Nimble and Prudent  
Financial Leadership  

In a turbulent age

Jeff Spear, Founder, CFO Colleague
You will learn today:

I. What’s working and what’s not

II. Critical data you need to know

III. Enhancing the student revenue cycle

IV. Rethinking programs toward efficiency
About CFO Colleague

• A professional association of twelve professionals
• Dedicated to improving financial health of private institutions
• The vast majority of clients are faith based institutions – over 160
• Excessive CFO turnover supports demand for interims
• Forecasting, Marginal Revenue, Gapsourcing, Turnarounds
• Celebrating our tenth anniversary
Our world has turned upside down

The notion that a residential college education is the most critical pathway to vocation and ministry is being openly questioned. We will either embrace what is emerging in educational delivery or become a footnote of a bygone era.

We dare not be known as a college that longed for a world that never was ...
Our world has turned upside down

... and hope that it never changes

Nimble and Prudent Financial Management
I. What’s Working — and what’s not

Taking stock of strategies
What’s Working

• Partnerships with churches for a low-cost modality to train tomorrow’s leaders
• Trimming programs to emphasize those that have significant influence and size
• Partnering with faculty to provide administrative leadership and support
• Robust, unique and high-content online offerings, promoted digitally and available either as a subscription or for low tuition
• Planning for traditional to get smaller

What’s Not

• Face to face degree completion programs at executive office buildings with high rent
• Retaining all the traditional programs of yesteryear for fear of losing five students.
• Expanding athletics to glean more bodies
• Excessive discounting because they must not be coming because of our price. (but we didn’t ask anybody)
• Utilizing an online program manager (OPM)
• Expecting to grow traditional enrollment inspite of compelling data to the contrary
Our challenge

“... let us lay aside every weight, and the sin which doth so easily beset us, and let us run with patience the race that is set before us ...”

Hebrews 12:1b

Nimble and Prudent Financial Management
II. Critical Data you need

Reports and analyses that typify the modern institution
Every institution should have a calendar for financial reporting and compliance. Those responsible for these events should be pinged two weeks, one week and two days in advance to ensure that they meet deadlines.

So, have a calendar that covers all that you will need to deliver each cycle …
... otherwise, you should hire someone whose sole responsibility to is deal with urgent deadlines that were missed.
A. Cash

- Cash balances – current availability, including lines of credit
- Current payment requirements for payroll, vendors, debt and capital
- Anticipated receipts and expenses for the next twelve months, by month
- The cash peak typically is in early February
- The cash valley tends to be in August
- Update frequency depends on need
B. Key balances

- Student accounts receivable
  - Measured against last year and CY level of revenue
  - Aged out – did policy change?
- Accounts payable
  - Compared with last year at this time and CY revenues
  - Aged – are we using our vendors as a source of financing?
- Critical maintenance
  - Is facility degradation used to bolster cash flow?
C. Current year projection

- Fall billings and aid should be posted by the end of September
- Calculate anticipated spring enrollment by class
- Aid doesn’t always track with population
- Update other revenues monthly
- Take action early if you’re off
- **Put it on the calendar!**
C. Current year projection

I. 2022 - 23 Projected Actual versus Budget

<table>
<thead>
<tr>
<th></th>
<th>Spring Actuals</th>
<th>Summer/Other</th>
<th>Fall</th>
<th>% of Year</th>
<th>Spring</th>
<th>% of Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Traditional Gross Tuition Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual &amp; Projected</td>
<td>248,000</td>
<td>13,576,449</td>
<td>12,993,534</td>
<td>48.9%</td>
<td>26,817,983</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted</td>
<td>257,000</td>
<td>13,444,623</td>
<td>12,813,495</td>
<td>48.8%</td>
<td>26,515,118</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Financial Aid</td>
<td>(5,773,449)</td>
<td>51.1%</td>
<td>(5,494,822)</td>
<td>48.9%</td>
<td>(11,268,271)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual &amp; Projected</td>
<td>(5,700,498)</td>
<td>51.2%</td>
<td>(5,426,485)</td>
<td>48.8%</td>
<td>(11,126,983)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(141,288)</td>
</tr>
<tr>
<td>C. Net Tuition Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual &amp; Projected</td>
<td>248,000</td>
<td>7,803,000</td>
<td>7,498,712</td>
<td>48.2%</td>
<td>15,549,712</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted</td>
<td>257,000</td>
<td>7,744,125</td>
<td>7,387,010</td>
<td>48.0%</td>
<td>15,388,135</td>
<td></td>
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<tr>
<td>D. Non-Traditional Revenue (from 'H Non trad')</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Actual &amp; Projected for the year</td>
<td>20,416,558</td>
<td>(3,025,000)</td>
<td>17,391,558</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted</td>
<td>20,383,930</td>
<td>(3,000,000)</td>
<td>17,383,930</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Aux Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7,628</td>
</tr>
<tr>
<td>Room</td>
<td>1,678,295</td>
<td>1,680,147</td>
<td>1,588,852</td>
<td>48.9%</td>
<td>3,248,999</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board</td>
<td>1,240,640</td>
<td>1,223,721</td>
<td>1,171,169</td>
<td>48.9%</td>
<td>2,394,890</td>
<td></td>
<td></td>
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<tr>
<td>Other</td>
<td>171,418</td>
<td>167,543</td>
<td>160,348</td>
<td>48.9%</td>
<td>327,891</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Projected</td>
<td>0</td>
<td>3,051,411</td>
<td>2,920,369</td>
<td>48.8%</td>
<td>5,971,780</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeted</td>
<td>3,090,353</td>
<td>3,090,353</td>
<td>2,945,283</td>
<td>48.8%</td>
<td>6,035,636</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Projected student revenue variance from current year budget (negative) 105,348
D. Multi-year forecast

- Around least two thirds of next year’s revenues are with you now
- Carefully (realistically) consider the levers for future years
  - Anticipated new first year students and transfers
  - Return rates established for each class (FR to JR)
  - The planned first year student discount rate
  - Non-traditional trajectory and initiatives
  - Donations – based on history and plans
  - Expenses – fixed, payroll and discretionary
D. Multi-year forecast

• Spreadsheets are tempting. “Let’s stop all this cutting and grow revenues”
• A well-crafted forecast gets you out in front of a crisis, with multi-year strategies
• Depreciation expense funds capital spending and debt principal payments
• Wages and benefits cannot be held static forever*
• Employees pay for inefficiency with lower wages

D. Multi-year forecast

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Projected</th>
<th>2023 - 24</th>
<th>2024 - 25</th>
<th>2025 - 26</th>
<th>2026 - 27</th>
<th>2027 - 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of population changes reflected in expenses</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Unrestricted Net Assets</td>
<td>301,411</td>
<td>1,555,585</td>
<td>(1,388,830)</td>
<td>(3,183,556)</td>
<td>6,449,797</td>
<td>(2,015,765)</td>
<td>(1,568,915)</td>
</tr>
<tr>
<td>Change in Temporarily Restricted Net Assets</td>
<td>3,042,859</td>
<td>2,205,615</td>
<td>2,292,915</td>
<td>1,787,876</td>
<td>(8,251,007)</td>
<td>260,058</td>
<td>263,796</td>
</tr>
<tr>
<td>Change in Permanently Restricted Net Assets</td>
<td>600,593</td>
<td>60,000</td>
<td>70,000</td>
<td>75,000</td>
<td>80,000</td>
<td>80,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Overall Change in Net Assets</td>
<td>4,043,863</td>
<td>3,821,200</td>
<td>974,085</td>
<td>(1,320,780)</td>
<td>(1,721,210)</td>
<td>(1,675,708)</td>
<td>(1,220,120)</td>
</tr>
</tbody>
</table>
D. Capital budget

- Begin with depreciation expense
- Ideally, multiply that expense by 1.2 to reflect the impact of inflation on replacements
- Subtract from either depreciation expense or \( \text{depn} \times 1.2 \) principal to be paid on debt
- The balance should be dedicated toward capital improvement and renewal
- Are there donations that can enhance the amount of capital spending?
- Is there room for added debt to cover major investments?
- Don’t fall prey to kicking the can down the road
The challenges of today do not allow for a back of the envelope analysis to carry the institution through. Understanding where we stand now and where we will stand at the end of this year, next year and for the following four years is critical, as is a plan to address inevitable capital spending needs.

The bank and the board will thank you ...
... as will your faculty and staff who don’t have to endure another round of mid-year cuts
III. Enhancing Student Revenues

Long term strategies to improve what is coming in the door
A. Recruiting with Retention in Mind

- Look at your graduates – what was their profile like when they arrived?
- Look at those who leave you without graduating – what were they like?
- How do we recruit more students that are similar to our graduates?
- Identifying the characteristics of graduates that kept them with you
- New categories don’t tend to retain – don’t chase the gimmicks
- Find the strongest correlations and seek those students
- Retention represents our last free lunch
B. Strategic use of Financial Aid

- Three categories of awards: Ability, Affinity and Access
- Categorical awards for bright students do not have the cache of the past – limit them
- Affinity awards for various memberships/status should be limited as a category
- Access awards should be connected to profiles who tend to persist
- Interview families about their sources of funds
- Student debt can come back to haunt you
C. What about Price?

• Resets have proven unsuccessful in general
• Keep your price in range of similar private schools in your region
• Don’t be afraid to raise price if you are below the general comparative group
• Most students who don’t choose you are looking for $6,000 + of added aid
• Partner with employers to place grads where debt can be paid off
• Show the return on investment to prospective families
• Demonstrate how you are worth the cost
D. This is no time to suspend sound policies

- Carefully review student financial ability. "Just come and we’ll figure it out" doesn’t work
- If a student does not live up to their promises, dismiss them; even mid-semester
- We do no one a favor if they leave with a balance owed to us
- P cards must be carefully managed, with sound policies
- Travel should be audited to ensure compliance
- Review the top twenty vendors every year
The old notion of discounting to get in that last student is a train that left the station years ago. Students want a compelling reason to attend your institution and are willing to pay if that reason gets their attention. Otherwise, it’s a race to the bottom where only those with exemplary resources will survive.

Today, that is not you.
Student Revenues

... and tomorrow isn’t looking very good either

Nimble and Prudent Financial Management
IV. Rethinking Program Efficiency

Avoiding the subsidy vortex
A. The Primary Business Relationship

• We offer courses that lead to the possibility of a degree
• Faculty are paid to deliver those courses to our students
• The student has a bill that includes tuition less financial aid
• The student also has a course schedule where their net tuition is applied

• Too many have no idea what a course/department/program/school generates in net contribution. And so, we perpetuate programs that barely cover salaries, if at all.
B. Some math

- Professor Gertrude Linkmeyer makes $80k per year in salary and benefits
- She teaches eight 3-hour courses each year, for a cost of $10,000 for each course
- Denny Dume-Cough’s tuition is $25k but his discount is $13k, so his net NTR is $12k
- Denny takes 30 hours (10 three-hour courses) NTR/Cr Hrs = $12,000 / 10 = $1.2K / course
- A course with eight students, each paying $1,200 for that course yields $9,600 in NTR
- $9,600 less Prof. Linkmeyer’s cost ($10,000) equals a deficit of ($400) for that course
- The contribution is -4.2% while a +70% avg. is needed: (27 who each pay $1.2K)
The contribution margin for a course can be rolled up into:

departments,
majors
upper/lower level
Faculty members
Gen ed / major
C. How do you fix it?

- Perhaps Prof. Getrude Linkmeyer has other classes that have more substantial enrollments
- Or, maybe she has lowly enrolled sections while Herr General Burkhalter has bigger ones
- Chances are the faculty is not overpaid but they could be materially underutilized
- Instead of course loads, what about requiring total student credit hour loads?
- Students may have the capacity to pay more, getting the $12K NTR to $15K
- We could merge programs together under a new name and gain efficiency
- We could migrate one major into another, giving credit for courses taken
- We could encourage students to transfer out if the numbers are low
This represents data you should know very well. Share the analysis with the departments, encouraging them to participate in the process of improving margins. Their pay and the health of the institution hang in the balance.
Thank you!

Be an in-the-know CFO. Get hand-picked higher-ed news and our latest insights delivered to your inbox every two weeks.

Call (740) 507-9180

Email info@cfocolleague.com

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