Multi-Year Budgeting and Forecasting

Dan Campbell, Partner
2.15.23
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Financial Health Summary for University A

Sources of Information


Financial Health Summary for University A

Vision:

• To be a Christian university nationally recognized for integrating faith in learning, leading and serving

Mission:

• Promoting Academic Excellence in a Christian Environment
Financial Health Summary for University A

Assumptions

• Fiscal year ending (FYE) June 2023
  • 2022-23 working budget
• FYE June 2024 – 2027
  • Projected enrollment
  • 8% inflation
Financial Health Summary for
University A

Assumptions

These FYE 2023 through FYE 2027 financial statements have not been subjected to an audit, review, or compilation engagement, and no assurance is provided on them. Substantially all disclosures required by accounting principles generally accepted in the United States of America have been omitted.
Ratio Map

Resource sufficiency and flexibility

- Primary Reserve Ratio
  Are resources sufficient and flexible enough to support the mission?

Operating Results

- Net Income Ratio
  Do operating results indicate the institution is living within available resources?

Financial Assets

- Return on Net Assets
  Does financial asset performance support the strategic direction?

Debt Management

- Viability Ratio
  Is debt managed strategically to advance the mission?
Financial Health Summary for University A

Primary Reserve Ratio

Expendable Net Assets

Total Expenses

Note: Expendable net assets include net assets without restriction and net assets with donor restriction by purpose or time, net of physical plant (net of accumulated depreciation) and plant-related debt. Also reduced by net assets restricted for physical plant additions.
Financial Health Summary for University A

Primary Reserve Ratio Target

• .40 or better is recommended to give flexibility to transform institution (represents 5 months operational capacity)
  • At this level internal cash is used, not short-term borrowing
  • Reasonable level of facilities maintenance
  • Capable of managing modest unforeseen adverse financial events
Financial Health Summary for University A

Primary Reserve Ratio

• Measures financial strength by comparing expendable net assets to total expenses.

• Answers the question – How long can the institution function using expendable reserves without relying on additional net income generated by operations?

• Trend – Has the institution increased its net worth in proportion to rate of growth in its operating size?

• Negative or decreasing trend may indicate a weakening financial condition.
Financial Health Summary for University A

Primary Reserve Ratio
Expendable net assets/Total expenses

Expendable net assets = (net assets w/o donor restriction less investment in plant, net of accumulated depreciation) plus net assets w/ donor restriction for time and purpose

- 2018: 0.70
- 2019: 0.41
- 2020: 0.45
- 2021: 0.79
- 2022: 0.54

Target >= 0.40
Primary Reserve Ratio
Expendable net assets/Total expenses

Expendable net assets = (net assets w/o donor restriction less investment in plant, net of accumulated depreciation) plus net assets w/ donor restriction for time and purpose

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
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</thead>
<tbody>
<tr>
<td>2023</td>
<td>0.76</td>
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<tr>
<td>2024</td>
<td>0.60</td>
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<tr>
<td>2025</td>
<td>0.50</td>
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<tr>
<td>2026</td>
<td>0.45</td>
</tr>
<tr>
<td>2027</td>
<td>0.44</td>
</tr>
</tbody>
</table>
Financial Health Summary for University A

Primary Reserve Score Interpretation

- Score consistently indicates financial health
- Capital expenditures 2018 – 2022 totaled $4.2 million
- Little to no use of debt
- Decreasing trends indicate weakening financial condition
Ratio Map

**Resource sufficiency and flexibility**

- **Primary Reserve Ratio**: Are resources sufficient and flexible enough to support the mission?

**Operating Results**

- **Net Income Ratio**: Do operating results indicate the institution is living within available resources?

**Financial Assets**

- **Return on Net Assets**: Does financial asset performance support the strategic direction?

**Debt Management**

- **Viability Ratio**: Is debt managed strategically to advance the mission?
Financial Health Summary for University A

Operating Net Income Ratio

Change in Operating Net Assets

Total Operating Revenue & Support
Financial Health Summary for University A

Operating Net Income Ratio

- Target ratio is 2% – 4% over extended time period
  - Will vary from year to year
  - Includes depreciation as component
Financial Health Summary for University A

Net Income Ratio
Change in operating net assets/
Unrestricted revenues and support

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2019</td>
<td>-10.8%</td>
</tr>
<tr>
<td>2020</td>
<td>-7.6%</td>
</tr>
<tr>
<td>2021</td>
<td>16.4%</td>
</tr>
<tr>
<td>2022</td>
<td>-9.1%</td>
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</table>
Financial Health Summary for University A

Net Income Ratio
Change in operating net assets/
Unrestricted revenues and support

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>-6.6%</td>
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<tr>
<td>2024</td>
<td>-13.1%</td>
</tr>
<tr>
<td>2025</td>
<td>-6.3%</td>
</tr>
<tr>
<td>2026</td>
<td>-1.2%</td>
</tr>
<tr>
<td>2027</td>
<td>1.6%</td>
</tr>
</tbody>
</table>
Financial Health Summary for University A

Operating Net Income Ratio Interpretation

• Pandemic-related federal grants include:
  • Paycheck Protection Program $1,012,000
  • HEERF (3) $2,221,000
  • Employee Retention Credit $2,841,000
• $2,256,000 recognized during fiscal year 2021
Financial Health Summary for University A

Operating Net Income Ratio Interpretation

- Indicators of deteriorating operating health are:
  - Trend in semester hours sold
  - Losses from auxiliary enterprises
Financial Health Summary for University A

Semester Hours Sold

<table>
<thead>
<tr>
<th>Year</th>
<th>Hours Sold</th>
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<tbody>
<tr>
<td>2018</td>
<td>13,000</td>
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<tr>
<td>2019</td>
<td>13,186</td>
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<td>12,137</td>
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<tr>
<td>2022</td>
<td>10,515</td>
</tr>
<tr>
<td>2023</td>
<td>10,500</td>
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</tbody>
</table>
Financial Health Summary for University A

Auxiliary Enterprises Interpretation

- Understanding this change and determining reasonable targets for auxiliary net income are important for fiscal planning
- Results at University A impacted by pandemic
- Chart includes allocated depreciation and operations expenses
Financial Health Summary for University A

Auxiliary Enterprises Net (thousands)

2018: $644,087
2019: -$327,300
2020: -$202,440
2021: -$774,432
2022: -$446,737
Financial Health Summary for University A

Auxiliary Enterprises Net (thousands)

- 2023: $158,715
- 2024: $447,788
- 2025: $704,031
- 2026: $930,967
- 2027: $1,204,609
Financial Health Summary for University A

Contributed Income Contributions/Total Expenses

- 2018: 17%
- 2019: 17%
- 2020: 23%
- 2021: 34%
- 2022: 30%
Financial Health Summary for University A

Contributed Income
Contributions/Total Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>20%</td>
<td>18%</td>
<td>16%</td>
<td>15%</td>
<td>14%</td>
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</table>
Financial Health Summary for University A

Gross Tuition per Credit Hour Sold
Net Tuition per Credit Hour Sold
Cost per Credit Hour Sold
Higher education operations excluding auxiliary

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross</th>
<th>Net</th>
<th>Cost</th>
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<tbody>
<tr>
<td>2018</td>
<td>$535</td>
<td>$446</td>
<td>$698</td>
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<tr>
<td>2019</td>
<td>$559</td>
<td>$452</td>
<td>$719</td>
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<tr>
<td>2020</td>
<td>$611</td>
<td>$493</td>
<td>$800</td>
</tr>
<tr>
<td>2021</td>
<td>$650</td>
<td>$527</td>
<td>$437</td>
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<tr>
<td>2022</td>
<td>$693</td>
<td>$567</td>
<td>$1,153</td>
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</table>
Financial Health Summary for University A

Gross Tuition per Credit Hour Sold
Net Tuition per Credit Hour Sold
Cost per Credit Hour Sold

Higher education operations excluding auxiliary

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross</th>
<th>Net</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>2023</td>
<td>$693</td>
<td>$588</td>
<td>$1,071</td>
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<tr>
<td>2024</td>
<td>$736</td>
<td>$579</td>
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<td>2025</td>
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<td>$727</td>
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<td>$764</td>
<td>$599</td>
<td>$785</td>
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</table>
Financial Health Summary for University A

![Total Tuition Discount Ratio Graph]

<table>
<thead>
<tr>
<th>Year</th>
<th>Discount Ratio</th>
<th>Funded Discount</th>
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<tbody>
<tr>
<td>2018</td>
<td>17%</td>
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<tr>
<td>2022</td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>2023</td>
<td>15%</td>
<td>7%</td>
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</table>
Financial Health Summary for University A

Total Tuition Discount Ratio

- **Discount Ratio**
- **Funded Discount**

<table>
<thead>
<tr>
<th>Year</th>
<th>Discount Ratio</th>
<th>Funded Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>15%</td>
<td>7%</td>
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<tr>
<td>2024</td>
<td>21%</td>
<td>6%</td>
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<td>2025</td>
<td>21%</td>
<td>5%</td>
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<tr>
<td>2026</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>2027</td>
<td>22%</td>
<td>3%</td>
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</table>
Ratio Map

Resource sufficiency and flexibility

Primary Reserve Ratio

Are resources sufficient and flexible enough to support the mission?

Operating Results

Net Income Ratio

Do operating results indicate the institution is living within available resources?

Financial Assets

Return on Net Assets

Does financial asset performance support the strategic direction?

Debt Management

Viability Ratio

Is debt managed strategically to advance the mission?
Financial Health Summary for University A

Return on Net Assets Ratio

Change in Net Assets
Total Net Assets
Financial Health Summary for University A

Return on net assets
Change in total net assets/Beginning net assets
Includes all funds and net asset classes

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
<th>Target &gt;6%</th>
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<tbody>
<tr>
<td>2018</td>
<td>-2.3%</td>
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<tr>
<td>2019</td>
<td>-6.9%</td>
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<tr>
<td>2020</td>
<td>7.3%</td>
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<td>2021</td>
<td>12.1%</td>
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<tr>
<td>2022</td>
<td>-5.7%</td>
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Financial Health Summary for University A

Return on net assets
Change in total net assets/
Beginning net assets
Includes all funds and net asset classes

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
<th>Target &gt;6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>-3.3%</td>
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<tr>
<td>2024</td>
<td>-6.1%</td>
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<tr>
<td>2025</td>
<td>-3.0%</td>
<td></td>
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<tr>
<td>2026</td>
<td>-0.5%</td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td>1.3%</td>
<td></td>
</tr>
</tbody>
</table>
Financial Health Summary for University A

Return on Net Assets Ratio Interpretation

• Determines whether institution is financially better off than in previous years by measuring total economic return

• Decline in ratio may be appropriate if it reflects strategy to better fulfill the institution’s mission

• Scores indicate that the institution is not better off FYE 2022 than FYE 2021
Ratio Map

Resource sufficiency and flexibility

Primary Reserve Ratio
Are resources sufficient and flexible enough to support the mission?

Operating Results

Net Income Ratio
Do operating results indicate the institution is living within available resources?

Financial Assets

Return on Net Assets
Does financial asset performance support the strategic direction?

Debt Management

Viability Ratio
Is debt managed strategically to advance the mission?
Financial Health Summary for University A

Viability Score

Expendable Net Assets

Long-Term Debt

Note: Expendable net assets include net assets without restriction and net assets with donor restriction for purpose or time, net of physical plant and plant-related debt (net of accumulated depreciation). Also reduced by net assets restricted for physical plant additions.
Financial Health Summary for University A

Long-term debt at University A

• In July 2020, University A secured a note payable in the amount of $126,000 with monthly principal and interest payments of $2,300. The note matures July 2025. The interest rate is 3.7%.

• Capital expenditure 2018 – 2022 totaled $4.2 million.

• The Viability Ratio is not included in the calculation of financial health due to the small amount and small remaining balance.
Financial Health Summary for University A

Composite Financial Index three-step methodology

• Compute three ratio scores:
  • Primary Reserve Ratio (55%)
  • Net Income Ratio (15%)
  • Return on Net Assets Ratio (30%)

• Convert to strength factors

• Apply a weighting to each score

• Total the result for the composite score
Financial Health Summary for University A

Composite Financial Index

Only deals with financial aspects of institution and must be blended with key performance indicators in areas such as academics, infrastructure, and student and faculty satisfaction to understand a more complete measure of institutional strength.
Financial Health Summary for University A

Composite Financial Index

- 2023: 1.4
- 2024: 0.7
- 2025: 0.3
- 2026: 0.5
- 2027: 0.8

Index

Target >3
Financial Health Summary for University A

Composite Financial Index

- 2018: 2.3
- 2019: 0.1
- 2020: 2.4
- 2021: 6.6
- 2022: 0.8

Index

target >3
Financial Health Summary for University A

Composite Financial Index Score and Suggested Strategy

<table>
<thead>
<tr>
<th>CFI Score</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 to 10</td>
<td>deploy resources to achieve robust mission</td>
</tr>
<tr>
<td>7 to 8</td>
<td>allow experimentation with new initiatives</td>
</tr>
<tr>
<td>5 to 6</td>
<td>focus resources to compete in future state</td>
</tr>
<tr>
<td>3 to 4</td>
<td>direct resources to allow transformation</td>
</tr>
<tr>
<td>1 to 2</td>
<td>re-engineer the institution</td>
</tr>
<tr>
<td>-4 to 0</td>
<td>assess viability to survive</td>
</tr>
</tbody>
</table>
Financial Health Summary for University A

This Financial Health is Summary is concerned with helping policymakers assess the status of the institution’s financial resources.

- The university’s scores have been impacted by operating deficits in four of the last five years
- Declining enrollment is the primary factor in these deficits
Financial Health Summary for University A

Composite Financial Index Interpretation

• University A needs capital:
  • Build enrollment management pipeline
    • Enrollment of new students and transfers
    • Retention rates
    • Graduation rates
  • Build a donor pipeline
    • Donor support will keep University A affordable and accessible
Financial Health Summary for University A

Composite Financial Index Interpretation

Scenario testing:

- What does the future look like under current circumstances?
- What would be the impact of Option A?
- What would be the impact of Option B?
University A
Projected Enrollment in Hours and Students

Semester Hours Sold

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>10,187</td>
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<tr>
<td>2024</td>
<td>12,100</td>
</tr>
<tr>
<td>2025</td>
<td>14,500</td>
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<tr>
<td>2026</td>
<td>17,500</td>
</tr>
<tr>
<td>2027</td>
<td>18,900</td>
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</table>
University A
Forecasted Net Income Ratio Current Circumstances

Net Income Ratio
Change in operating net assets/Unrestricted revenues and support

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>-6.6%</td>
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<td>-13.1%</td>
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<tr>
<td>2025</td>
<td>-6.3%</td>
</tr>
<tr>
<td>2026</td>
<td>-1.2%</td>
</tr>
<tr>
<td>2027</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Target >3%
University A
Forecasted CFI Current Circumstances

Composite Financial Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
<th>Target &gt;3</th>
</tr>
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<tbody>
<tr>
<td>2023</td>
<td>1.4</td>
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<tr>
<td>2024</td>
<td>0.7</td>
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<tr>
<td>2025</td>
<td>0.3</td>
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<tr>
<td>2026</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td>0.8</td>
<td></td>
</tr>
</tbody>
</table>
University A
Option A

Net Income Ratio
Change in operating net assets/Unrestricted revenues and support

- 2023: 16.8%
- 2024: 3.1%
- 2025: -6.3%
- 2026: -1.2%
- 2027: 1.6%

Target >3%
University A
Option A

Composite Financial Index

- 2023: 7.7
- 2024: 3.1
- 2025: 1.7
- 2026: 1.8
- 2027: 2.0

Target >3
University A
Option B

Net Income Ratio
Change in operating net assets/
Unrestricted revenues and support

- 2023: 16.8%
- 2024: 3.1%
- 2025: 0.9%
- 2026: 4.9%
- 2027: 7.0%

Target >3%
University A
Option B

Composite Financial Index

- 2023: 7.7
- 2024: 7.3
- 2025: 2.6
- 2026: 3.1
- 2027: 3.4

(target >3)
Thank you!

Dan Campbell, Partner

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