CFO Colleague

To Tell The Whole Truth – The Fiduciary Responsibility of the CFO

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The Fiduciary Responsibility of the CFO

Can a Board of Trustees act on what they do not know? Even if ultimately responsible, they are entirely dependent on the faithful service of the CFO to provide an accurate and complete picture of the financial health of the institution. This strategic information is essential . . . but often missed. And often boards do not know what to ask for from their CFO.

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Agenda

- Providing a complete financial picture
- Helping the president and board interpret financial data
- Diagnosing strengths and weaknesses
- Offering realistic, actionable financial counsel

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The Complete Financial Picture

Providing a complete financial picture – what must be included.

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Fiduciary Responsibility

- Duty of Loyalty
- Duty of Care
- Duty of Prudence
- Duty of Disclosure
- Duty of Confidentiality

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Fiduciary Responsibility

Biblical Principles of Stewardship in Financial Leadership

- Ownership Belongs to God: Psalm 24:1
- Faithfulness and Integrity: Luke 16:10 - "Whoever can be trusted with very little can also be trusted with much, and whoever is dishonest with very little will also be dishonest with much."
- Planning and Wise Management: Proverbs 21:5
- Accountability and Reporting: Luke 16:2
- Eternal Perspective: Matthew 6:20
- Seeking God's Guidance: Proverbs 3:5-6

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Can a Board Act on What They Don't Know?

- Challenges of decision-making without complete financial information
- The CFO's role in ensuring the board has the necessary data to make informed, strategic decisions
- Potential risks of incomplete or inaccurate financial reporting

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Question

What are five (5) of the six (6) key elements for a complete financial picture?

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What Makes Up a Complete Financial Picture?

- Key elements that must be included:
  1. Income statement (Statement of Activities, P/L)
  2. Balance sheet (Statement of Position)
  3. Cash flow statement
  4. Budget vs. actuals
  5. Financial ratios and key metrics
  6. Narrative analysis (context for the numbers)
- Beyond the basics: Providing strategic insights, forecasts, and potential risks

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The CFO’s Duty to Provide Transparency

- Importance of full disclosure: Providing a clear, honest, and detailed view of the institution’s financial health
- Avoiding “cherry-picking” favorable data and omitting critical weaknesses
- Examples of transparency in action: Comprehensive reports and clear communication

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Interpretation and Advising

Helping the president and Board understand the financial reality.

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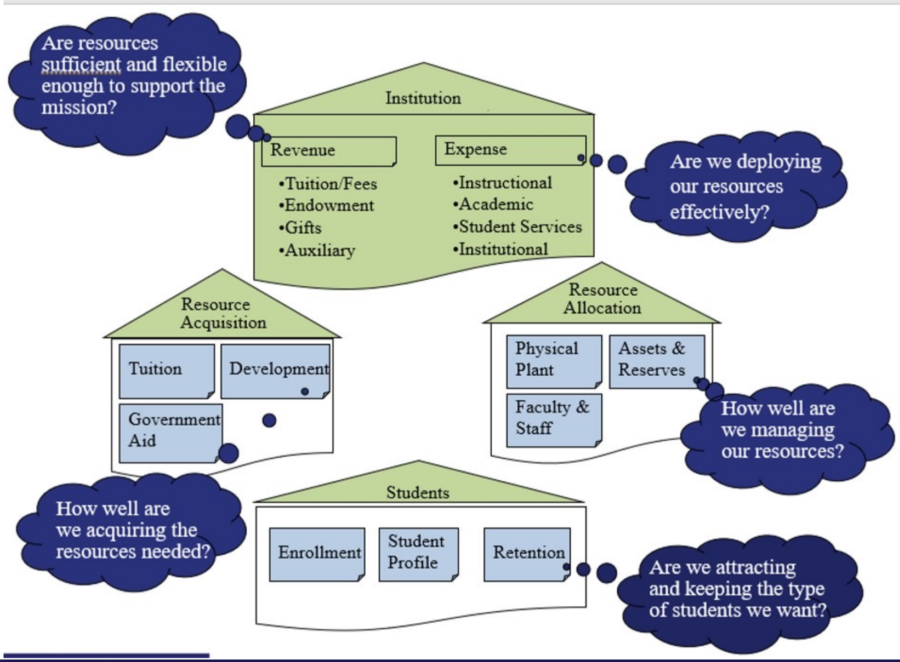
Helping the President and Board Understand the Financial Reality

- CFO's role in interpreting financial data for non-financial leaders
- Simplifying complex financial concepts without oversimplifying
- Providing context: Why certain figures matter and how they impact long-term strategy

Financial Interpretation: Bridging the Gap

- Translating numbers into actionable insights for the board
- Key financial ratios and metrics every board member should understand



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30 Financial and Operational benchmarks

Commitment to Healthy Financial Operations

1. Annual traditional net tuition per (NTR) student ≥ $14,000
2. First time freshman traditional tuition discount rate should not be more than 5 percentage points greater than seniors
3. New freshman and transfers should exceed the number of students who exited (graduated, dropped out, transferred out, etc.) last year (> 1.0 to 1 replacement ratio)
4. Non-counselor enrollment staffing = 1.2 to 1.5X of admission counselors, with each traditional counselor bringing in ninety (90) students, and 120 students for non-trad counselors
5. Non-student revenues (donations and unrestricted investment returns primarily) ≥ 12% of operating revenue (Student revenues include net tuition, fees and auxiliary revenues)
6. Endowment value ≥ 150% of the annual operating budget

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Question

What benchmark does CFO Colleague recommend for an institution's salaries and benefits (compensation) as a percentage of total net tuition revenue (NTR)?

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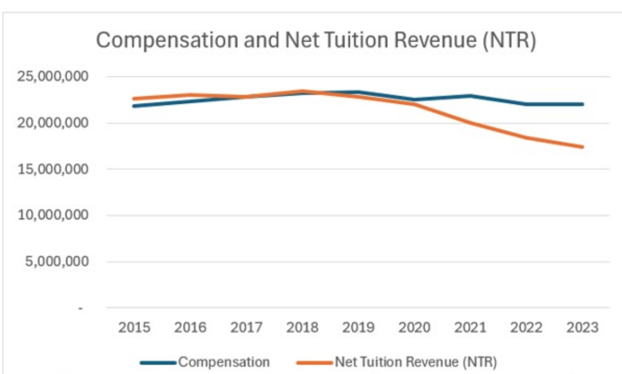
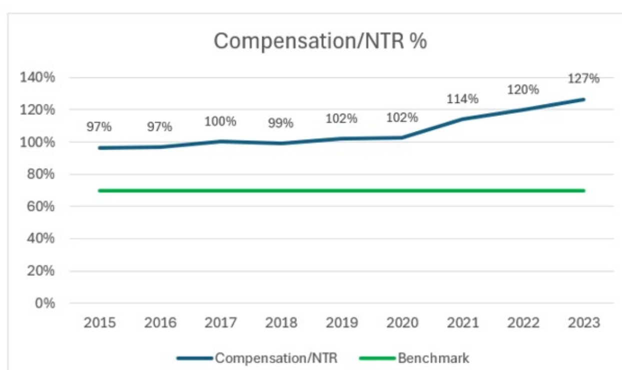
Compensation/Net Tuition Revenue (NTR)





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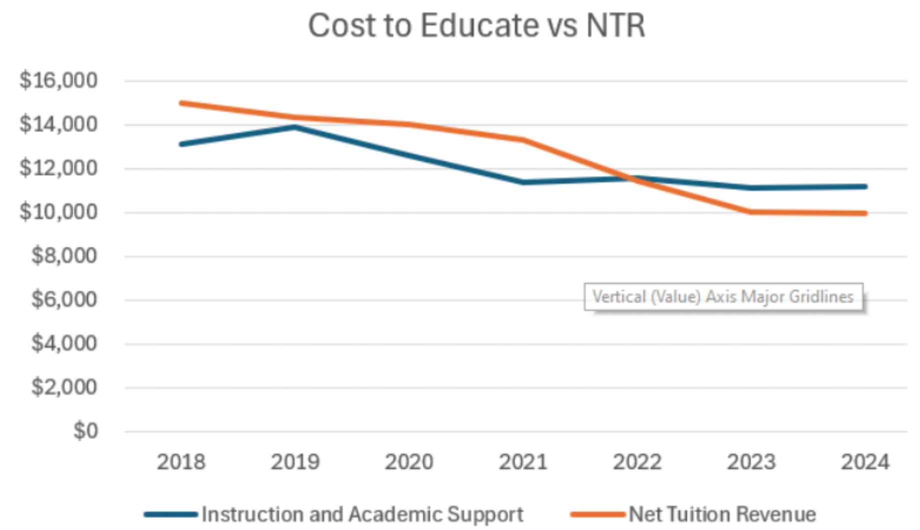

	2018	2019	2020	2021	2022	2023	2024
Cost to Educate	$13,121	$13,872	$12,609	$11,365	$11,564	$11,139	$11,190
Net Tuition Revenue	$14,976	$14,296	$13,999	$13,321	$11,430	$10,021	$9,961

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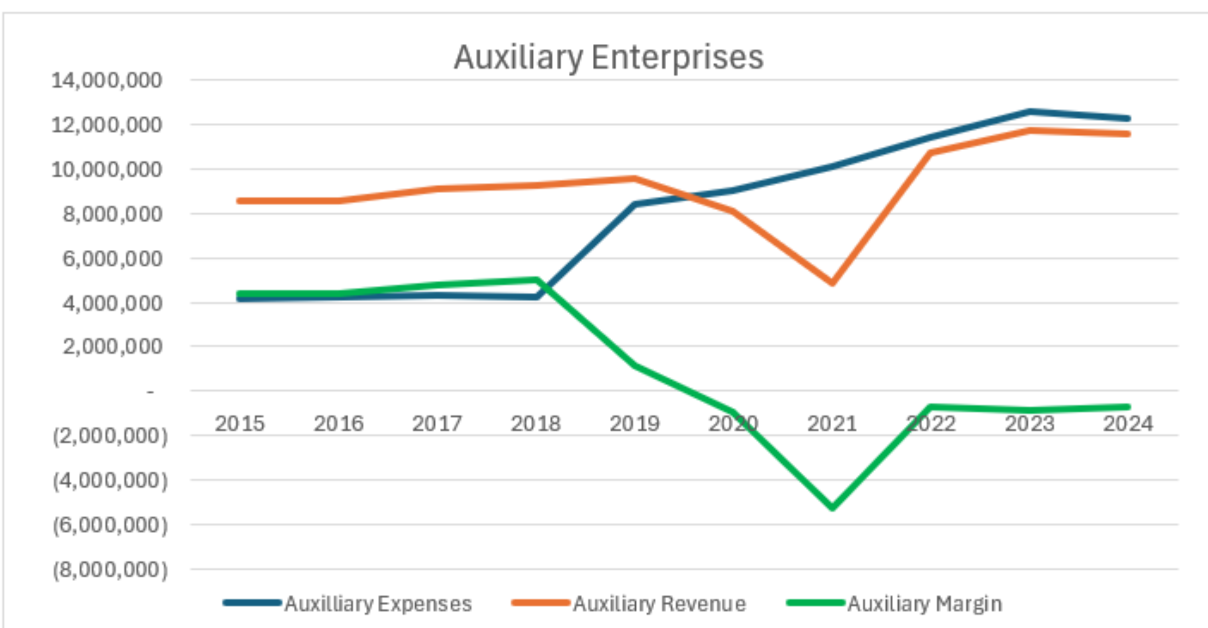

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Diagnosing

Diagnosing both financial strengths and weaknesses with honesty and prudence.

Diagnosing Financial Strengths

- Identifying and communicating financial strengths
  - ✓Positive cash flow
  - ✓Strong revenue growth
  - ✓Low debt
- How to highlight strengths in a way that supports strategic goals

Diagnosing Financial Weaknesses

- Addressing and being transparent about financial weaknesses:
  - ✓Negative cash flow
  - ✓Rising costs
  - ✓Declining revenues
- The CFO's responsibility to offer solutions and mitigation strategies

Diagnosing Your Financial Health: A Self-Assessment Tool (Sustainability Index)

Range - low to high	-1.0	1.0
Passing Score	0.00	
Monitor	0.0	0.2

CALCULATIONS		RAW	WEIGHTED	FINAL
Change in NTR	(281,531)	-0.02	-0.05	-0.05
Debt service and lease payments	1,273,224	0.06	0.12	0.12
Calculated operating cash	4,257,521	0.20	0.20	0.20
Change in unrestricted net assets	621,409	0.03	0.09	0.09
Accounts Payable	1,496,773	0.07	0.09	0.09
			Total	0.5
Unrestricted operating expenses	21,676,530			
NTR Last Year	16,507,224			
NTR This Year	16,225,693	(281,531)	Change in NTR	
Principal paid on debt	451,229			
Interest paid	607,553			
Lease payments made	214,442			
Refinanced principal received	0	1,273,224	Debt Service and lease pay'ts	
Cash on hand	5,604,889			
Investments	12,723,693			
Pledges for restricted gifts	400,000			
Net Assets with donor restriction	14,471,061			
Amount of LOC drawn down	0	4,257,521	Calculated Operating Cash	

Honesty and Prudence: A Delicate Balance

- The importance of honesty in financial reporting: Acknowledging challenges without panic
- Prudence in financial decision-making: Ensuring that all risks and potential liabilities are fully understood
- Balancing optimism and realism for board members

Financial Counsel

Offering realistic, actionable financial counsel with a realistic picture and forecast.

Creating a Realistic Financial Forecast

- Why forecasts are essential for effective board decision-making
- Key components of a strong financial forecast: Revenue projections, expenses, cash flow, and capital needs
  - ✓Revenue projections
  - ✓Discounting
  - ✓Expenses
  - ✓Cash flow
  - ✓Capital needs
- The importance of scenario planning: Preparing for multiple future outcomes

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Forecasting and Planning

Example College

Multi-Year Enrollment Trends - Traditional Population

X X X = *Data Input*

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	ACTUAL									FORECAST				
	2017 - 18	2018 - 19	2019 - 20	2020 - 21	2021 - 22	2022 - 23	2023 - 24	Avg		2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29
Fall Enrollments								*extrapolation ->*		*250*	*250*	*251*	*251*	*252*
1st time Freshmen	223	269	259	247	240	262	238	*248*		240	260	265	280	295
Freshmen	24	27	33	25	35	35	35	*31*		*31*	*31*	*33*	*34*	*36*
Sophomores	208	195	244	237	222	222	222	*221*		*219*	*226*	*249*	*256*	*272*
Juniors	178	226	180	219	232	232	232	*214*		*221*	*219*	*227*	*250*	*257*
Seniors	231	210	241	234	244	244	244	*235*		*261*	*254*	*254*	*269*	*300*
Others	10	4	3	2	7	7	7	*6*		5	5	5	5	5
Reported / Forecast Fall Traditional	***874***	***931***	***960***	***964***	***980***	***1,002***	***978***	***956***		***977***	***995***	***1,033***	***1,094***	***1,165***
								extrapolation ->		*65*	*66*	*67*	*68*	*69*
Transfers in	59	54	67	63	66	65	60	*62*		62	64	66	68	68
New students (Trf & FF)	282	323	326	310	306	327	298	*310*	32.5%	*302*	*324*	*331*	*348*	*363*
Returning students	592	608	634	654	674	675	680	*645*	67.5%	*675*	*671*	*702*	*746*	*802*
Potential to return (prev spring)		623	657	677	697	698	701	*676*	96.9%					
Return %		**97.6%**	**96.5%**	**96.6%**	**96.7%**	**96.7%**	**97.0%**							
Annualized Traditional NTR (000s)						*$14,899*	*$15,550*			*$15,876*	*$16,332*	*$17,173*	*$18,617*	*$20,050*

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Example College

PY Actual, CY Projection and 5Y Forecast

XXX = *Data Input*

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	Growth	*Actual* 2022 - 23	*Projected* 2023 - 24	/ - - - - - F o r e c a s t - - - - - / 2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29
% of population changes reflected in expenses	50%							
Revenue:								
Tuition & Fees--Traditional		25,299,836	26,817,983	27,682,804	29,003,422	30,990,817	33,796,805	36,755,568
Less: Tuition Discounts *(% of tuition)*		(10,400,679) *41%*	(11,268,271) *42%*	(11,806,561) *43%*	(12,671,050) *44%*	(13,817,591) *45%*	(15,179,902) *45%*	(16,705,994) *45%*
Net Tuition & Fees--Traditional		14,899,157	15,549,712	15,876,243	16,332,372	17,173,227	18,616,903	20,049,575
Tuition & Fees--non traditional		22,522,338	20,717,564	21,941,332	22,556,658	23,111,984	23,537,310	24,192,636
Less: Tuition Discounts		(2,927,450)	(3,025,000)	(3,100,000)	(3,150,000)	(3,200,000)	(3,200,000)	(3,200,000)
Net Tuition & Fees-non traditional		19,594,888	17,692,564	18,841,332	19,406,658	19,911,984	20,337,310	20,992,636
Net Tuition & Fees *(growth %)*		34,494,045	33,242,276 *-4%*	34,717,575 *4%*	35,739,030 *3%*	37,085,211 *4%*	38,954,213 *5%*	41,042,211 *5%*
Auxiliary Revenue		5,877,554	5,971,780	6,174,472	6,476,876	6,925,961	7,554,997	8,286,671
Non-Student Revenues		4,931,101	4,495,000	3,488,784	3,758,784	3,798,784	3,843,784	3,893,784
Assets released from restriction		1,004,320	2,112,866	1,747,490	1,475,303	1,487,923	1,500,403	1,512,533
Operating Revenues *(growth %)*		46,307,020	45,821,922 *-1%*	46,128,321 *1%*	47,449,993 *3%*	49,297,878 *4%*	51,853,396 *5%*	54,735,198 *6%*

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Example College

Three Scenarios for 2023 - 24

INPUTS		Current Plan	Scenario 1	% Δ	# Δ
Fall 1st Time Freshmen		240	245	2.1%	5
Fall Transfers	volume exp factor	62	65	4.8%	3
Fall Returning Students	10%	675	680	0.7%	5
Spring Fresh to Fall Soph *(a quasi retention facto*		108.6	109.6	0.9%	1.0
FF Discount Rate		47.0%	47.8%	0.8%	points
Tuition Increase		3.5%	2.5%	-1.0%	points
Annual fund donations	volume exp factor	1,350,000	1,150,000	-14.8%	(200,000)
Non Traditional Net Tuition & Fees	40%	17,590,000	18,500,000	5.2%	910,000
Operational spending increases (cuts)		0	56,000	0.2%	
New Building Operations		90,000	50,000	-44.4%	(40,000)
Capital Spending		7,625,000	7,500,000	-1.6%	(125,000)
Capital project gifts received		3,552,500	3,300,000	-7.1%	(252,500)
Net Assets Released - Purpose or Time		2,997,075	5,900,000	96.9%	2,902,925
Line of Credit		2,000,000	1,000,000	-50.0%	(1,000,000)
New Debt Issued for fixed asset acquisition		10,000,000	7,000,000	-30.0%	(3,000,000)

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Best Practices for Forecasting

- Methods and tools for accurate financial forecasting
- Collaborative forecasting: Involving the board, president, and leadership team in setting realistic expectations
- How to build flexibility into forecasts to adapt to changing circumstances

How to Present the Financial Picture to the Board

- Presentation tips: How to structure and deliver the financial story effectively
- Balancing technical details with high-level insights
- Ensuring clarity and focus: Avoiding overwhelming the board with unnecessary data

The Role of the CFO in Crisis Management

- When things go wrong: The CFO's role in providing truth during financial crises
- Communicating clearly and calmly with the board during financial difficulties
- Strategic actions for immediate and long-term recovery

Importance of Financial Counsel Beyond Numbers

- Providing strategic guidance: Helping the board understand the broader implications of financial data
- Offering solutions:
  - ✓Advising on growth strategies
  - ✓Cost management
  - ✓Risk mitigation
- Being proactive: Helping the board anticipate challenges before they become crises

Looking Ahead: CFO's Role in Long-Term Strategy

- The CFO as a key strategic partner: Providing financial insights for the institution's future direction
- Aligning financial planning with the institution's mission and goals
- How to ensure that financial decisions are made with a long-term view

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Question

What is the booth number for CFO Colleague in the exhibitor hall?

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Partners' Perspectives

CFO Colleague is a financial and operational advisory firm, focused on private higher education. Founded in 2013, the firm has worked with institutions in every region of the U.S. to implement best practices learned from over two hundred (200) partner institutions.

November 5, 2024
Volume 213

References:

Undergraduate Enrollment Rises 3% Despite Drop in First-Year Students, Early Data Shows
https://www.highereddive.com/news/undergraduate-enrollment-rises-3-percent-despite-drop-in-first-year-students/730629/

Net Tuition Ticks Up 2% at Private Colleges, Declines at Public Institutions
https://www.highereddive.com/news/net-tuition-private-public-colleges/730632/

Why Proving Program ROI is Higher Ed's Latest Challenge
https://universitybusiness.com/why-proving-program-roi-is-higher-eds-latest-challenge/

Here Is How Higher Ed Employees Are Faring Financially Right Now
https://universitybusiness.com/how-higher-ed-employees-are-faring-financially-right-now/

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https://www.spreaker.com/show/business-office-reset

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Thank you!

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Investment Policy Statement (IPS)

- Definition and purpose of assets
- Governance roles and responsibilities
- Time horizon
- Return objectives
- Risk parameters
- Asset classification structure
- Allowable allocation ranges
- Investment and trading restrictions
- Rebalancing policy
- IPS review policy

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Definition of Endowments	Perpetual, Term, Quasi
Minimum for Establishing	e.g., $50,000
Investing	
Spending Allocation	Four percent (4%) of the FYE FMV, 36 month rolling average
Process for Distribution	Business Office, Financial Aid, Development

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Record Retention Policy

- Electronic and Paper
- Required Retention Periods
- Safeguarding Records
- Record Retention Storage
- Disposal and Destruction of Records

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Policy Audit

- Centralized Posting
- Readily Accessible
- Policy Ownership
- Annual Review

Policy Audit

- A systematic review of existing policies
  - An analysis of policy-making processes
    - An analysis of how policies are being enforced

Policy Audit

1. Inventory your policies
2. Pick the most important policies, & a few more.
3. Talk to the owners of each policy
4. Validate automated enforcement
5. Manually audit the remainder of the policies
6. Prepare general conclusions
7. Document Results

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1. History, development, and expectations of the program
2. External demand for the program
3. Internal demand for the program
4. Quality of program inputs and processes
5. Quality of program outcomes
6. Size, scope, and productivity of the program
7. Revenue and other resources generated
8. Costs and other expenses associated with the program
9. Impact, justification, and overall essentiality of the program
10. Opportunity analysis of the program

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New Programs

1. Market Growth
2. Market Segment Growth
3. Competition
4. Expected Program Size
5. Career Outcomes
6. Mission Alignment