

Financial Fundamentals and Strategies for the New President

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The University of St. Francis

Called to Serve ... Called to Lead

- Catholic, Franciscan University Founded in 1920 in Joliet, IL.
 - 3700+ Students – Grad and Undergrad
 - Substantial Off-campus/On-line Presence



**Bigger thinking.
Brighter purpose.**



Today's Agenda*

1. Key Measures and Benchmarking
2. Financial Strategies
 - a. Budgeting and the Business Plan
 - b. Capital Expenditures and the Strategic Plan
3. The CFO as Strategic Business Partner

* “Financial Fundamentals” (Financial Statements 101 and Getting to Know Your IRS Form 990) covered *via* on-line, preview materials.

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Benchmarking 101...

- Typical Recommendations for Non-for-profits:
 - Liquidity: Current & Quick Ratios
 - Program Expenses / Total Expenses
 - Fundraising Exp. / Total Contributions
 - Liabilities / Total Assets
 - Cash Flow from Operations



Benchmarking 101...

- CIC Resources
 - Financial Indicators Toolkit (FIT)
 - Key Indicators Toolkit (KIT)



Our Recommendations...

- Operational
 - 2. Student Revenue Coverage ("Core Margin")
 - 3. EBIDA ("Earnings Before Interest, Depreciation, & Amortization")
 - 6. Cash Flow from Operating Activities
 - 9. Age of Facilities
- Sources of Funds
 - 1. Net Tuition Revenue
 - 5. Endowment as % NTR
 - 10. Liquidity (New)
- Traditional Financial
 - 4. Return on Net Assets
 - 7. Viability Ratio
 - 8. Primary Reserves Ratio

Working from the Financial Statements...

University of St. Francis (IL)		2015	2016	2017	2018	2019	2020	2021
SOA	Tuition & Fees	59,415,093	60,249,827	62,652,999	62,321,115	64,815,935	66,068,721	64,223,123
SOA	Auxiliary Revenue	3,965,432	3,862,714	4,126,457	3,923,267	3,774,575	4,267,913	3,819,408
SOA	Financial Aid	18,315,229	19,385,188	20,144,854	20,302,875	22,049,240	25,818,868	25,837,394
SOA	Total Revenues	51,200,037	53,584,030	51,452,349	50,427,031	52,429,222	49,403,374	48,892,504
SOA	Total Operational Expenses	48,697,348	49,347,629	47,644,634	48,086,981	49,334,971	48,454,339	47,116,234
SOA	Other Rev (Exp)	(603,056)	(1,439,928)	924,527	135,942	(1,601,235)	(2,802,448)	5,733,139
	Change in Net Assets	1,899,633	2,796,473	4,732,242	2,475,992	1,493,016	(1,853,413)	7,509,409
SOCF	Plus: Depreciation	2,992,632	3,053,301	3,493,473	4,108,731	4,444,362	4,476,096	4,386,770
SOCF supplemental info	Plus: Interest	542,776	642,159	957,597	985,354	997,013	880,994	555,971
	EBIDA	5,435,041	6,491,933	9,183,312	7,570,077	6,934,391	3,503,677	12,452,150
SOFP	Accumulated Depr	33,823,614	36,616,708	39,682,227	43,496,454	47,710,511	51,426,853	55,545,831
SOFP	Total Assets	79,186,185	99,102,132	100,461,716	100,589,496	99,914,444	96,850,136	101,824,019
SOFP	LOC	-	2,000,000	-	-	-	-	-
SOFP	Capital Lease	60,873	489,186	820,778	1,072,749	810,746	537,330	260,879
SOFP	Bonds payable	26,189,000	39,706,015	38,831,070	37,934,048	36,638,938	35,634,665	34,264,627
SOFP	Total Debt	26,249,873	42,195,201	39,651,848	39,006,797	37,449,684	36,171,995	34,525,506
SOFP	Total Liabilities	37,514,929	54,634,403	51,261,745	48,913,533	46,745,465	45,534,570	42,999,044
SOFP	Unrestricted	28,810,763	29,467,224	33,405,318	35,688,833	35,486,198	33,794,798	39,017,456
SOFP	Temp restr	4,109,775	6,315,149	6,790,422	6,727,629	17,682,781	17,520,768	19,807,519
SOFP	Permanently restr	8,750,718	8,685,356	9,004,231	9,259,501			
	Total Net Assets	41,671,256	44,467,729	49,199,971	51,675,963	53,168,979	51,315,566	58,824,975
Footnote	Unrestr. Endowment	6,333,730	6,768,307	7,230,394	8,166,920	8,657,074	9,209,490	11,761,761
SOCF	Cash Flow From Operations	1,767,728	(96,161)	6,441,348	7,991,000	4,352,267	3,861,940	6,103,866
Footnote	Liquidity					9,003,113	9,967,918	11,926,602
Sch of Federal Awards	HEERF - Student (84.425E)							880,137

Julee's "Life-changing Web-site":

<https://harvester.census.gov/facdissem/SearchA133.aspx>



Questions...so far?



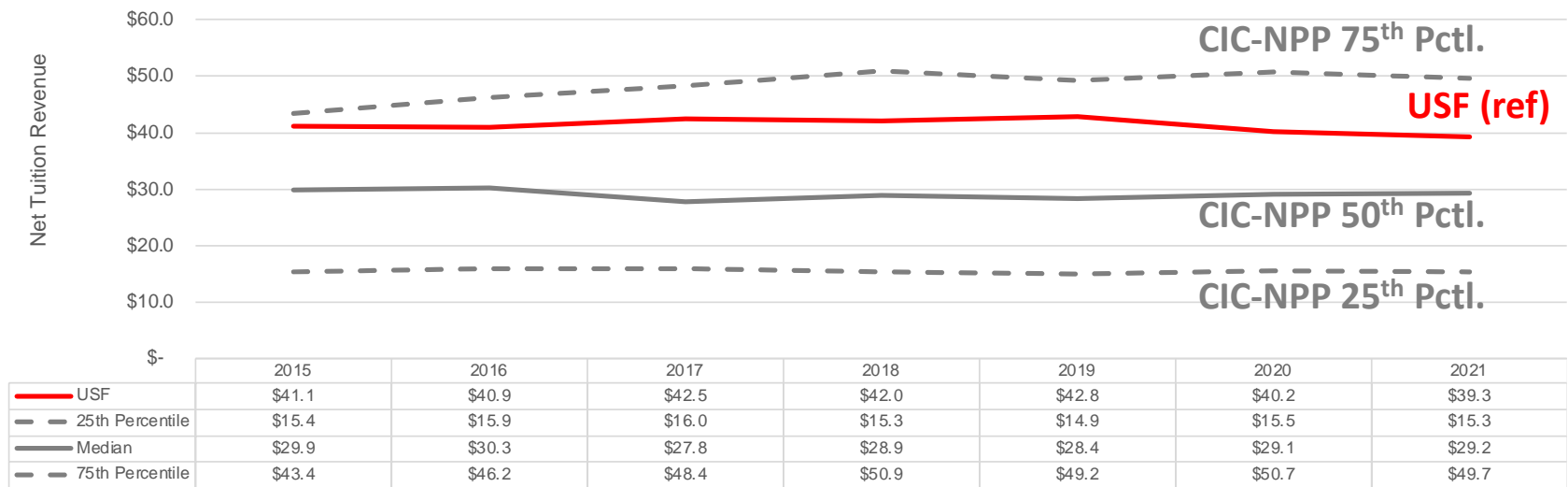
“It’s a flip chart ... so let’s just flip it over.”

1. Sources: Net Tuition Revenue

Net Tuition Revenue (\$ in millions)

gross tuition revenue - financial aid + HEERF

Measures: Net cash generated from tuition



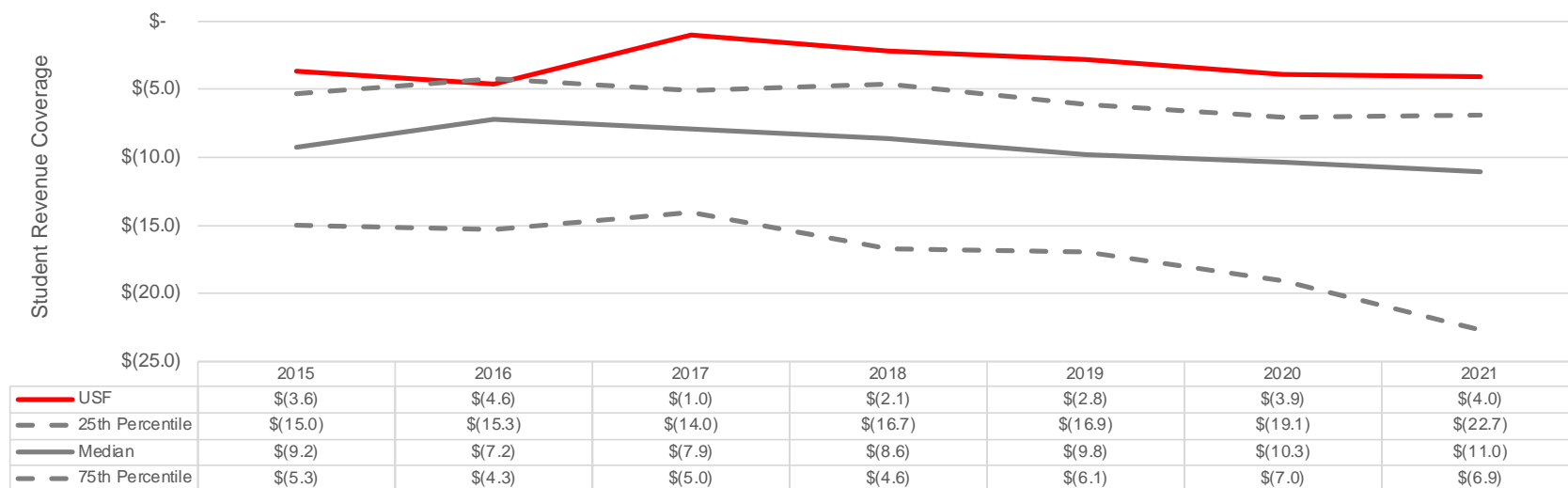
Net cash generated from tuition.

2. Operational: Student Revenue Coverage (“Core Margin”)

Student Revenue Coverage (\$ in millions)

tuition & aux revenue less financial aid less operational expenses + HEERF

Measures: ability to cover operating expenses with only student-related revenues



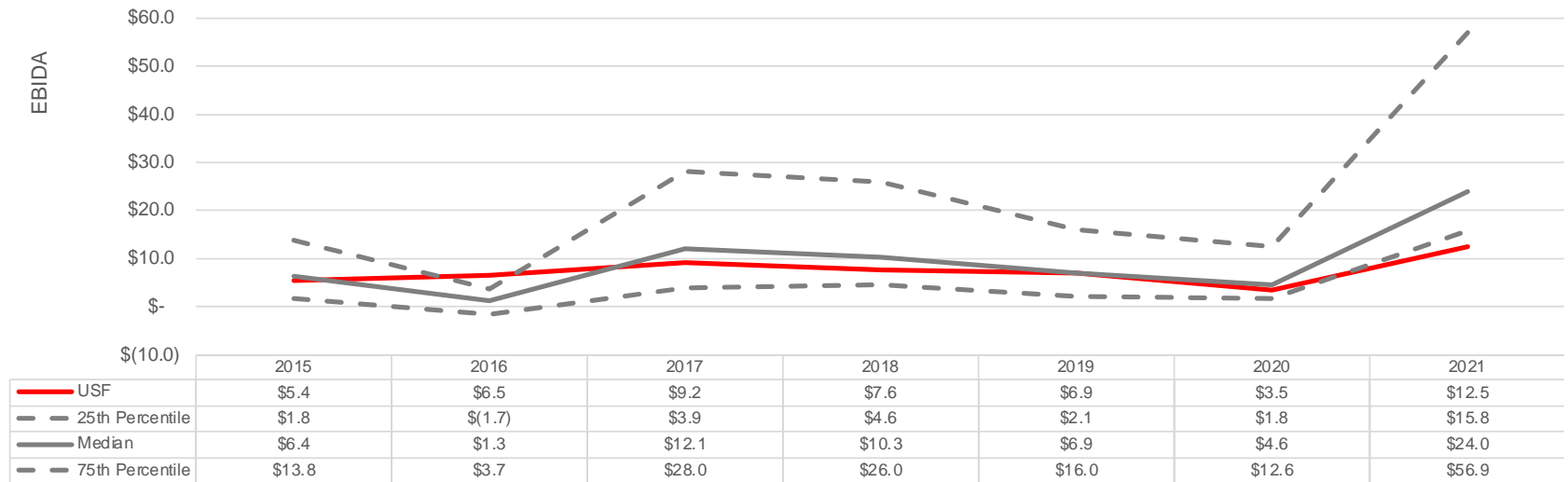
Ability to cover operating expenses with only student-related revenues.

3. Operational: EBIDA

EBIDA (\$ in millions)

change in net assets plus (interest + depreciation + amortization)

Measures: cash earnings while essentially weeding out the impact of CapEx and debt



Cash earnings – weeding out the impact of CapEx and debt.

Questions...so far?

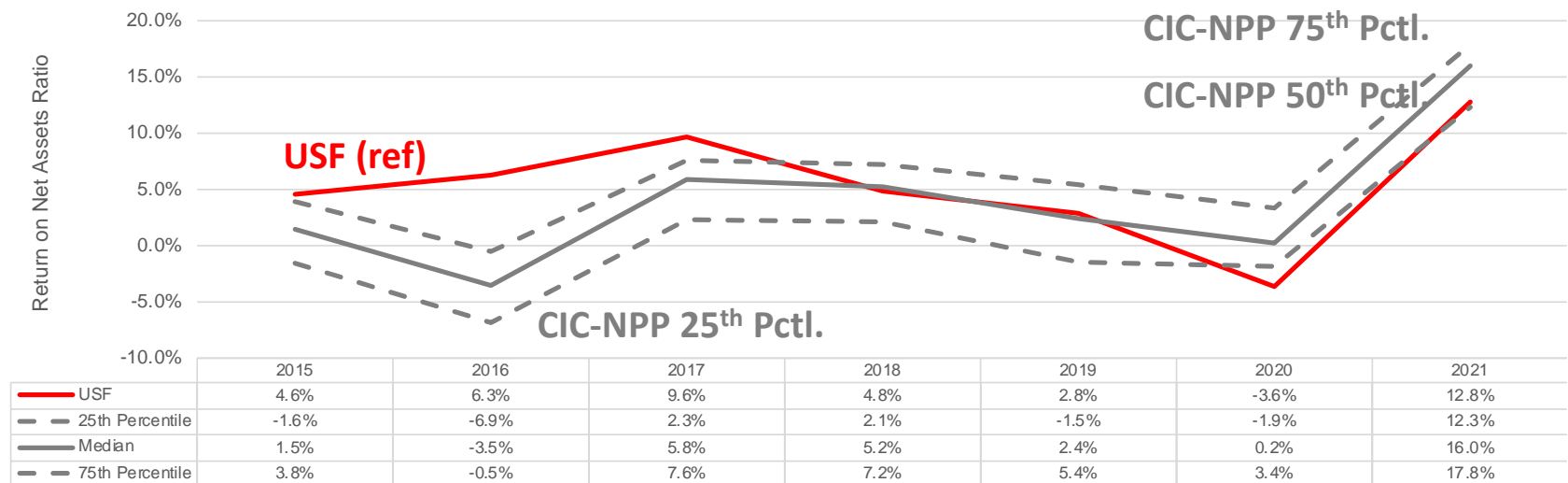


**“You handled the audit so well, we’re promoting you
from Accounts Receivable to Accounts Deceivable.”**

4. Traditional Financial: Return on Net Assets

Return on Net Assets Ratio

change in total net assets / total net assets



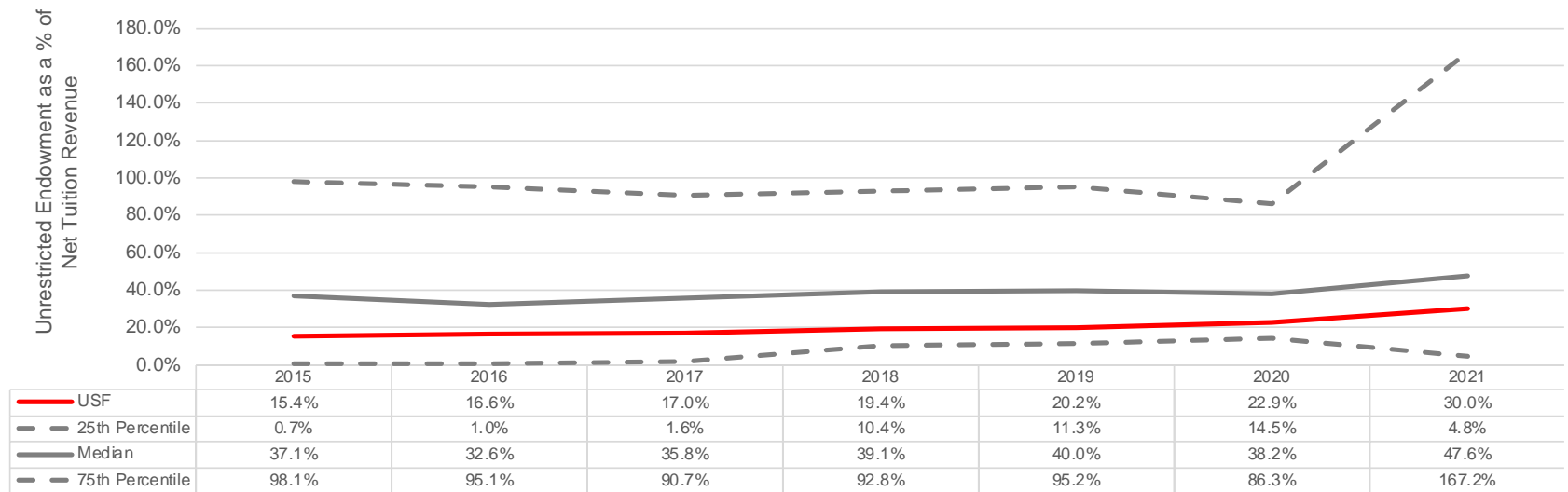
Total economic return (surplus/loss).

5. Sources: Endowment as Percent of Net Tuition Revenue

Unrestricted Endowment as a % of Net Tuition Revenue

$\text{unrestricted endowment}/(\text{net tuition revenue}+\text{HEERF})$

Measures: point-in-time calculation to compare the value of the endowment vs the net tuition revenue in a given year

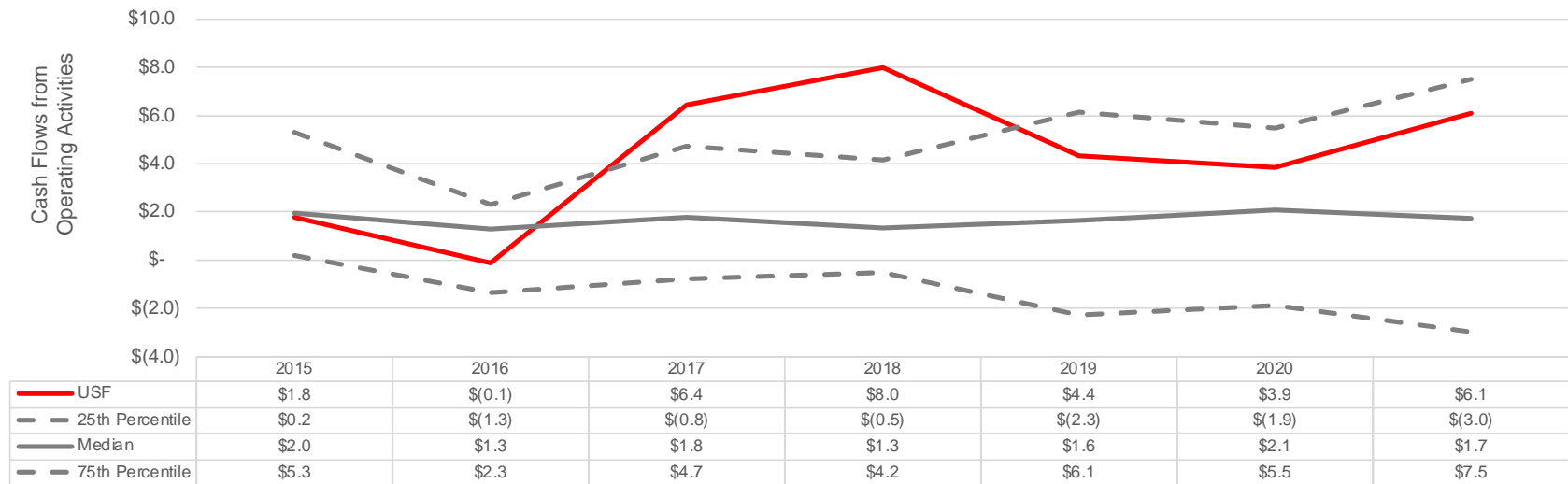


Comparison of relative size of endowment to net tuition revenue.

6. Operational: Cash Flow from Operating Activities

Cash Flows from Operating Activities (\$ in millions)

per audited Statement of Cash Flows



Net cash generated from the University's operations –
versus investing or financing.

Questions...so far?

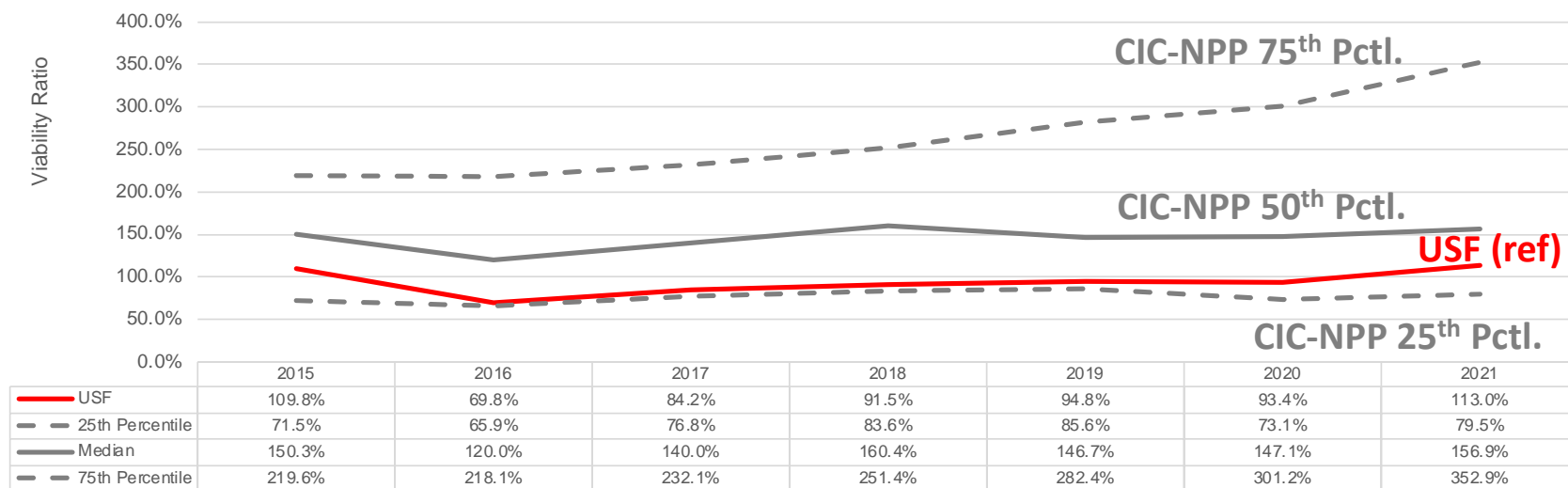


7. Traditional Financial: Viability Ratio

Viability Ratio

unrestricted net assets / debt

Measures: availability of expendable net assets to cover debt obligations as of the balance sheet date

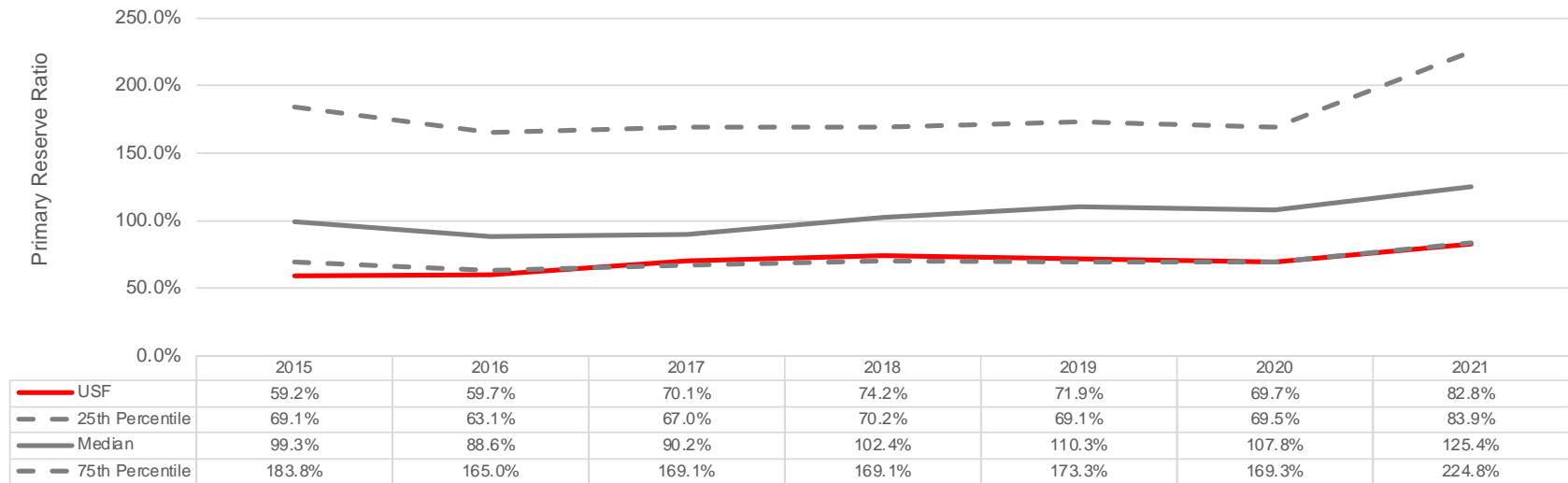


Availability of expendable net assets to cover debt obligations.

8. Traditional Financial: Primary Reserves Ratio

Primary Reserve Ratio

unrestricted net assets / total operating expenses



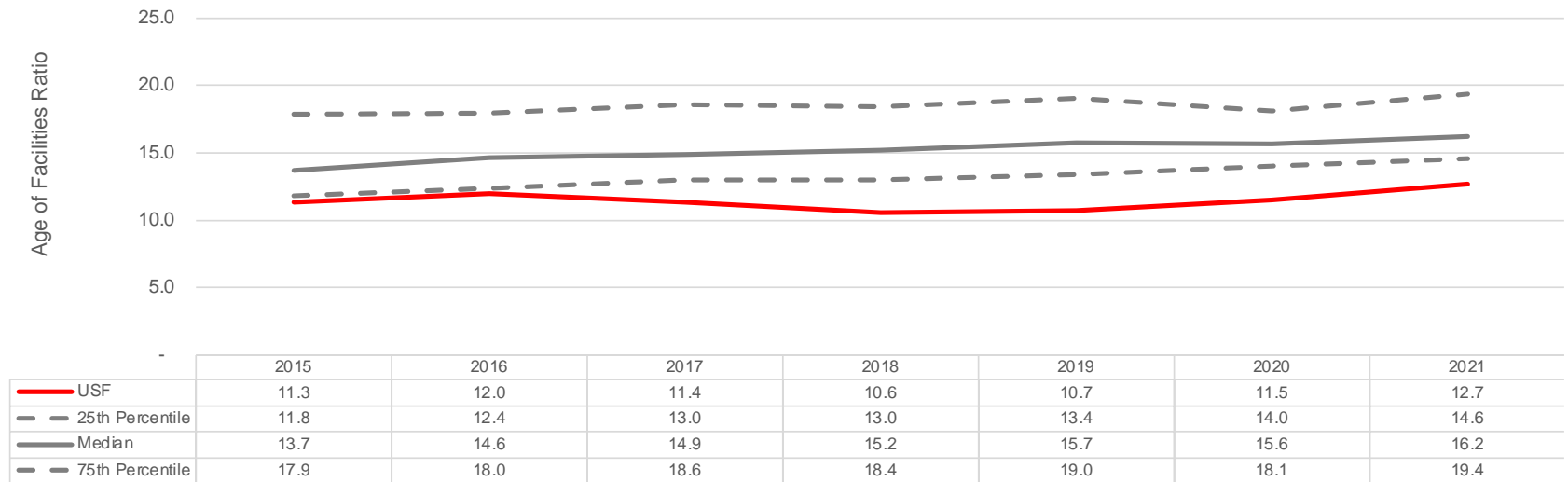
Percentage of one year that an institution could function using its expendable reserves.

9. Operational: Age of Facilities

Age of Facilities Ratio

accumulated depreciation / depreciation expense

Measures: average age of total plant facilities

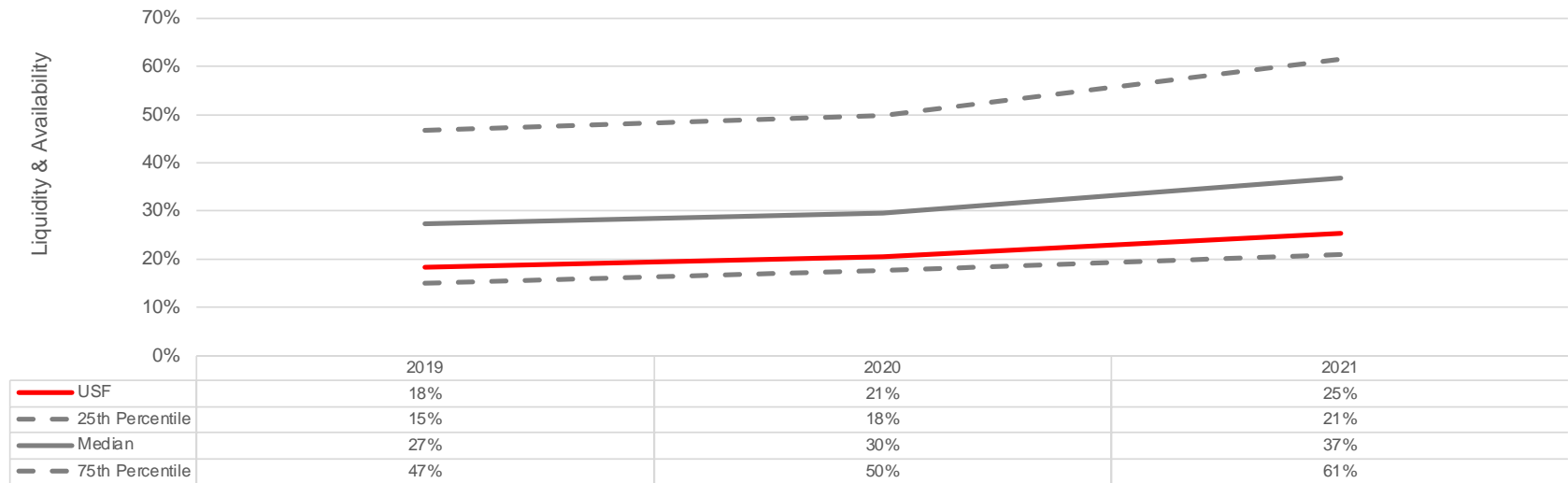


Average age of total plant facilities.

10. Liquidity & Availability (percent of operating expenses)

Liquidity & Availability (\$ in millions)

per audited Footnotes



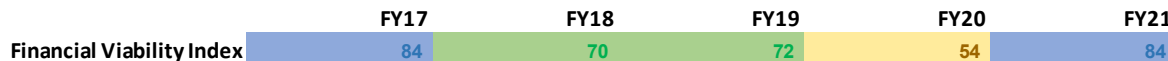
Financial assets that could be readily available within one year.



“Financial Viability Index” ...

- Operational
 - 2. Student Revenue Coverage (15%)
 - 3. EBIDA (15%)
 - 6. Cash Flow from Operations (15%)
- Sources of Funds
 - 1. Net Tuition Revenue (10%)
 - 5. Endowment as % NTR (10%)
- Traditional Financial
 - 4. Return on Net Assets (10%)
 - 7. Viability Ratio (10%)
 - 8. Primary Reserves Ratio (15%)

• Measures and 3-year Trends



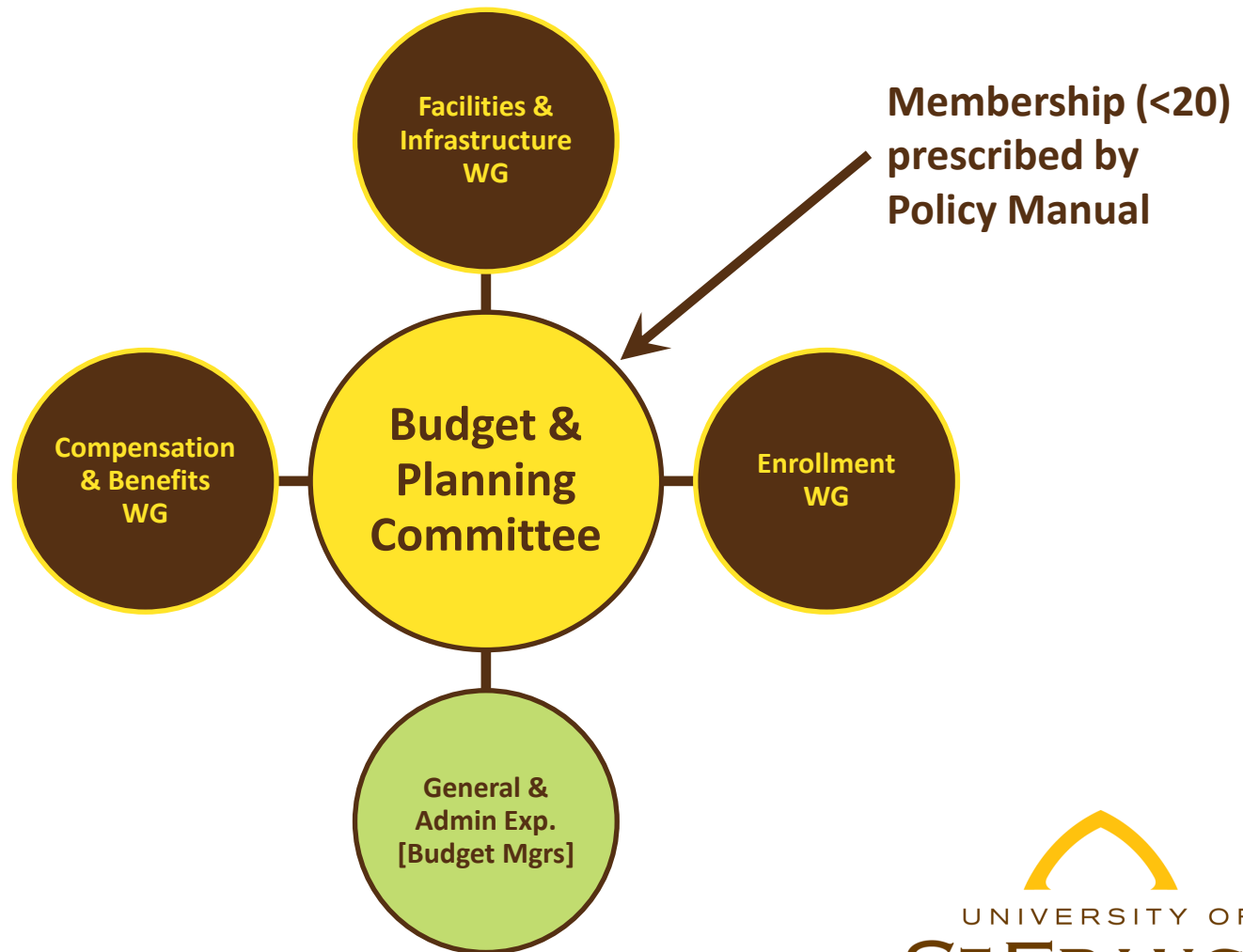
Score	Rating
>74	Blue (excellent)
60-74	Green (very good)
45-59	Yellow (good)
36-44	Orange (marginal)
<36	Red (poor)

New This Year!

Today's Agenda

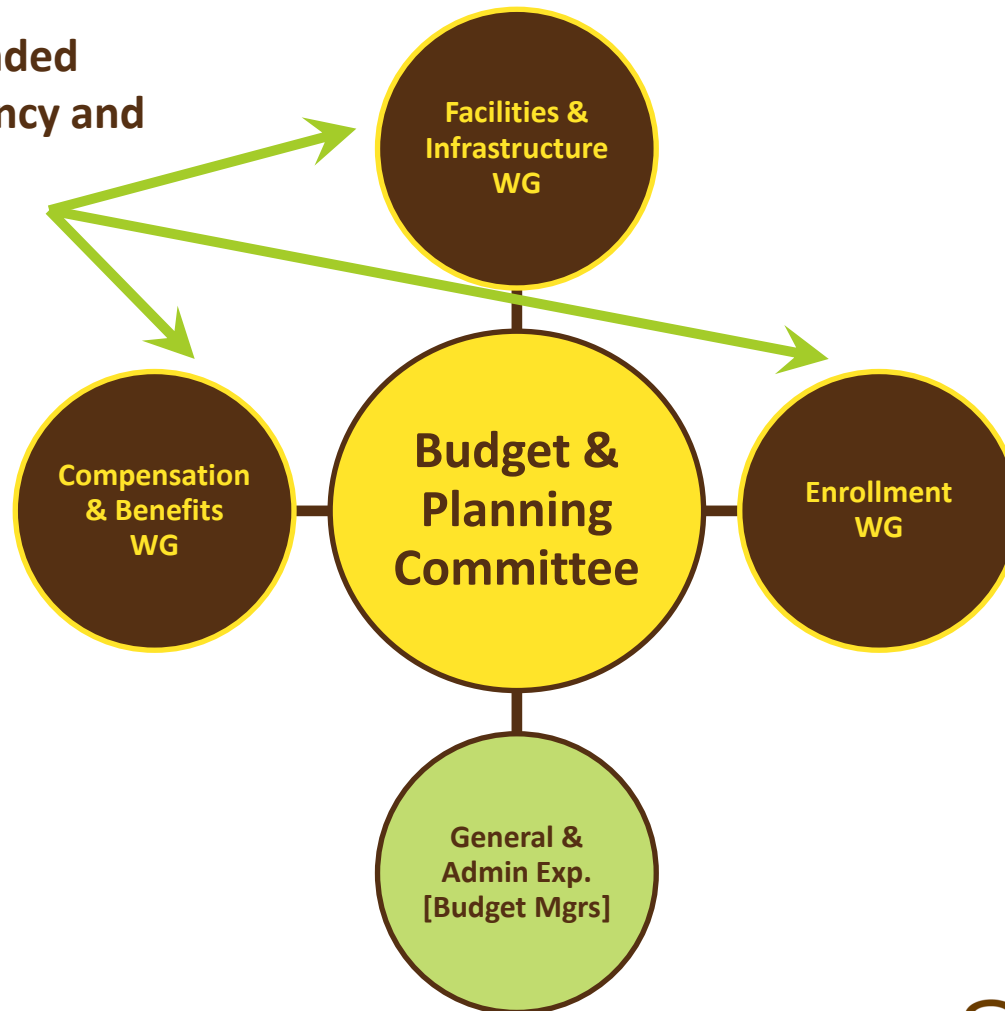
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Budget and Planning Process



Budget and Planning Process

Membership expanded
(50+) for transparency and
inclusion.



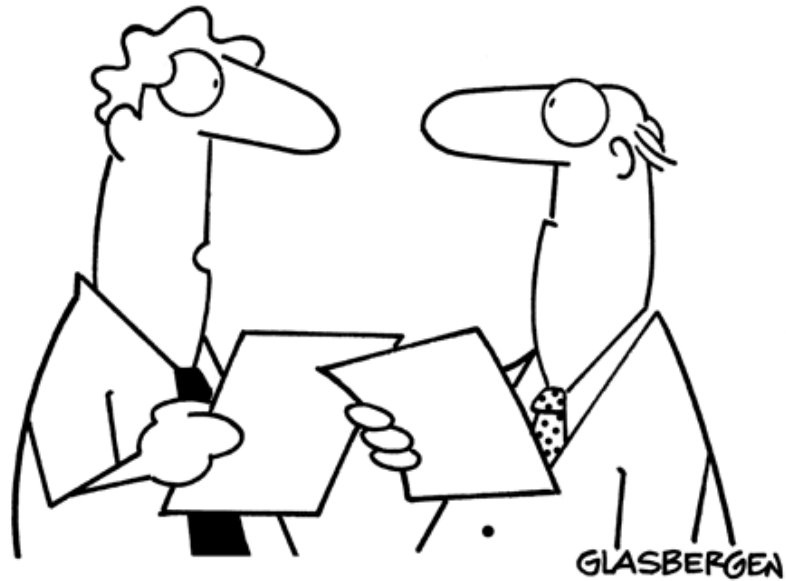
Budgeting & the Business Plan

- “Cash is King” for ALL of Us – Whether We Recognize This or Not!
 - Cash Flow Forecasts...
 - For Understanding...
 - ...And, For Covenants, as Required...
 - ...Enabled by Monthly Budgeting
 - A “Game Changer”, Even When Imperfect...

Budgeting & the Business Plan

- “Day 5” Closes of Monthlies...
 - Shared Monthly at “Executive Council” and “University Council” Monthly (posted)
 - Quarterly+ All-employee Town Halls
 - Utilizing the “Statement of Functional Expenses” Proactively
 - “Preliminary” vs. “Final” Approved Budgets
 - Changes/Modifications - and “Variances”, as Required

Questions...so far?



**"I found a quick fix for our company's financial problems.
I removed the red ink cartridge from the printer."**

Capital Planning Process...

- 3-year Rolling CapEx Budget
 - Annual spending targets – including deferred maintenance (set value)
- Projects Vetted and Prioritized by Facilities & Infrastructure WG
 - Ultimate prioritization by Cabinet
- Annual Cash Flow Impact Layered into Cash Forecast

...Supports Strategic Planning

- Annual Budget Targets Established per Strategic Plan
 - 2-4% Operating Margin
 - Breakeven “Core Margin” (Student Revenue Coverage – more in Session 3)
 - Funding for “Strategic Initiatives”
- Cash Flow Forecast to Support CapEx, Covenant Compliance, and Cash Reserve Building

Questions...so far?



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Strategies for Working with Your CFO...

- At the end of the day....
 - The CFO must share your vision.
 - All stakeholders must have confidence in the CFO.
 - You must have trust in your CFO.
 - The CFO must think institutionally.
 - Like any other position, if your CFO can't or won't meet these "must" statements... you have the wrong CFO and you know what you "must" do.



Roger Drake
Central Methodist U.



Strategies for Working with Your CFO...

- Signs that your CFO may not be performing at a “high level”...
 - CFO is seen as a speed bump on the highway to change
 - CFO uses the budget as a weapon rather than a planning document
 - CFO has a tendency to “control” rather than “lead”
 - CFO “doesn’t have time” to listen and is too quick to get to “no”.
 - CFO “doesn’t have time” to be polite in email correspondence
 - CFO isn’t forward looking
 - CFO thinks the “future” is defined as the next May 31/ June 30.



Roger Drake
Central Methodist U.



Favorite (Roger) Drake-isms

- “The CFO can be a strategy partner...and not just the VP for NO! I’m serious!”
- “Personnel is your greatest cost and your greatest opportunity. Your real ROI is in your people.”
- “Industry takes people and makes money. Higher Ed takes money and makes people.”
- “We may all be not-for-PROFIT... But, we are not-for-LOSS either!”



Roger Drake
Central Methodist U.



And... Our Key Takeaways

- CFO as Key, Strategic Partner
- Inclusive, Transparent Budgeting Process to Drive Business Results
- Create Space for Strategic Investments (Experiments)
- Student Revenue Coverage (Core Margin)



Thank You...& Pace e Bene!

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