Looking Around and Ahead – Knowing the Financial Trend Lines of Your Institution

Dan Campbell, Partner
2.14.24

CAPINCROUSE LLP

The content of this presentation, whether communicated in writing or verbally by partners, employees, or representatives of Capin Crouse LLP, is provided solely for educational purposes. This presentation is not intended to provide legal, accounting, tax, investment, or fiduciary advice. Please contact your attorney, accountant, or other professional advisor to discuss the application of this material to your particular facts and circumstances.

Overview

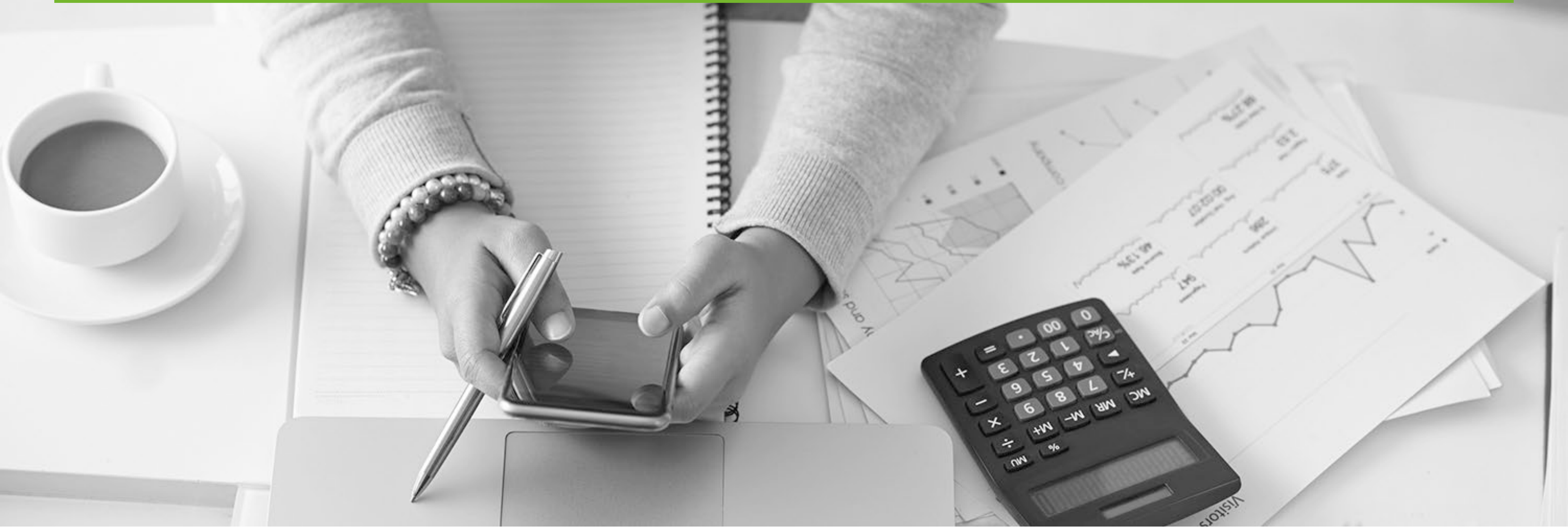
Financial leaders can suffer from the tyranny of the urgent and fail to notice how the dots of their institutional data are forming a line. This includes financial history, current position, and a clear indication of the future.

Objectives

1. Tracking your institution's financial history – how the past informs the present

2. Comparing your status with a sustainable business model – truth-telling

3. Making prudent projections – giving wise counsel for financial decisions



Tracking Financial History

Tracking Your Institution's Financial History – How the Past Informs the Present

- Financial data
- Nonfinancial data

Financial Data

- Audited financial statements
- Key performance indicators
- Benchmarks

Nonfinancial Data

- Admissions/yield
- Enrollment/retention
- Graduation rates
- FTE/credit hours sold

Sustainability

What Is Your Current Status?

- Capitalization
- Profitability
- Debt burden

What Is Your Current Business Model?

- Enrollment-driven or something else
- High discount rate or funded scholarships
- Endowment support
- Residential or remote learning

What Is Your Future?

- How to project enrollment
- How to project donor support
- How to project investment return

Case Study

Case Study – Tracking

	2019		2020		2021		2022		2023		Change 2022-2023
ASSETS											
Cash, cash equivalents, and restricted cash	$ 1,155,785	4.3%	$ 1,021,832	3.8%	$ 1,371,752	4.4%	$ 1,276,698	4.6%	$ 1,008,302	3.5%	
Accounts receivable-net	3,393	0.0%	6,735	0.0%	25,170	0.1%	45,190	0.2%	39,283	0.1%	
Prepaid expenses and other assets	109,309	0.4%	101,968	0.4%	137,493	0.4%	110,489	0.4%	120,743	0.4%	
Property and equipment, net	4,324,212	16.0%	4,667,228	17.3%	4,640,815	14.9%	5,000,142	18.2%	5,479,508	19.1%	
Investments held for long-term purposes	12,457,511	46.0%	12,414,598	45.9%	14,477,983	46.4%	11,578,618	42.1%	11,931,533	41.5%	
Beneficial interest in perpetual trust	9,020,806	33.3%	8,811,620	32.6%	10,552,690	33.8%	9,468,692	34.5%	10,160,449	35.4%	
	$ 27,071,016	100.0%	$ 27,023,981	100.0%	$ 31,205,903	100.0%	$ 27,479,829	100.0%	$ 28,739,818	100.0%	$ 1,259,989
LIABILITIES											
Accounts payable and accrued expenses	$ 67,316	0.2%	$ 76,871	0.3%	$ 94,528	0.3%	$ 145,221	0.5%	$ 147,832	0.5%	
Deferred revenue	26,483	0.1%	26,635	0.1%	36,116	0.1%	40,708	0.1%	-	0.0%	
Other liabilities	14,305	0.1%	2,380	0.0%	-	0.0%	-	0.0%	-	0.0%	
Note payable	-	0.0%	76,783	0.3%	18,207	0.1%	-	0.0%	-	0.0%	
Capital lease obligation	12,413	0.0%	3,165	0.0%	-	0.0%	-	0.0%	-	0.0%	
	120,517	0.4%	185,834	0.7%	148,851	0.5%	185,929	0.7%	147,832	0.5%	$ (38,097)
NET ASSETS											
Without donor restrictions	6,082,433	22.5%	6,166,847	22.8%	6,384,776	20.5%	5,996,514	21.8%	5,711,423	19.9%	
With donor restrictions-time & purpose	2,717,059	10.0%	2,655,875	9.8%	4,848,598	15.5%	2,472,789	9.0%	3,231,309	11.2%	
With donor restrictions-in perpetuity	18,151,007	67.0%	18,015,425	66.7%	19,823,678	63.5%	18,824,597	68.5%	19,649,254	68.4%	
	26,950,499	99.6%	26,838,147	99.3%	31,057,052	99.5%	27,293,900	99.3%	28,591,986	99.5%	$ 1,298,086
	$ 27,071,016	100.0%	$ 27,023,981	100.0%	$ 31,205,903	100.0%	$ 27,479,829	100.0%	$ 28,739,818	100.0%	
	-		-		-		-		-		

Case Study – Tracking

	2019		2020		2021		2022		2023		
REVENUES AND SUPPORT	7%		-5%		13%		6%		7%		
Tuition and fees	$ 811,246	25.7%	$ 767,986	23.4%	$ 867,712	24.6%	$ 920,353	29.9%	$ 982,937	30.0%	
Institutional aid	(334,116)	-10.6%	(352,584)	-10.8%	(352,047)	-10.0%	(362,941)	-11.8%	(390,767)	-11.9%	
	-41.2%		*-45.9%*		*-40.6%*		*-39.4%*		*-39.8%*		
Net tuition and fees	477,130	15.1%	415,402	12.7%	515,665	14.6%	557,412	18.1%	592,170	18.1%	$ 34,758
Auxiliary activities	296,476	9.4%	300,602	9.2%	370,311	10.5%	331,289	10.8%	396,359	12.1%	$ 65,070
Investment income	400,256	12.7%	404,334	12.3%	576,108	16.3%	389,193		541,139	16.5%	
Other income	20,354	0.6%	75,933	2.3%	57,526	1.6%	9,279		102,976	3.1%	
	1,194,216	37.8%	1,196,271	36.5%	1,519,610	43.1%	1,287,173	28.9%	1,632,644	49.8%	$ 345,471
Contributions	1,011,070	32.0%	1,334,435	40.7%	943,284	26.8%	1,293,903	42.1%	1,146,043	34.9%	$ (147,860)
Net assets released from purpose restrictions	951,537	30.1%	747,419	22.8%	1,061,537	30.1%	492,704		500,657	15.3%	
	1,962,607	62.2%	2,081,854	63.5%	2,004,821	56.9%	1,786,607	42.1%	1,646,700	50.2%	
Operating revenues, support and releases	3,156,823	100.0%	3,278,125	100.0%	3,524,431	100.0%	3,073,780	100.0%	3,279,344	100.0%	$ 205,564
Growth rate	*-11.4%*		*3.8%*		*7.5%*		*-12.8%*		*6.7%*		
EXPENSES											
Educational Program Expenses											
Instruction	535,631	17.2%	504,426	15.6%	585,946	17.5%	654,234	18.8%	623,022	17.4%	
Academic support	412,920	13.2%	511,822	15.9%	405,491	12.1%	386,905	11.1%	417,668	11.7%	
Student services	346,485	11.1%	354,719	11.0%	349,574	10.5%	356,269	10.3%	400,423	11.2%	
Auxiliary activities	561,230	18.0%	611,379	19.0%	682,612	20.4%	725,670	20.9%	731,762	20.5%	
Institutional support	1,266,191	40.6%	1,241,320	38.5%	1,316,035	39.4%	1,347,937	38.8%	1,399,727	39.2%	
Total expenses	3,122,457	100.0%	3,223,666	100.0%	3,339,658	100.0%	3,471,015	100.0%	3,572,602	100.0%	$ 101,587
Growth rate	*-4.3%*		*3.2%*		*3.6%*		*3.9%*		*2.9%*		
Change in operating net assets w/o donor restrictions	34,366	1.1%	54,459	1.7%	184,773	5.2%	(397,235)	-12.9%	(293,258)	-8.9%	
NON-OPERATING ACTIVITIES								0.0%		0.0%	
Contributions-PPE releases	2,582	0.1%	29,955	0.9%	33,156	0.9%	8,973	0.3%	8,167	0.2%	$ 194
Other gains (losses)	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	
	2,582	0.1%	29,955	0.9%	33,156	0.9%	8,973	0.3%	8,167	0.2%	$ 3,386
Increase (decrease) in net assets w/o donor restrictions	36,948	1.2%	84,414	2.6%	217,929	6.2%	(388,262)	-12.6%	(285,091)	-8.7%	

Business Model

Case Study – Tracking

	2019		2020		2021		2022		2023	
Change in net assets with donor restr. - time & purpose										
Contributions	164,159		149,059		345,035		246,160	8.0%	153,366	4.7%
Investment income (loss)	752,441		567,131		2,942,381		(2,120,292)	-69.0%	1,113,978	34.0%
Net assets released from restriction								0.0%		0.0%
From program restrictions	(954,119)		(777,374)		(1,094,693)		(501,677)	-16.3%	(508,824)	-15.5%
	-		-		-		-	0.0%	-	0.0%
Change in net assets w/d/r - time & purpose	(37,519)	0.0%	(61,184)	0.0%	2,192,723	0.0%	(2,375,809)	-77.3%	758,520	23.1%
Change in net assets w/d/r - perpetuity										
Contributions	92,898		73,604		67,183		84,917		132,900	
Change in value of perpetual trusts	113,287		(209,186)		1,741,070		(1,083,998)		691,757	
Change in net assets w/d/r - in perpetuity	206,185	6.5%	(135,582)	-4.1%	1,808,253	51.3%	(999,081)	-32.5%	824,657	25.1%
Increase (decrease) net assets	205,614	6.5%	(112,352)	-3.4%	4,218,905	119.7%	(3,763,152)	-122.4%	1,298,086	39.6%
	0.8%		-0.4%		15.7%		-12.1%		4.8%	
Net assets at the beginning of the year	26,744,885		26,950,499		26,838,147		31,057,052		27,293,900	
Net assets at the end of the year	$ 26,950,499		$ 26,838,147		$ 31,057,052		$ 27,293,900		$ 28,591,986	
	-		-		-		-		-	
	-		-		-		-		-	

Case Study – Tracking

	2019	2020	2021	2022	2023
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ 205,614	$ (112,352)	$ 4,218,905	$ (3,763,152)	$ 1,298,086
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation	239,358	260,881	266,894	261,546	279,057
Gifts in kind/Gain on PPE	-	(20,258)	-	-	-
(Gain) loss on investments	(583,860)	(88,339)	(4,698,462)	3,538,972	(1,872,017)
Contribution for long-term purposes	(92,898)	(73,604)	(67,183)	(84,917)	(132,900)
Contributions received for capital projects	-	-	(257,130)	(117,959)	(64,628)
Accounts receivable	10,318	(3,342)	(18,435)	(20,020)	5,907
Prepaids and other assets	13,727	7,341	(35,525)	27,004	(10,254)
Accounts payable and accrued expenses	(14,734)	(2,370)	15,277	15,624	32,528
Deferred revenue	(1,692)	152	9,481	4,592	(40,708)
Net cash provided by operating activities	(224,167)	(31,891)	(566,178)	(138,310)	(504,929)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(398,367)	(359,660)	(243,705)	(276,181)	(132,899)
Proceeds from sale of investments	864,098	700,098	1,137,712	720,572	960,244
Purchases of property and equipment	(148,669)	(504,189)	(240,481)	(585,804)	(788,340)
Proceeds from sale of PPE	-	44,556	-	-	-
Net cash used in investing activities	317,062	(119,195)	653,526	(141,413)	39,005
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from notes payable	-	-	-	-	-
Principal payments on long-term debt	(15,364)	(56,471)	(61,741)	(18,207)	-
Contibutions for LT purposes & other	92,898	73,604	324,313	202,876	197,528
Net cash used in financing activities	77,534	17,133	262,572	184,669	197,528
Net increase (decrease) in cash	170,429	(133,953)	349,920	(95,054)	(268,396)
Cash at beginning of year	985,356	1,155,785	1,021,832	1,371,752	1,276,698
Cash at end of year	$ 1,155,785	$ 1,021,832	$ 1,371,752	$ 1,276,698	$ 1,008,302
	-	-	-	-	-

	-	-	-	-	-

Case Study – Financial Data

	2019	2020	2021	2022	2023	
PROPERTY AND EQUIPMENT - at cost						
Land and improvements	$ 533,634	$ 900,482	$ 935,954	$ 935,954	$ 935,954	
Buildings and improvements	8,158,992	8,297,796	8,419,287	8,472,914	8,538,601	
Furniture and Equipment	2,486,193	2,504,722	2,536,030	2,621,547	2,697,111	
Construction in process	22,425	4,027	56,237	537,967	1,129,820	
	11,201,244	11,707,027	11,947,508	12,568,382	13,301,486	
Less accumulated depreciation	(6,877,032)	(7,039,799)	(7,306,693)	(7,568,240)	(7,821,978)	
Plant - net book value	$ 4,324,212	$ 4,667,228	$ 4,640,815	$ 5,000,142	$ 5,479,508	
	-	-	-	-	-	
Plant related debt	$ 12,413	$ 79,948	$ 18,207	$ -	$ -	
	-	-	-	-	-	
Expendable net assets	$ 4,487,693	$ 4,235,442	$ 6,610,766	$ 3,469,161	$ 3,463,224	
Depreciation expense	$ 239,358	$ 260,881	$ 266,894	$ 261,546	$ 279,057	
	5.5%	*5.6%*	*5.8%*	*5.2%*	*5.1%*	
Property and equipment additions	$ 148,669	$ 504,189	$ 364,487	$ 585,804	$ 788,340	$ 2,391,489
	1.3%	*4.5%*	*3.1%*	*4.9%*	*6.3%*	five-year total
Age in years	29	27	27	29	28	
Key ratios:						
Primary reserve (target > .40)	1.44	1.31	1.98	1.00	0.97	Capitalization
Net income-unrestricted (target 2%-4%)	1.1%	1.7%	5.2%	-12.9%	-8.9%	Margin
Return on net assets-total return (target 6%)	0.8%	-0.4%	15.7%	-12.1%	4.8%	Debt
Viability (target > 1.25)	361.53	52.98	363.09	0.00	0.00	
CFI (target > 3.0)	**7.2**	**7.0**	**9.0**	**2.3**	**3.7**	
Net assets w/o restriction	$ 6,082,433	$ 6,166,847	$ 6,384,776	$ 5,996,514	$ 5,711,423	
Plant	(4,324,212)	(4,667,228)	(4,640,815)	(5,000,142)	(5,479,508)	
Plant related debt	12,413	79,948	18,207	-	-	
UNAEP	$ 1,770,634	$ 1,579,567	$ 1,762,168	$ 996,372	$ 231,915	
Change	$ 112,273	$ (191,067)	$ 182,601	$ (765,796)	$ (764,457)	
FASB Liquidity	$ 1,564,942	$ 1,423,381	$ 1,384,355	$ 966,944	$ 793,425	
Quasi	$ 863,785	$ 861,740	$ 927,651	$ 672,993	$ 629,724	
LOC	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	
	$ 2,828,727	$ 2,685,121	$ 2,712,006	$ 2,039,937	$ 1,823,149	

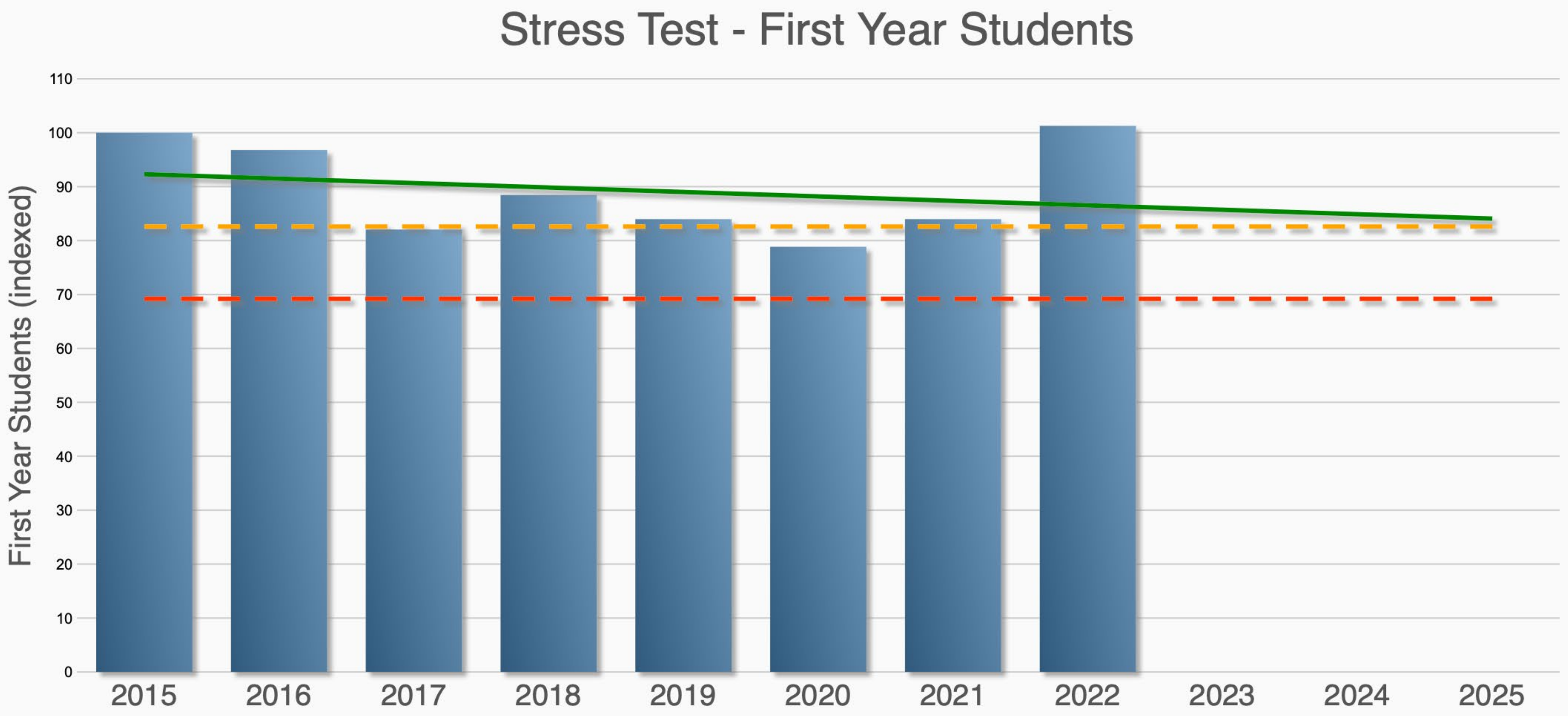
The Market Stress Test

- *The College Stress Test: Tracking Institutional Futures across a Crowded Market* by Robert Zemsky, Susan Shaman, and Susan Campbell Baldridge
- Four indices measure the change in market position over a period of eight years using IPEDS data and forecast three years into the future:
  - Enrollment
  - Retention
  - Market price
  - Endowment to expenses

The Market Stress Test

- Graph each index and draw a trendline
  - 1 point if slope crosses alert line
  - 1 point if slope crosses warning line
  - 1 point if the trend is projected to reach the alert line by three years into the future
- Total of 12 potential points
- A score above 4 face indicates substantial risk of failure

The Market Stress Test

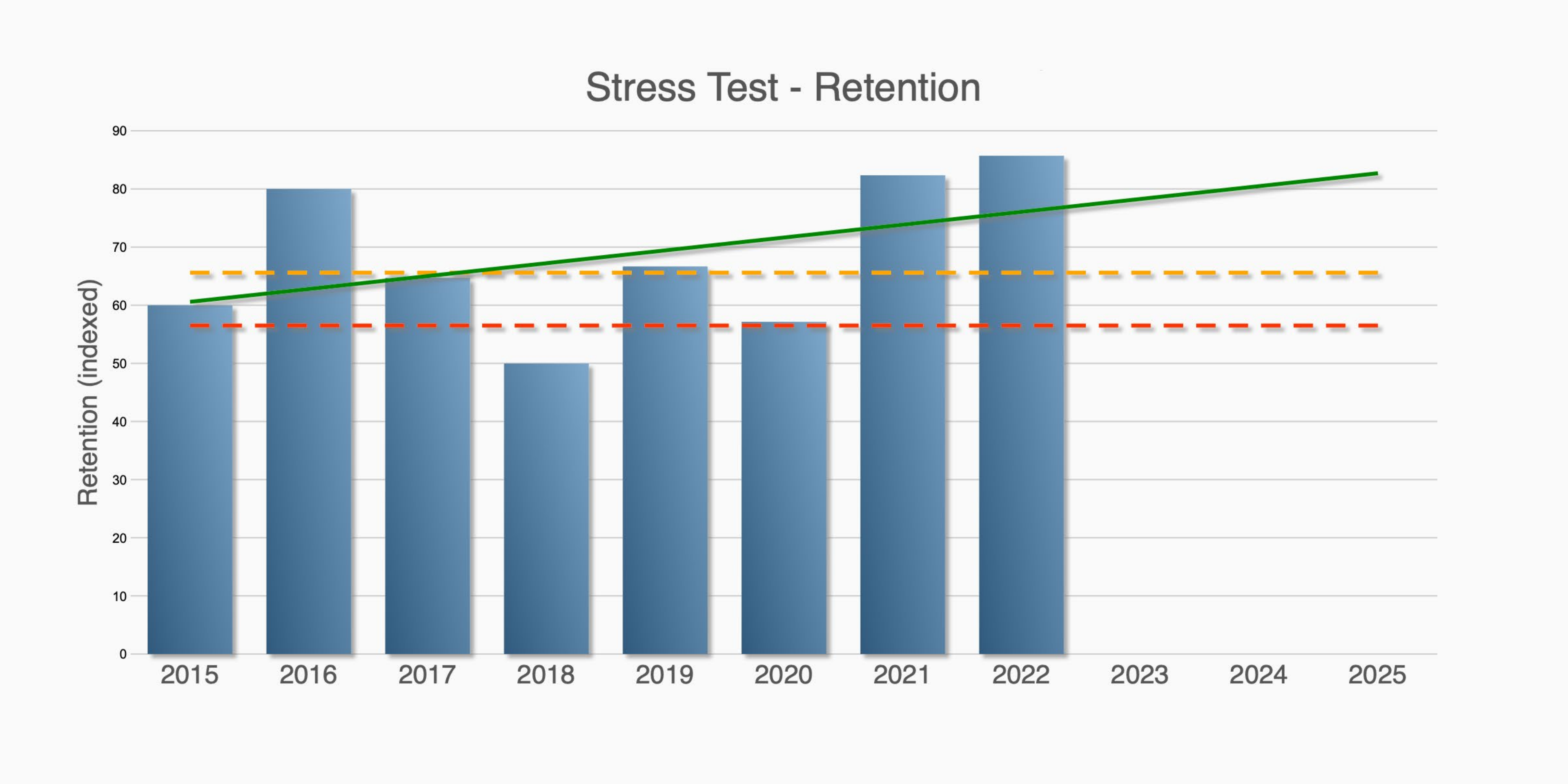


Score: 0

The Market Stress Test

- The first-year student component uses the number of first-year students enrolled in the fall of each year in the period presented.
- The chart shows the percentage change in first-year enrollment, with actual enrollment numbers indexed by setting 2015 to 100.

The Market Stress Test



Score: 0

The Market Stress Test

- The retention component uses the first-to-second-year student retention rate to determine how many students in the first-year full-time cohort came back the next year.
- The chart shows that xx% of 2021 freshmen returned as sophomores in 2022.

The Market Stress Test

Score: 0

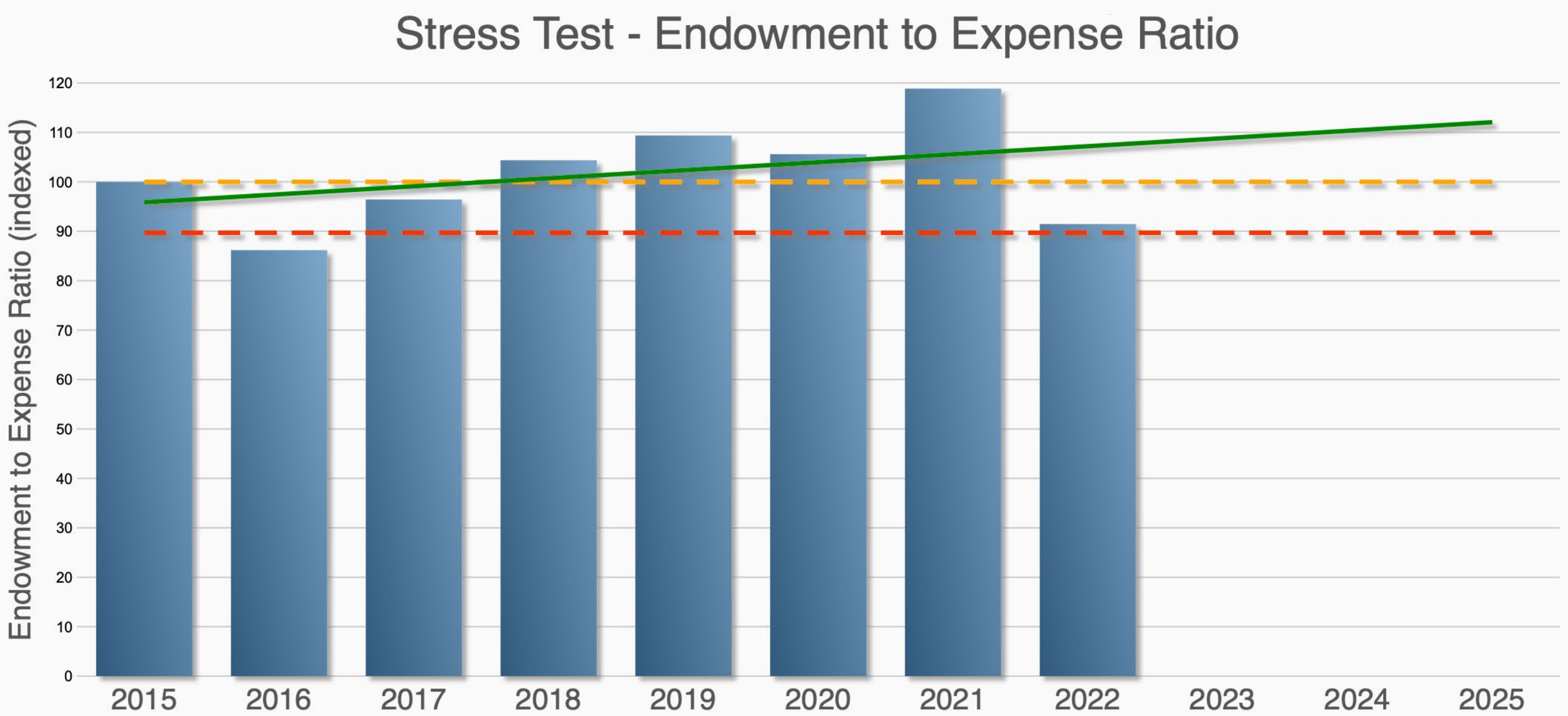
The Market Stress Test

- The market price component calculates the change in the institution’s stated tuition and fees less average institutional grants to first-year, full-time students.

- It’s a good measure of income stability and of an institution’s difficulty in recruiting a new class each year.

- A negative trend line would indicate the school is awarding students faster than it is increasing its sticker price.

The Market Stress Test



Score: 1

The Market Stress Test

- The endowment to expense component measures the school’s control over its expenses.
- A positive trend line indicates either a growing endowment, a decrease in expenses, or both.

The Market Stress Test

Stress Test Point Analysis

	First Year	Retention	Market Price	Endowment
Below Alert Level	0	0	0	1
Below Warning Level	0	0	0	0
Projected to be Below Alert Level	0	0	0	0
Stress Test Points	0	0	0	1
Grand Total Stress Points	1			

0 to 1 points - Minimal Risk   2 to 3 points - Moderate Risk   4 to 12 points - Substantial Risk

The Market Stress Test

- Total score of 0, indicating no risk
    - Market price – 0
    - Enrollment – 0
    - Retention – 0
    - Endowment to expenses – 1
- How would you advise this institution?

What Is Your Future?

- How to project enrollment
- How to project donor support
- How to project investment return

How to Project Enrollment

- Optimism
- Trends
- Cohorts by class
  - First-time freshman retention
  - Undergraduate retention
  - Graduation rate

How to Project Donor Support

- Optimism
- Trends
- Blended method
  - Includes optimism and trends
  - Pipeline as informed by president and development office
  - Stretch

How to Project Investment Return(s)

- Optimism
- Trends
- Policy, for instance:
  - Average annual return 7%
  - Growth 2%
  - Spend 4.5%

Questions?

Thank you.

Dan Campbell, Partner
CapinCrouse LLP

dcampbell@capincrouse.com

505.50.CAPIN ext. 1452

CAPINCROUSE LLP