


Financial Management Principles for the Educational Non-Profit

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Financial Management Principles

Objectives

- ▣ Seeing the Big Picture – Having the Right Numbers in Focus
- ▣ Keeping Your Finger on the Financial Pulse of the Institution
- ▣ Ensuring the Right Processes of Checks and Balances – Sustainability
- ▣ Holding the Right People Accountable – Doing the Hard Work

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Seeing the Big Picture – Having the Right Numbers in Focus

Financial Transparency and Accountability

- Clarify the mission and the business process by which you achieve the mission.
- Measure those things most relevant to the success of your mission.
- Mission alignment through strategic planning and budgeting.

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Seeing the Big Picture

□ Financial Management: Oversight

- Watch over financial assets
- Understand the institution's finances
- Recognize how board and management decisions affect finances
- Determine how the institution's finances affect those decisions

Not every decision that management and the board make is a financial one; however, almost every decision to carry out the institution's mission has financial implications.

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Financial Management Principles

Seeing the Big Picture

- ▣ Forecasting and Budgeting
 - Coordinated effort of strategy and budgeting
 - Effective translation of annual plan to a financial plan (the budget)
 - Standard framework for both annual and financial planning

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Keeping Your Finger on the Financial Pulse of the Institution

- CFI
- DOE
- Dashboards
- Benchmarking

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Financial Pulse of the Institution

Composite Financial Index (CFI)

RATIOS	weight / strength	F o r e c a s t						
		Actual 2019 - 20	Projected 2020 - 21	2021 - 22	2022 - 23	2023 - 24	2024 - 25	2025 - 26
Primary Reserve Ratio: Expendable Net Assets Total Expenses	35% 55% 0.133	0.311	0.316	0.367	0.362	0.400	0.430	0.463
Net Income Ratio: Change in unrestricted net assets Total unrestricted income	10% 15% 0.007	0.007	0.091	0.082	0.031	0.047	0.040	0.039
Return on Net Assets Ratio: Change in net assets Total net assets	20% 30% 0.020	0.062	0.060	0.048	0.025	0.037	0.032	0.031
Viability Ratio: Expendable Net Assets Long-Term Debt	35% 0% 0.417	0.617	0.624	0.615	0.670	0.800	0.935	1.094
Liquidity Ratio: Total Liquidity Long-term indebtedness		168%	163%	139%	147%	162%	181%	202%
Debt Service Coverage Ratio: Net Revenues Maximum annual debt service		1.93	3.48	3.15	2.12	2.44	2.36	3.53
CFI		2.1	3.3	3.1	2.2	2.8	2.8	3.0

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Financial Pulse of the Institution

Department of Education's (DOE) Composite Financial Responsibility Score

1. Primary Reserve
2. Equity
3. Net Income

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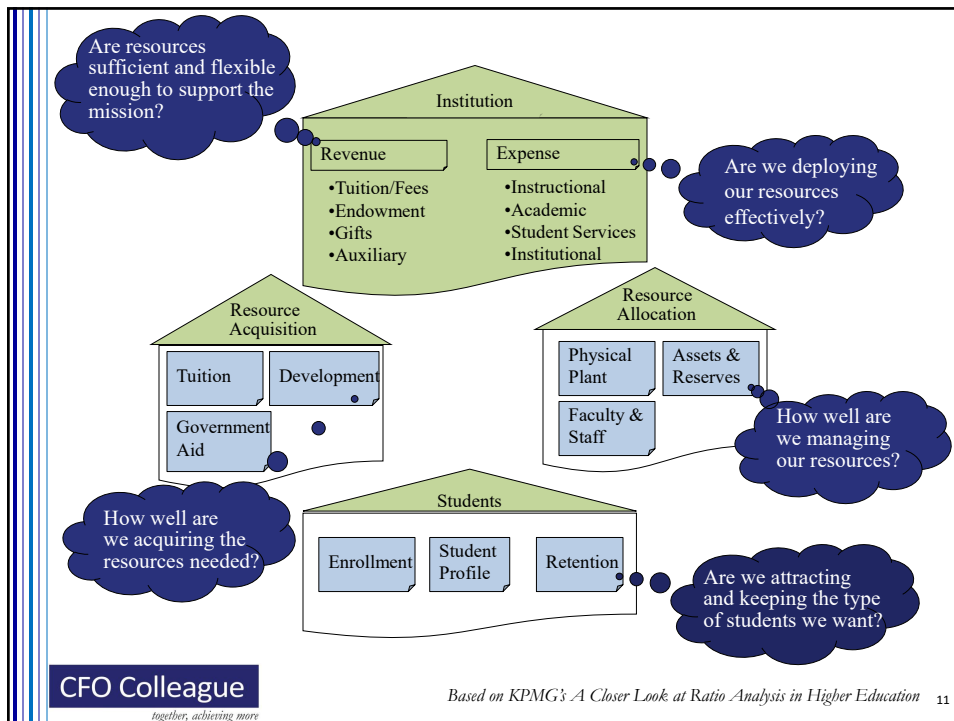
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	2016 - 16	2016 - 17	2017 - 18
1 Primary Reserve Ratio ! = should be a (negative) #			
+ unrestricted net assets	42,260,960	43,825,466	49,919,214
+ temporarily restricted net assets	12,392,668	14,128,995	14,003,710
- (minus temp restricted annuities, term endowments and life income funds) (negative #)			
- (minus intangible assets) (negative #)			
- (minus unsecured related party receivables) PLEDGES? (negative #)			
- net property, plant and equipment (net fixed assets)	(52,616,855)	(51,520,397)	(56,580,428)
+ post employment and retirement liabilities positive #	21,731,945	21,198,687	22,098,108
+ all debt obtained for long-term purposes (limited to net fixed asset total)			
= numerator Expendable Net Assets	23,768,718	27,632,758	29,440,603
= denominator Total Unrestricted Expenses	43,159,975	46,111,308	47,314,552
Primary Reserve Ratio =	0.65	0.60	0.62
2 Equity Ratio			
+ total net assets (unrestricted + temp restricted + perm restricted)	69,341,316	72,692,149	78,720,611
- minus intangible assets	0	0	0
- minus unsecured related party receivables	0	0	0
= numerator Modified Net Assets	69,341,316	72,692,149	78,720,611
+ total assets	94,183,096	97,267,144	104,501,350
- minus intangible assets	0	0	0
- minus unsecured related party receivables	0	0	0
= denominator Modified Assets	94,183,096	97,267,144	104,501,350
Equity Ratio =	0.74	0.75	0.75
3 Net Income Ratio			
= numerator Change in Unrestricted Net Assets	307,661	1,564,506	6,093,748
= denominator Total Unrestricted Revenue	43,250,820	47,500,814	53,258,300
Net Income Ratio =	0.01	0.03	0.11
RATIO NAME	Strength	Weight	
1 Primary Reserve	10	0.4	1.20
2 Equity	6	0.4	1.20
3 Net Income (gain / breakeven / loss)	50	1 25	0.2
DOE COMPOSITE SCORE - (limited to a range of -1.0 to +3.0)	2.7	2.9	3.0
PERFORMANCE	1.5 to 3.0	Consequences:	
1.0 to 1.4	(1.0) to 0.9	None	
		Monitor. Three years in this "zone" results in failure	
		Immediate failure	

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Financial Pulse of the Institution

- Dashboard Indicators
 - Types of Performance Measures:
 - ✓ Input – selectivity or enrollment statistics
 - ✓ Output – graduation statistics, national exam
 - ✓ Outcome – perceptions surveys, employment statistics
 - ✓ Efficiency – cost per student
 - ✓ Effectiveness – difference in entrance and exit scores

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Financial Pulse of the Institution

- Benchmarking
 - Measuring certain characteristics
 - Establishing that which is worthy of emulation
 - Creating a process to accomplish desired outcomes
 - Higher education must seek new benchmarks



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Financial Pulse of the Institution

- 30 Benchmarks for the Resource Constrained
 - Commitment to healthy financial operations
 - Commitment to employees
 - Commitment to planning

Commitment to healthy financial operations

1. Annual traditional net tuition per (NTR) student \geq \$14,000
2. First time freshman traditional tuition discount \leq 50%
3. Advancing NTR per student three years forward for first time freshmen should be greater than current NTR for Seniors (micro price inflation)
4. Non-student revenues (donations and unrestricted investment returns primarily) \geq 12% of operating revenue. (Student revenues include net tuition, fees and auxiliary revenues)

Benchmarks available at:
<http://cfocolleague.com/free-downloads/>

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Ensuring the Right Processes of Checks and Balances – Sustainability

- Finance/Audit Committee
- Investment Management
- Policies and Procedures
- Budgeting and Forecasting
- New Program Proposals

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Financial Management Principles

Ensuring the Right Processes

- ❑ Finance/Audit Committee & Audits
 - Integrity, financial credibility, and viability
 - Stakeholder confidence
 - Risk management and financial oversight
 - Design and implement internal controls
 - Auditors

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Ensuring the Right Processes

- ❑ Investment Oversight:
 - Managing the Endowment and other pools of capital
 - ✓ Investment committee
 - ✓ Gift acceptance
 - ✓ Endowment spending rules
 - ✓ Investment policy

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Financial Management Principles

Ensuring the Right Processes

- Financial Management: Policies and Procedures
 - Personnel policies
 - Executive compensation packages
 - Long-term contracts or leases
 - Loans and/or lines of credit
 - Internet use and computer security
 - Capital purchases
 - Disposition of donated stock
 - Insurance requirements and reviews
 - Record retention
 - Gift acceptance

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Ensuring the Right Processes

- Forecasting Experiences
 - Focus solely on income statement
 - Data do not always drive revenue plan
 - Too often, each department's goals = budget
 - Resistance registered against continuous cutting
 - CFO guards planning documents and analyses
 - Senior leaders see the process as a "black box"
 - Simple formulas for enrollment and pricing

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Financial Management Principles

Ensuring the Right Processes

- ❑ Preferred Forecasting
 - Ownership
 - Model outcomes from changes to inputs
 - Reliable companion for budget preparation
 - Full financial statements (SOA, CF, BS)
 - Suitable for presentation
 - Starts early enough to inform the process

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Ensuring the Right Processes

- ❑ Forecasting and Budgeting
 - COMP4cast[®]

Example College
Multi-Year Enrollment Trends
- Traditional Population

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	A C T U A L					F O R E C A S T				
	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 - 19	2019 - 20	2020 - 21	2021 - 22
Fall Enrollments						292	301	311	320	329
1st time Freshmen	223	269	259	247	307	310	325	330	335	335
Freshmen	24	27	33	25	35	37	37	39	40	40
Sophomores	208	195	244	237	222	267	279	293	299	304
Juniors	178	226	180	219	232	221	266	277	291	297
Seniors	231	210	241	234	244	271	259	311	324	341
Others	10	4	3	2	7	5	5	5	5	5
Reported /Forecast Fall Traditional	874	931	960	964	1,047	1,111	1,171	1,255	1,294	1,322
Transfers in	59	54	67	63	66	65	66	66	67	67
New students	282	323	326	310	373	375	391	396	402	402
Returning students	592	608	634	654	674	736	780	859	892	920

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Ensuring the Right Processes

- New Program Proposals
 - Relationship to the mission and strategic plan
 - Financial analysis (proforma)
 - Potential effect on others
 - Impact existing programs
 - “Cannibalization”
 - Goals
 - Responsible parties
 - Milestones
 - Sunset provisions

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Ensuring the Right Processes

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Example College Salary & Benefits

Faculty	Ann. Salary	Full-Time Equivalents by Semester															
		FA 19	SP 20	SU 20	FA 20	SP 21	SU 21	FA 21	SP 22	SU 22	FA 22	SP 23	SU 23	FA 23	SP 24	SU 24	
1 Dean	65,000	0.50	0.75		1.00	1.00		1.00	1.00		1.00	1.00		1.00	1.00		1.00
2		16,250	24,375		33,150	33,150		33,979	33,979		34,998	34,998		35,348	35,348		35,348
3 Professor	58,000							1.00	1.00		1.00	1.00		1.00	1.00		1.00
4								30,320	30,320		31,229	31,229		31,541	31,541		31,541
5 Assoc. Professor	50,000				0.50	0.50					1.00	1.00		1.00	1.00		1.00
6					12,750	12,750					26,922	26,922		27,191	27,191		27,191
7 Asst. Professor	47,000										0.50	0.50		0.50	0.75		0.75
8											12,653	12,653		12,780	19,170		19,170
9 Instructor	38,000	0.25	0.25		0.50	0.50		0.75	0.75		1.00	1.00		1.00	1.00		1.00
10		4,750	4,750		9,690	9,690		14,898	14,898		20,460	20,460		20,665	20,665		20,665
11 Total Faculty Salary		21,000	29,125		55,590	55,590		79,197	79,197		126,262	126,262		127,525	133,915		133,915
Adjunct																	
12 Adjunct Faculty \$ / Credit			800			820			820			820			825		
13 Adjunct Faculty Credits				1		3		3	1		6	6		3	9	9	3
14 Total Adjunct Salary				800		2,460		2,460	820		4,920	4,920		2,460	7,380	7,380	2,475

Example College Salary & Benefits

Faculty	Ann. Salary	FA 19	SP 20	SU 20
1 Dean	65,000	0.50	0.75	
2				
3 Professor	58,000			
4				
5 Assoc. Professor	50,000			
6				


14 Full Time Equivalent
Enter number less than or equal to 1.00. Total annual hours/2080. If zero, leave blank.

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Holding the Right People Accountable – Doing the Hard Work



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Change Puzzle Activity

Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	Change
Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	Sabotage
Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	Confusion
Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	Anxiety
Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	Anger
Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	Sporadic Change
Trust	+	Vision	+	Skills	+	Resources	+	Payoff	+	Action Plan	=	False Starts

Adapted from works by Dr. Peter Senge – <http://www.solonline.org>



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Holding the Right People Accountable

“Perhaps the greatest mistake I’ve seen executives make is to confuse expectations with inspection.
But, alas, too often the executive does not understand that people do what you inspect, not what you expect. Execution is all about translating strategies into action programs and measuring their results. It’s detailed, it’s complicated and it requires deep understanding of where the institution is today and how far away it is from where it needs to go. Proper execution involves building measurable targets and holding people accountable to them.”

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Gerstner, Louis V. *Who Says Elephants Can't Dance?: Inside IBM's Historic Turnaround*. New York, NY: HarperBusiness, 2002. Print. 26

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Questions

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