Oversight & Counsel Regarding Financial Strength & Viability

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Objectives

- Surveying the oversight responsibilities of the CFO – What are the main points?
- Effective management of the financial operations – key principles
- Weighing the numbers for measurement of strength and viability - wisdom
- Interpreting the financial information to the board, president and executive team
Surveying the Oversight Responsibilities of the CFO

- Business Office
- IT
- Physical Plant
- Food Service
- Security
- Campus Store
- Human Resources
- Financial Aid

Surveying Oversight Responsibilities

- Leadership
- Stewardship
- Mentor
- Counselor/Advisor
- Colleague
- Budgeting and forecasting
- External relations
- Risk management
- Contractual reviewer
- Outsourced programs

- Management
- Strategy
- Produce statements
- Policy development
- Effective accounting controls
- Compliance
- Board Committees
- Health benefits
- Pension plan
- …
Surveying Oversight Responsibilities

- 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

Effective Management of the Financial Operations

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Effective Financial Management

- Revenue
  - Tuition/Fees
  - Endowment
  - Gifts
  - Auxiliary

- Expense
  - Instructional
  - Academic
  - Student Services
  - Institutional

Resource Acquisition
- Tuition
- Government Aid
- Development

Resource Allocation
- Physical Plant
- Assets & Reserves
- Faculty & Staff

Institution
- Revenue
- Expense

Students
- Enrollment
- Student Profile
- Retention

Based on KPMG’s A Closer Look at Ratio Analysis in Higher Education
Weighing the Numbers for Measurement of Strength and Viability

- Key ratios
- DOE
- CFI
- Discount rate
- Net Tuition Revenue
- Cost to recruit a student
- Contribution margin
- Cost of fund raising
- Operating margin
- Class size
- Salary and benefits
- Debt service
- Revenue Sources
- 30 Benchmarks

Strength and Viability

- Net Tuition Revenue
  - Benchmark - Annual traditional net tuition per (NTR) student > $14,000
  - Benchmark - Advancing NTR per student three years forward for first-time freshmen should be greater than current NTR for Seniors (micro price inflation)
- Long-term debt \(\leq 50\%\) of annual operating revenue
Strength and Viability

- Tuition Discount
  - First time incoming class
  - Benchmark - First-time freshman traditional tuition discount \leq 50% 
  - Class by class analysis for improved budgeting and forecasting
  - Tuition resets
- Funnel Ratios
- Cost to Recruit a Student

Fall 2018 cost to recruit = $\_\_\_\_
- Cost to recruit increased \(>\) inflation since 1993
- Information on average staff sizes by professional, recruitment and support staff
- Budget and staff resources vs. how they are being used
Strength and Viability

- Traditional undergraduate best leading indicators
  - Campus visits
  - Admits
  - Completion rate
  - FAFSA submitted
  - Deposits
  - Registrations

Strength and Viability

- Average non-traditional class size ≥ 15 students
- Traditional student to faculty ratio ≥ 17:1
  with ≤ 15% of traditional classes having 9 or fewer students
Marginal Revenue Analysis

- student NTR less faculty compensation costs
- marginal contribution
  - subject
  - academic level
  - student class
  - section code
  - faculty rank
  - course level
  - general education vs. non-general education classes
  - faculty departments and schools/colleges
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Cost Accounting - Marginal Revenue Analysis

- Level 1 – Contribution by Course

ACCT 141 net tuition revenue $25,365
Less: Faculty comp for 3 hours $(10,000)
Level 1 contribution for ACCT 141 $15,365
Compensation as a % of net tuition: 39.4%

Marginal Revenue Quadrants by Faculty Department
(hbubble size is $ Margin, % Contrib on Y-axis, Student Revenue on X-axis)
### Strength and Viability

- **Non-traditional NTR > 40% of overall NTR**

  **Revenue:**
  - Tuition & Fees--Traditional: 25,299,836
  - Less: Tuition Discounts: (10,400,879)
  - Net Tuition & Fees--Traditional: 14,899,157
  - Tuition & Fees--non traditional: 16,908,712
  - Less: Tuition Discounts: (313,824)
  - Net Tuition & Fees--non traditional: 16,594,888

  **Net Tuition & Fees:** 31,494,045

  Non-traditional NTR > 40% of overall NTR: 16,594,888

### Strength and Viability

- **Annual overall cost of fundraising < 50% of unrestricted annual fund contributions**

  **Operating (non-student) Revenues**

  - Annual fund donations: 1,700,000
  - Development: 424,000
  - Alumni: 125,000
  - 20% of Marketing: 200,000
  - Total: 749,000

  44%
Cost of external affairs (Advancement, PR, Alumni Relations/Publications, Institutional Marketing) ≤ 2% of operating revenues

Auxiliary net contribution covering the costs of student life and athletics while generating a surplus > 5% of auxiliary revenues

Total salary and benefit costs < 70% of NTR

<table>
<thead>
<tr>
<th>Net Tuition Revenue</th>
<th>$20,906,016</th>
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<tbody>
<tr>
<td>Tuition &amp; Fees</td>
<td>$20,906,016</td>
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<tr>
<td>Student Financial Aid</td>
<td>(11,142,278)</td>
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<td>$9,763,738</td>
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<th>Expenses</th>
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<tr>
<td>Salaries - F/S</td>
<td>$7,415,695</td>
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<tr>
<td>Benefits</td>
<td>$1,617,315</td>
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<td>$9,033,010</td>
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Student receivables < 2% of annual student revenue at year end
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Strength and Viability

1. Debt service (principal and interest) \(\leq 4\%\) of operating revenue

1. Evaluate your current facilities portfolio. What assets does it include, and how efficiently are they being used?
2. Conduct an analysis of the investment.
3. Consider ways to lower or maintain expenses, or to boost revenue, that don’t require a capital investment.
4. Estimate the total lifetime cost to build and operate a proposed new building.
5. Evaluate the debt already on the books.

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/
Interpreting the Financial Information

“Sustainability encompasses both financial sustainability (the ability to generate resources to meet the needs of the present without compromising the future) and programmatic sustainability (the ability to develop, mature, and cycle out programs to be responsive to constituencies over time).”

Jeanne Bell, Beyond Financial Oversight: Expanding the Board’s Role in the Pursuit of Sustainability, Nonprofit Quarterly, 2011.

Interpreting Financial Information

Expanding the Board’s Role in the Pursuit of Sustainability

- How financially literate are we as a group? If we have knowledge gaps, how will we work together to close them, and by when?
- Is our finance committee engaging in the key business-model questions facing our organization, or is it focused primarily on monitoring budget variance and preparing for the audit?
- What major sustainability decisions are before us as an organization, and how will we structure our board and committee-meeting agendas over the next three to four months to ensure we make those decisions effectively?
- Overall, how healthy is our organization financially? Is it healthier today than it was three years ago? Why or why not? When our board terms end, where do we want to leave the organization financially?
- How strong is our partnership with staff leadership around issues of sustainability? Are we sharing information and ideas across staff and board in a way that truly leverages our individual and collective strengths and networks as board members in the sustainability pursuit?

Jeanne Bell, Beyond Financial Oversight: Expanding the Board’s Role in the Pursuit of Sustainability, Nonprofit Quarterly, 2011.
Interpreting Financial Information

Example College

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<tr>
<td>Tuition &amp; Fees - Traditional</td>
<td>$25,296,000</td>
<td>$25,076,000</td>
<td>$26,019,000</td>
<td>$27,700,000</td>
<td>$29,000,000</td>
<td>$30,000,000</td>
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<td>Net Tuition &amp; Fees - Non-Traditional</td>
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<td>Tuition &amp; Fees (grand total)</td>
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<td>$30,019,000</td>
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<td>Assets released from restriction</td>
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<td>Operating Revenues</td>
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Operating Expenses

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<tbody>
<tr>
<td>Total Operating (direct) expenses</td>
<td>$23,000,000</td>
<td>$23,000,000</td>
<td>$23,000,000</td>
<td>$25,000,000</td>
<td>$25,000,000</td>
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<tr>
<td>Tuition &amp; Fees</td>
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<tr>
<td>Non-Operating (support) expenses</td>
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<td>Indirect (indirect) expenses (additive to direct)</td>
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<td>Student Services (loss before non-operating)</td>
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<td>Operating Expense Total</td>
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<td>$20,019,000</td>
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Financial Strength & Viability

Example College

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<tr>
<td>Operating income</td>
<td>$16,000,000</td>
<td>$16,000,000</td>
<td>$16,000,000</td>
<td>$18,000,000</td>
<td>$18,000,000</td>
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<tr>
<td>Non-operating income</td>
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<tr>
<td>Total Income</td>
<td>$21,000,000</td>
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Financial Strength & Viability

Example College
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Interpreting Financial Information

DESIGN PRINCIPLES

- Use graphic display.
- Tell a story.
- Avoid jargon and “budget speak.”
- Provide a comparative context.
- Spotlight key information.

MAY MEETING
• Faculty Salaries
• Staff Salaries

MARCH MEETING
• Student Placement Data
• Satisfaction Survey Results

OCTOBER MEETING
• Student Enrollment
• Student Quality
• Student Diversity
• Faculty/Staff Diversity
• Retention

DECEMBER MEETING
• Strategic Indicators
• Financial Ratios
Questions