accounting so as to make sure the financial department to efficaciously prevent risks grounded on the standardized and scientific basis.

Improvement of Fund-Raising and Finance-Managing Concept and Management of Funding Operations Scientifically

For colleges and universities grow in the dynamic market, financing becomes more and more important for their development. Therefore, financing strategies, which influence financing efficiency, evolve as the significant subject for financial affairs management. Colleges and universities should improve fund-raising and finance-managing concept and firmly build flexible financing thinking to effectively prevent and solve fund-raising and finance-managing risks.

In financing, colleges and universities have to study the influents carefully. The change of financing environment and conditions bears the adjustment of financing strategies, so as to manage financing activities scientifically. The scientific management covers financing amount, financing opportunity and capital structure, etc. The flexible management of financing amount and opportunity demands colleges and universities adjust fund requirement dynamically and control fund-embarking time neatly. The uncertain factors determine fund requirement prediction to a large extent; hence the financial affairs managements may suffer from instant changes. Thus the financing amount predicted beforehand may change, too, which needs timely adjustment, and correspondently increase or reduce fund. Simultaneously, colleges and universities should master financing opportunity exactly to make sure it and its working fit well as soon as possible. Besides, the capital structure should bear flexibility. On one hand, the primary capital composition may achieve flexible conversion, such as the conversion between permanent capital and contemporary capital, and the conversion between equity capital and liability capital; on the other hand, in order to reduce financing risks, colleges and universities should adjust the present capital composition to guarantee the optimization of the capital structure by different financing methods.

The Scientifical Financing Operations Based On the Financing Lever Principles

During their financing, colleges and universities should make full use of the financing lever principles to take the funds raised into full consideration. First of all, they should think about the proportion between financing cost and risk gains. To be specific, colleges and universities need to define the channel to borrow fund in their financing. On one hand, they should raise funds according to their abilities; on the other hand, they should choose the financing sources with low cost and low risk based on the enough calculation of financing cost and financing risk. In the second place, colleges and universities should distribute the fund borrowed reasonably, predict the gains well and truly, and weigh if the future gains can make up for the financing cost and if there exists surplus revenue, and how much the surplus revenue will be. Consequently, colleges and universities need intensify financing on the software construction, such as the instrumental equipment renewal, scientific research equipment purchase and some other construction items wanted in teaching and research, to ensure the soon cost recovery. Meanwhile, it may lay basic base for the improvement of scientific research, fostering of excellent talents, and raising the reputation of colleges and universities.

The control of financing risks may begin with the following aspects.

Firstly, colleges and universities ought to properly grasp the best opportunity to collect funds. In a certain period, some unfavorable external environment and factors may arise, so it is necessary for universities to fix the joint-point between internal qualities and external environment, to grasp the financing opportunity in time, when considering all the influents. The opportunity usually combines the methods to raise funds, which are mainly reflected on hi-tech equipment purchase and infrastructure construction, etc.

Secondly, colleges and universities ought to make certain a reasonable fund-raising scale. The fund-raising scale refers to the balance between the capital quantity wanted and the capital quantity owned in a certain development period for the colleges and universities. It is a priority to make certain a reasonable fund-raising scale. The over-financing may lead to unused fund and loss of fund and even the increasing financing cost. If colleges and universities cannot meet the loan plus interest payment, problems may arise in answering the loans, increasing financial risks. The under-financing

may influence project construction, sequentially the goal realization of the whole school, and even routine teaching and research, causing greater losses. Accordingly, the actual need determines financing. Colleges and universities should have a scientific budget of the capital quantity wanted and then make certain a reasonable fund-raising scale. In the practical work, colleges and universities may base themselves on the actual situation to make a choice of either qualitative or quantitative calculating methods, or both when necessary. Such a manner may yield better results.

Thirdly, colleges and universities ought to formulate a reasonable capital structure. Financing method decides capital structure, an important part of financing strategy. The capital structure reflects to some extent the school-running vigorousness, ability and developmental potential. A reasonable capital structure is a safeguard for steady and sustained future development for colleges and universities. Moderate debt may benefit the development, but too much is likely to induce financial affairs crisis, damaging the development, instead. So colleges and universities had better ask for fiscal assignment and economic support for education and research from social sectors. And also, they strive for public welfare funds donated, and decrease the number of students who delay handing in tuitions. Financing risk may be lessened.

Fourthly, colleges and universities ought to choose best financing methods. The financing methods for colleges and universities cover national fiscal assignment, the income from science-technology services, students' tuitions, and social donations and so on, among which financing borrowing is liable fund. In raising and using the liable fund, colleges and universities have to take into full consideration the financing cost and the cost of using capital, and then choose the lowest capital cost among the alternatives. Besides, the newly born financing methods, which benefit the development for colleges and universities, may be got help from, too. At present, the alternative financing methods include bank borrowing, commercial credit, financial leasing, assets financing and so on, among which colleges and universities may find their conditional choice.

Establishment of Large Loan Accreditation System for Macroscopic Management and Supervision

Colleges and universities should study the supply and demand of capital market carefully. Scientific and reasonable fund scheme must find its ground from the interest rate direction of fund market and the project schedule. Optimizing fund structure and lowering capital cost may decrease financing risks. Colleges and universities should strictly examine and approve larger loans, and practice earmarking the fund for its specified purpose, closed operation, tracing supervision, and performance assessment. They should also make feasible loan-paying plans and use fund dispatcher rationally according to the loan-plus-interest returning time length and repayment amount, to avoid the delayed repayment loss for the fund-circulating problem and lack of preparations. At the same time, colleges and universities have to establish and strengthen internal monitoring system, and give full play to the supervisory function of auditing and monitoring to monitor the loan items all the directionally in the whole process.

Colleges and universities have to form the mechanism to use and manage the loan fund by taking the way of target decomposition, open bidding, daily checking, inspection and acceptance. It is a must to enhance macroscopic management and monitoring, take timely measures, prevent financial affairs risk, and establish large loan accreditation system, by comprehensively mastering loan scale and risk state. It is also necessary to give the feasibility study report on loan item, annual loan amount scheme, loan repayment plan and measures and other relevant documents to the superior administrative departments for recording.

When they make annual budget of revenues and expenditures, colleges and universities have to think over the loan-repaying factor and fit the loan-repaying plan into it. Besides, in order to make sure for the loan-repaying fund sources, it is necessary to solve the financial affairs crisis by using space metathesis fund.

Building an Effective Early Financing Risk Warning System

To establish effective early financing risk warning system means setting correlative quantitative indexes, analyzing and appraising the rational degree of fund utilization, management level of financial affairs and real financial power, exposing the hidden problems promptly, and early warning the potential financial risk and joint liability risk, based upon the current management of financial affairs and accounting assessment.

Generally speaking, the early warning system depends on the following indexes: Exterior liability for colleges and universities should not total much at the end of the year but depends on specific circumstances. The net balance of savings for colleges and universities should not total little at the end of the year but depends on specific circumstances. The proportion between the exterior liability total and gross revenue for colleges and universities (i.e. the total yearly debt is divided by yearly gross revenue) should be above 80% high-risk. The proportion between the net savings at the end of the year and total expenditure for colleges and universities (i.e. the net bank balance of savings is divided by yearly total expenditure) should be above 40% low-risk with low efficiency of capital utilization; be between 40% and 20% low-risk but below 20% high-risk. The proportion between the yearly total expenditure and yearly gross revenue for colleges and universities should be above 1, high-risk. The asset-liability ratio for colleges and universities (i.e. the debt sum at the end of the year is divided by the asset sum at the end of the year) should be between 40% and 20% but above 60% high-risk. The asset-flux ratio for colleges and universities (i.e. the balance of flux asset at the end of the year is divided by the balance of flux debt at the end of the year) should be between 1 and 3 but below 1 high-risk. The proportion between the temporary debit and circulating fund at the end of the year for colleges and universities (i.e. accounts receivable and the balance of temporary fund at the end of the year are divided by the balance of flux asset at the end of the year) should be above 15% high-risk. The proportion between the balance of self-possessed fund and savings at the end of the year for colleges and universities (i.e. (the institutional fund at the end of the year minus investment fund plus fund for special purpose at the end of the year minus endowment fund) is divided by (the bank savings at the end of the year plus cash stocks at the end of the year)) should be below 18% high-risk. The total asset-return ratio at the end of the year (i.e. the yearly gross revenue is divided by the total asset at the end of the year) should depend on specific circumstances, but the higher the better. The hedging and proliferating ratio for colleges and universities (i.e. the net asset at the end of the year is divided by the net asset at the beginning of the year) should depend on specific circumstances, but the higher the better.

Conclusion

Under the market economy, colleges and universities as the status of legal person in their autonomous school-running will keep on being consolidated with the gradual deepening of higher education innovation. Various economic decision-makings will become more and more dependent on the results of financial analysis. Thus, the financial department, as the economic information center of colleges and universities, will become more and more prominent. In light of these, colleges and universities need to further modify financial analysis methods, establish perfect financial analysis and appraisal system, transform the objective accounting data into decision-making information, and increase the use-value of accounting data.

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