Financial Management Principles for the Educational Non-Profit

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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
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.

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.
Financial Management Principles for the Educational Non-Profit

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

Keeping Your Finger on the Financial Pulse of the Institution

- CFI
- DOE
- Dashboards
- Benchmarking
Financial Pulse of the Institution

- Composite Financial Index (CFI)
  
<table>
<thead>
<tr>
<th>RATIOS</th>
<th>Actual</th>
<th>Projected</th>
<th>2024-25</th>
<th>2025-26</th>
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</thead>
<tbody>
<tr>
<td>Primary Reserve Ratio</td>
<td>0.311</td>
<td>0.316</td>
<td>0.312</td>
<td>0.318</td>
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<tr>
<td>Expendable Net Assets</td>
<td>0.132</td>
<td>0.132</td>
<td>0.132</td>
<td>0.132</td>
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<tr>
<td>Total Expenditure</td>
<td>0.311</td>
<td>0.316</td>
<td>0.312</td>
<td>0.318</td>
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<tr>
<td>Net Income Ratio</td>
<td>0.037</td>
<td>0.091</td>
<td>0.082</td>
<td>0.096</td>
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<tr>
<td>Total unrestricted income</td>
<td>0.387</td>
<td>0.387</td>
<td>0.387</td>
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<tr>
<td>Change in Net Assets Ratio</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
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<tr>
<td>Total net assets</td>
<td>0.082</td>
<td>0.083</td>
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<tr>
<td>Equity Ratio</td>
<td>0.082</td>
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<tr>
<td>Expendable Net Assets</td>
<td>0.082</td>
<td>0.083</td>
<td>0.083</td>
<td>0.083</td>
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<tr>
<td>Long Term Debt</td>
<td>0.082</td>
<td>0.083</td>
<td>0.083</td>
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<tr>
<td>Liquidity Ratio</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
</tr>
<tr>
<td>Total Liquidity</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
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<tr>
<td>Current Ratio</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
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<tr>
<td>Debt Service Coverage Ratio</td>
<td>3.48</td>
<td>3.48</td>
<td>3.48</td>
<td>3.48</td>
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<tr>
<td>Net Revenues</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
<td>1.57</td>
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<tr>
<td>Allowance annual debt service</td>
<td>2.1</td>
<td>3.3</td>
<td>3.1</td>
<td>2.2</td>
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<tr>
<td>CFI</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

- Department of Education’s (DOE) Composite Financial Responsibility Score
  1. Primary Reserve
  2. Equity
  3. Net Income
Financial Management Principles for the Educational Non-Profit

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Financial Management Principles

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Revenue
• Tuition/Fees
• Endowment
• Gifts
• Auxiliary

Expense
• Instructional
• Academic
• Student Services
• Institutional

Resource Acquisition
Tuition
Development
Government Aid

Resource Allocation
Physical Plant
Assets & Reserves
Faculty & Staff

Students
Enrollment
Student Profile
Retention

Based on KPMG: A Closer Look at Ratio Analysis in Higher Education

CFO Colleague
Managing financial risk

Are resources sufficient and flexible enough to support the mission?

Are we deploying our resources effectively?

How well are we acquiring the resources needed?

How well are we managing our resources?

Are we attracting and keeping the type of students we want?
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

Benchmarking

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

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

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

Ensuring the Right Processes of Checks and Balances – Sustainability

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

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

- 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
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

Forecasting and Budgeting
- COMP4cast®

Example College
Multi-Year Enrollment Trends
- Traditional Population

<table>
<thead>
<tr>
<th></th>
<th>ACTUAL</th>
<th>FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall Enrollments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First-time Freshmen</td>
<td>223</td>
<td>228</td>
</tr>
<tr>
<td>Freshmen</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Sophomores</td>
<td>208</td>
<td>195</td>
</tr>
<tr>
<td>Juniors</td>
<td>176</td>
<td>226</td>
</tr>
<tr>
<td>Seniors</td>
<td>211</td>
<td>210</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Reported Forecast Fall Traditional</td>
<td>874</td>
<td>821</td>
</tr>
<tr>
<td>Transfers in</td>
<td>59</td>
<td>54</td>
</tr>
<tr>
<td>New students</td>
<td>282</td>
<td>323</td>
</tr>
<tr>
<td>Returning students</td>
<td>502</td>
<td>608</td>
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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

## Example College Salary & Benefits

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<th>2020</th>
</tr>
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<td>1. <strong>Chair</strong></td>
<td>85,500</td>
<td>92,750</td>
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<tr>
<td>2. <strong>Professor</strong></td>
<td>78,375</td>
<td>85,625</td>
</tr>
<tr>
<td>3. <strong>Associate Professor</strong></td>
<td>58,000</td>
<td>65,250</td>
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<tr>
<td>4. <strong>Assistant Professor</strong></td>
<td>47,875</td>
<td>55,125</td>
</tr>
<tr>
<td>5. <strong>Lecturer</strong></td>
<td>30,937</td>
<td>68,187</td>
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| Total Salary | 213,812 | 224,725 |
| Total Adjunct Salary | 820 | 920 |

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Holding the Right People Accountable – Doing the Hard Work

Change Puzzle Activity

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


Questions

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The Association for Biblical Higher Education