The Financial Management Practices of Small, Private, Non-Profit Colleges

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Doctor of Philosophy

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by

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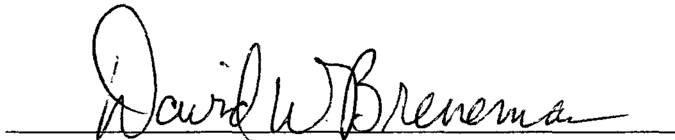

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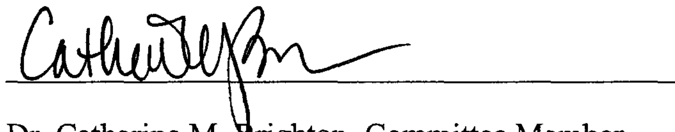

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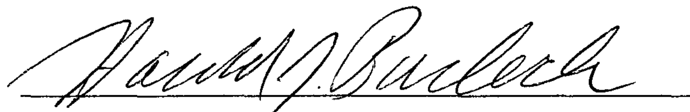

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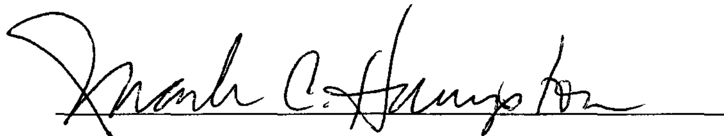

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ABSTRACT

Small, private, non-profit colleges in the United States are generally highly tuition dependent for the majority of their revenue. As a result, the financial management practices of these types of institutions are critical to their survival. The recent economic downturn has affected the financial condition of all institutions of higher education, but especially small private colleges. The purpose of this study was to explore the financial management practices of these types of colleges that contributed to their financial difficulties and to discover what strategies these institutions are utilizing to ameliorate these financial circumstances.

A qualitative approach was employed. Seven institutions, from three different regional accreditation areas, agreed to participate in the study. Data collection included interviews with senior level administrators at each of the participating institutions in addition to an analysis of available financial data for these colleges. Five themes concerning financial management practices emerged and included the following: 1) that communication of financial data with the college governing board and other key personnel has to be a priority, 2) the importance of enrollment management activities to effective financial management, 3) that fundraising has to be enhanced and focused to find donors who will support the college's mission, 4) that college officials should know their debt status and the potential drain this could be on the budget, and 5) the importance of measuring financial management success. Recommendations for successful financial management of these types of higher education institutions, derived from the experiences of the participating colleges, are provided.

DEDICATION

This dissertation is dedicated to my wife Evelyn, who has always supported my education goals, my daughter Evelyn Marie, her husband, and my son-in-law, Eric, and my son Mark. Without their help and constant encouragement I would never have earned my doctorate.

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CHAPTER 1

INTRODUCTION

The purpose of this study was to investigate the financial management practices at small private, non-profit colleges that have experienced financial difficulties in the recent past. The study consists of eight chapters. In the first chapter an introduction is provided that includes a statement of the problem and the research question. This section also contains a brief outline of the magnitude of the financial stress that small private, non-profit colleges have been experiencing, especially in light of the recent economic downturn. It will also include the reasons why financial management practices utilized at these types of higher education institutions have to be explored. In the second chapter a literature review is presented to give a theoretical background of the issue of financial management practices in the non-profit, higher-education sector and how these relate to higher education institutions in general and, more importantly, to small private colleges that are struggling with financial problems. The third chapter consists of the research methodology. In the fourth chapter the Composite Financial Index (CFI) of each of the participating institutions is provided. The CFI is used by the U.S. Department of Education (DOE) to gauge the financial health of higher education institutions that rely on federal financial aid (Blumenstyck, 2009). The CFI Indices were utilized in this study, in part, to select potential participants. In the fifth chapter the findings of the study are presented which includes recent financial data for each institution to provide a

financial context. In the sixth chapter a cross-case analysis of the findings is given. The seventh chapter contains a discussion of the findings as these relate to the theoretical framework presented in the literature review. Finally, the eighth chapter consists of implications concerning the results of the study, recommendations, limitations of the study, a suggestion for further research, and conclusions.

Statement of Problem and Rationale for Study

Private colleges, especially tuition-dependent ones, are generally more vulnerable than public higher education institutions when it comes to finances. Despite the recent economic decline, the problem of financial constraints in higher education is certainly not a new phenomenon. For example, Bowen (1983), more than 25 years ago, wrote about the then looming issue of retrenchment that all higher education institutions were likely to experience in the 1980's due to a decline in enrollments. He noted that a reduction in enrollments would inevitably lead to a decrease in revenue. The fallout from financial difficulties or retrenchment strategies can have dire consequences (Cowan, 1993). For instance, college affordability or access, especially for low-income students, can be one casualty of the lack of funds. Too often, colleges faced with revenue shortages often have to scale back financial aid in an effort to conserve resources (Fain, 2010).

Today, higher education is experiencing these financial management issues once again. The purpose of this study is twofold. First, it is to discern the reasons why small private, non-profit colleges in the United States experience financial difficulties. Second, it is to isolate how these institutions attempt to deal with these shortcomings. In other words, what are the major causes that lead to financial problems and what new financial

management practices are employed to address fiscal problems in the hopes of enhancing revenue and controlling costs?

Comparable studies of this type have been done before. For example, Hammond (1984) conducted a similar case study of Carnegie category II colleges. He argued that the financial strife experienced by these colleges had to be studied because their existence saved state taxpayer funds that would have to be spent absorbing students in public colleges who would otherwise attend these private institutions. In this instance, even state governments have to be concerned about the financial wellbeing of private colleges. Oregon, for example, claims that it saves in excess of $175 million annually because of the existence of private colleges. Otherwise, these costs would have to be borne by the public higher education system in that state. For instance, recent data indicate that private institutions in Oregon were responsible for 34% of all baccalaureate and graduate degrees earned in that state (*10 Reasons Oregon Needs Private Colleges*, Oregon Independent Colleges Association, 2008). For this reason alone, the topic of private college financial management strategies and cost savings has, as of late, been more relevant.

In the United States today, many private colleges are experiencing fiscal difficulties which imperil their survival. Recently, *The Chronicle of Higher Education* reported that for fiscal year 2007, 114 private colleges in the United States were unable to meet the standards of the U. S. Department of Education's (DOE) federal financial-responsibility test (Blumenstyk, 2009). The standards include financial data such as expenditures relative to income, current amount of debt, and overall assets. Private colleges that do not meet the standards are deemed to be at risk financially. The impetus

for the DOE's review of the finances of these institutions, many of which are non-profit, was that these schools participate in federal student–aid programs such as student loans and grants. The DOE requires all higher education institutions that participate in federal-aid programs to submit financial statements at the end of each fiscal year. Potentially, the penalty for not meeting the financial standards can involve the requirement that a college or university post Letters of Credit (LOC's) amounting to at least 10% of the total federal awards that students at these institutions obtain. Colleges and universities that do not meet the standards often improve financially from one year to the next and then are dropped from the list in the next fiscal year (Blumenstyk, 2009). Despite the fact that this process can portray some private colleges as being in worse fiscal condition than they actually are, the unusually high number of institutions on the list in recent years serves as an indicator of the extent of the fiscal problems that colleges, especially private ones, are experiencing (Blumenstyk, 2009).

In addition, money is being lost through a reduction in net tuition revenue. *The Chronicle of Higher Education* (Fain, 2010), citing the results of a recent survey of 355 private four-year colleges, reported that these institutions are resorting to tuition-discounting more so than in the past in an effort to maintain enrollment levels. For instance, the tuition-discount rate for the colleges surveyed increased almost 3% for the most recent fiscal year reported, which was 2009. At first glance, any type of tuition-discounting appears to diminish the net revenue of a college, especially those institutions that are highly tuition dependent (Massy, 1996) However, it must be noted that in some instances tuition-discounting can often have the effect of increasing net revenue, which is largely the result of higher enrollments due to lower tuition costs (Massy, 1996).

Whatever the overall effect of tuition-discounting is for individual institutions, the fact that some private colleges need to resort to tuition-discounting at higher levels than before is reflective of the increasing costs of private colleges in general. In other words, this phenomenon is still extremely significant in terms of revenue for these institutions, especially in light of the fact that the survey results also showed that net tuition revenue at these colleges and universities diminished by 2% from 2007 to 2008. Colleges and universities will often rely on reducing other types of expenditures in an effort to make up the shortfall (Fain, 2010).

According to Massy (1996), the reduction in revenue may be handled in a variety of ways. When talking about how higher education institutions face financial hardships, he describes how colleges and universities often resort to a "squeezing strategy" to cope with the decline in revenue. Massy (1996) asserts that:

> If the financial gap cannot be bridged with new revenue, institutions cut budgets across the board so the pain can be shared as equally as possible. Often such cuts are accompanied by hiring freezes, travel restrictions, and reductions in capital expenditures. (p. 25)

There are many more private colleges in the nation, besides those that were unable to meet the DOE's financial standards, which are clearly vulnerable when it comes to their finances and will likely have to employ Massy's "squeezing strategy" to maintain fiscal health (Blumenstyk, 2009). In general, private higher education institutions are highly dependent on tuition and fees for revenue. Although some states provide assistance to private colleges through institutional assistance grants and tuition grants for state residents, they are generally not recipients of taxpayer funds to the same

extent as public colleges and universities. In addition, private colleges benefit from tax-exempt donations and federal funding of student-aid programs. Even private colleges with fairly sizable endowment balances depend on the returns from these funds to offset costs incurred from the annual operating budget. Private colleges that lack adequate financial resources can either reduce expenditures or look for ways to increase revenue (Massy, 1996). Because of the financial constraints that private colleges are currently experiencing, the financial and management strategies relied on by small private colleges are now more critical than ever.

Some private colleges have even resorted to merging with other institutions in an effort to maintain their existence, albeit becoming in the process a much different organization. For example, Jaschik (2008) recently reported that some higher education experts are predicting that more colleges will resort to merging as a strategy of dealing with financial concerns. According to Jaschik (2008), Richard Ekman, the president of the Council of Independent Colleges, predicts that "ambitious solutions" to the fiscal woes experienced by some private colleges may include the consideration of merging. Ekman (Jaschik, 2008) contends that, unfortunately, many colleges facing financial difficulties have simply run out of choices.

Research Question

To effectively differentiate the successful and unsuccessful financial management practices of small private colleges, the main research question of this study is as follows: "What are the internal and external factors that cause small private, non-profit colleges to

be at risk financially and what are the financial, management, and organizational strategies employed to ameliorate these conditions?“

The answers to the main research question provided a basic understanding of the financial management practices and strategies at small, non-profit, private colleges. The main research question also served as a framework from which to develop more definitive interview questions. These detailed questions were developed and used in the interview protocol used in this study, which is provided in Appendix A.

CHAPTER 2

LITERATURE REVIEW

Introduction

The purpose of this literature review is to provide a theoretical background for a study of financial management practices in higher education. This review consists of four parts. First, recent studies concerning the financial practices of these institutions are explored. These studies involve the causes associated with financial stress at private colleges. Second, the common financial practices used by at-risk private colleges are outlined in an effort to delineate these financial strategies and provide a background to discuss successful and unsuccessful tactics. Third, generally accepted cost-containment strategies used in higher education are described using the framework of education costs as proposed by Bowen (1980). Finally, a summary of the literature review is provided and the rationale for this study is recapped.

Prior Studies

Province (2009) reviewed 40 private, non-profit colleges from a population of four-year institutions that closed between 1965 and 2000. His aim was to study why these colleges closed in an attempt to isolate the characteristics that these colleges shared during this 35-year period. His premise was that these common traits could serve as a predictor of financial difficulties from which other college administrators could benefit.

The final list of predictors was narrowed down to 31 factors. Some of the factors included numerical indicators involving definitive financial measurements such as the level and amount of tuition-discounting, the level of debt service for the institution, the amount of the endowment compared to operating expenses, the amount of deferred maintenance, and the combined rate of tuition increases in the last decade. Other factors included enrollment numbers and student retention levels.

Allen (1999) conducted a study on the financial responses of small private colleges in Pennsylvania during the 1990's. The author of the study analyzed four colleges, one of which eventually closed, in an effort to discern the commonalities and distinct financial management practices of these institutions. Allen (1999) discovered that these colleges employed a variety of responses to their fiscal difficulties which included downsizing, using endowment funds for operating expenses, and improving debt-management practices, among others. The most salient finding, however, is that there was no single solution that worked for all four institutions. Instead, there was a reliance on different remedies depending on the type and category of financial vulnerability that an institution was experiencing. In addition, Allen (1999) uncovered seven distinct organizational conflicts that contributed to financial distress.

In another recent study, Eaker (2008) attempted to establish the common characteristics of small private colleges that could be described as having experienced financial distress. Eaker (2008) conducted a meta-study of 45 private colleges in an effort to isolate these trends. She found that the "turnaround" or revitalization process was unique for each institution, although there were some commonalities. The most relevant finding was that the colleges facing financial peril too often resorted to

implementing financial strategies that only served to intensify the fiscal troubles, rather than make them better. Her argument, in essence, was that colleges in this situation need to rely on a mix of remedies and cannot utilize a linear approach to success. She claims that success "is often simply a matter of trying as many things as possible, as quickly as possible, until something works" (p. iii). Despite this finding, Eaker (2008) also maintains that successful private colleges are those that enhance their governance practices and share information with all organizational actors, especially the institution's governing board.

Financial Management Issues of At-Risk Private Colleges

Arnett (1922), in his seminal textbook on college financial matters, admonished higher education administrators that the business officer who "prepares and presents a clear, concise, and easily understood report does his institution and the public a real service" (p. 105). This warning still rings true today. Without a clear understanding of how revenues and expenditures compare to one another, it will be difficult for even the most adroit higher education financial managers to accurately assess why their institutions are in trouble and how best to remedy the situation.

Townsley (2002) contends that among the financial challenges that small colleges have most originate from both the revenue and expenditures sides. He argues that on the revenue side enrollments at these types of institutions are generally not growing while at the same time tuition costs are. The higher priced tuition may preclude some potential students from attending a private institution, which ultimately results in a loss of revenue. In addition, on the expenditure side of the equation, the tendency to use tuition-

discounting results in higher tuition sticker prices for a private college, which in turn, increases the demand for services and has the effect of increasing expenditures. According to Townsley (2002), higher education institutions also have to constantly contend with rising inflation, which increases the amount of money allocated for plant and payroll, among other obligations. Also, capital costs for technology are increasing at a rapid rate. He explains that college output, for most of the history of higher education, has been predominantly a labor intensive activity, and that the vast majority of expenditures went into teaching costs. Finally, he argues that private colleges have to be aware that they exist in a competitive market which means that funds have to be utilized to attract future students (Townsley, 2002).

According to Cowan (1993), who works extensively with small colleges facing financial difficulties, successful fiscal turnarounds depend "more on internal action than on external forces." She argues that colleges in financial trouble often have one major flaw, among a list of other commonalities such as reduced enrollment, deferred maintenance, and comparatively low endowment levels. The flaw is that the administration loses sight of the college's core competency. The college begins to stray from its original mission and, instead, becomes everything to everyone. This loss of purpose evolves into a plethora of financial miscues that coalesce into a financial crisis (Cowan, 1993). She goes on to say that this leads to a concomitant "operational morass."

Her research concerning this phenomenon, however, also revealed that private colleges that experience a successful turnaround create financial practices that result in better information that allows administrators to make informed financial projections that serve as internal fiscal monitors (Cowan, 1993). These institutions learn to stick to their

missions, which often has the effect of increasing enrollment and enhancing organizational communication and effectiveness. However, she emphasizes that these new financial policies have to be implemented by an effective leader who also engages the rest of the college community in the process (Cowan, 1993).

Higher Education Costs and Cost – Containment Challenges

Financial management practices have a basis in theory which was first developed by Bowen (1980) and is referred to as the "Revenue Theory of Cost." Bowen (1980) argued that to accurately compare costs from one institution to another, there should be some constant that analysts can refer to. He devised a method whereby costs would be measured using a proxy he referred to as a full-time equivalent student (FTE). This particular unit cost is derived by adding all of the full-time and part-time students at a college or university according to the number of credit hours they are taking. In addition, there are allowances made for the number of advanced students, such as upper classmen or graduate students. These students are assigned higher weights to reflect the fact that unit costs tend to increase as students take on graduate studies. It is important to note, however, that this measure does not include the costs of research and public service usually associated with colleges and universities. Bowen (1980) states that there is too much diversity in terms of how these higher education functions are handled across institutions to attempt to include them in this particular cost measurement.

Bowen (1980) asserts that because most colleges and universities operate in a non-profit environment, there is no incentive to minimize costs. Therefore, administrators at these institutions will spend as much as is possible to achieve their goals

in an effort to fulfill the mission of the school. Non-profit higher education institutions, then, are only constrained in their spending by the amount of money that flows into the organizations from outside sources such as tuition or donations.

To articulate his theory, he developed five laws of higher education costs. First, because the primary goal of a college or university is excellence, status, and prestige, the inputs are more valued than the outputs. Because inputs are more easily determined than outputs, they are given more attention. The inputs can be thought of as the determinants that are measured to develop rankings. These can include the number of professors with terminal degrees or the ratio of faculty to students. It can also include other factors such as the amount of money allocated towards infrastructure. However, inputs cost money and usually the more funds allocated to input activities serve to boost an institution's ranking. Therefore, academic outputs such as learning achieved, knowledge realized through research, or jobs attained are more difficult to quantify and, as such, are not given much attention.

Second, the mission or goals of a college or university is usually viewed by administrators as being infinite in scope. That being the case, an institution will use all of the funds at its disposal. Bowen (1980) makes the salient point here that this universally held perspective also translates into financial difficulties for colleges and universities that are not indigent. Wealthier institutions, also, often try to do more than their resources allow. In short, there is never enough money for all of the things a college or university wants to accomplish.

Third, colleges and universities attempt to raise all the funds or other resources they can. In other words, as far as colleges are concerned, the amount of money that can be raised, and subsequently spent, is essentially limitless.

Fourth, college and universities tend to spend all of their annual resources. Although it is rare, Bowen (1980) does state that some institutions are sometimes able to save surpluses from their operating budgets.

Finally, costs in higher education are always escalating due to the fact that college and university decision makers, in general, adhere to these laws. The result is that there is not enough attention given to the true costs of higher education. There is no incentive to analyze expenditures in an effort to reduce costs. According to Bowen (1980), the only restriction on costs relates to the fact that higher education institutions are dependent on outside sources for money. In other words, the finite amounts or limits of money provided from outside such as tuition, donations, government grants, etc. is the only way colleges and universities are compelled to restrict spending.

Bowen (1980) goes on to assert that an exact analysis of college costs also has to take into account the opportunity costs that are lost when resources are spent on higher education. In other words, money used for higher education purposes is money that cannot be spent elsewhere. This type of analysis would have to include a review of the outputs that higher education provides. Unfortunately, most analysis on higher education costs only involves direct costs. Also, Bowen (1980) points out that higher education inputs are susceptible to diminishing returns in that at some point increases in expenditures will not generate the same level of output over time. In other words, increased amounts of money will not always translate into better academic outcomes.

This is especially important considering Bowen's law that higher education administrators will spend all of their resources.

As a final point, Bowen (1980) admonishes us that this theory is useful only in the short-run, meaning that higher education institutions generally view expenditures, as described in his laws, from year-to-year. Implicit in this warning is that long-term spending perspectives may be more amenable to incorporating more cost control measures and may be subject to heretofore different external factors, such as changing economic conditions or different demand for education.

Bowen (1980) also noted that colleges and universities rely on their intangible assets as much, and sometimes more, than their tangible ones. According to Bowen (1980) intangible assets can refer to an institution's ability to hire qualified faculty and staff, recruit students, compete for grants, and solicit gifts from donors. It can also include a college's ability to perform its internal management functions well.

In an effort to delineate some of the financial struggles facing higher education Breneman (1994) conducted a seminal study of private liberal arts colleges and found that the majority of costs were spent on instruction. Breneman (1994) compared costs of private liberal arts colleges in 1989 and contrasted this aggregate cost data from data that were collected in 1958. For example, in 1958, instructional cost, on average, amounted to almost half (49.8 percent) of all costs for these types of institutions. Breneman's (1994) data for the same institutions more than three decades later, in 1989, showed that costs in this category, despite being 12% less than in 1958, were still the most significant for all spending categories.

The next highest expenditure category for both years, on average, involved administrative costs. Breneman (1994) points out this type of expense, as a percentage of all costs, has grown significantly since private college cost data were first collected in 1958. For instance, in 1958, administrative costs, on average, were almost 18% of all costs (17.6). More than three decades later, costs in this category increased by 8.6% to 26.2% of total expenditures. According to Breneman (1994), some of the areas of activity that have contributed to the burgeoning increases in cost in this area include admissions, development, student-aid, and student services. Together, instruction and administrative costs account, on average, for 67.4% of all costs in 1958 and 64% of all costs in 1989 (Breneman, 1994). The median indicators for all of these findings were very close to the average results. In addition, during these same periods, Breneman (1994) established that on the revenue side, these institutions were heavily dependent on tuition and fees for the bulk of their income. For instance, in 1958 and 1989, these colleges reported that tuition and fees accounted for approximately 57 and 54 percents respectively (Breneman, 1994).

Breneman's (1994) analysis pointed to the significance of labor intensive activity as part of the production function of higher education institutions. Both instruction and administrative endeavors are essentially labor intensive ones and, therefore, costs can be only minimally reduced over time through the introduction of capital intensive inputs brought about through the adoption of new technologies. In addition, these findings on expenditures, coupled with Bowen's (1980) first law that higher education institutions place a greater priority on inputs, i.e. because these are more easily measured than outputs and have the larger potential to add to the prestige of an institution, confirm that

the higher education industry operates in a different cost environment than other sectors of the economy. This is important to note when considering the origin of costs and cost-containment strategies in higher education.

Baumol and Bowen (1966) were the first to discuss costs in relation to labor intensive production, especially in higher education. In addition, Baumol and Bowen (1966) apply this same concept to other labor intensive activities such as the performing arts, health care, and automobile repair, which they label as the "stagnant services." They refer to these ever-increasing labor costs as the "cost disease of the personal services." That is, productivity gains in economic activities that require many years of education and considerable expertise, by those employees who provide these services, do not easily lend themselves to lower unit costs over time. Instead, as the requisite knowledge needed to perform these services increases, future employees can command higher wages and benefits which often translate into higher unit input costs for employers. According to Baumol (1993), the quality of some of these "stagnant services" is directly proportional to the amount of time that the laborer gives to its production. Therefore, if salaries in higher education increase due to greater demand for professors and administrators, then the unit costs of higher education correspondingly go up also. For example, Baumol (1993), using data from both the Department of Education (DOE) and United Nations Educational , Scientific and Cultural Organization (UNESCO), points out that the real costs (factoring in inflation) of education have increased for most industrial countries since WW II, which is the result of higher wages demanded by education professionals, despite the fact that there have been major technological leaps in most other industries during this same time period which have lowered unit costs in these industries.

However, the "cost disease" dilemma is not an intractable one. For instance, Baumol (1993) asserts that although economic activities that fall under the "personal services" are not entirely immune to increases in productivity, instead, they do so at a much slower rate of increase than their capital intensive counterparts. He argued that unit costs for "stagnant services" can benefit from reductions in unit costs from concomitant technologies utilized in these fields. For higher education, these same attendant technological advances, especially as they relate to teaching and information delivery, can also work to reduce unit costs and provide more education than previously. In other words, it is still possible that lower unit costs, or fewer inputs, can produce more overall educational output over time.

Cost containment strategies in higher education can include a vast array of options and strategies. With tuitions continuing to rise and public subsidies diminishing, authors have been writing about cost containment strategies for some time. Vedder (2004), for instance, believed there are a number of viable methods. He argues that costs could be contained by reducing the amount of money colleges and universities pay for instruction. He stated that productivity in this category could be enhanced by increasing the student-faculty ratio, using more adjunct faculty, or by modifying the use of tenure. He also argued that academic programs should be reviewed periodically to make sure that enrollment amounts justify their existence. Money could be saved if programs without adequate enrollments were eliminated or consolidated with other programs. This can also involve sharing some facilities, such as libraries, with other colleges (Vedder, 2004).

Vedder (2004) realized that the above strategies just do not involve instructional costs, and he knows that there are potential cost containment strategies in other functional

areas of higher education. For instance, he said that the amount of non-instructional staff should be curtailed, especially during lean times. His argument was that the main purpose of higher education is teaching and research and that often the number of support-staff at many colleges and universities is disproportionate to the number of faculty. For him, it is easier to reduce staff because they do not have tenure. He says that much of the money used to pay for support-staff is considered discretionary and that during times of budget constraint funding for this category is the first to be scrutinized. He uses the example of for-profit institutions that have many fewer support-personnel and yet can function in many cases more efficiently.

As Vedder (2004) pointed out, tuition levels can influence access because students are sensitive to price changes in the cost of a higher education. He illustrated this by citing the example of what occurred in Ohio, in 2003, when tuition increased at four-year state institutions. Despite the fact that enrollment levels still increased marginally at these colleges, the enrollment increase at community colleges in the state, for the same year, was seven times higher than the increase at the four-year colleges. This clearly provides a signal to administrators that if they do not work towards cost containment efforts in higher education, college choice may shift.

Zemsky and Massy (1990) stated that cost containment strategies are good as long as autonomy at colleges and universities is kept intact. That, indeed, the strength of the whole industry rests in its diversity of institutions. In their article, *Cost Containment,* they stated that implementing cost containment strategies can result in a comparative advantage for an institution. They claimed that cost savings are easier to implement in private institutions. Public institutions that can successfully implement cost containment

strategies which result in savings are, in a sense, admitting that there were inefficiencies in prior years. For Zemsky and Massy (1990), public colleges and universities have no real incentive to develop savings strategies. Doing so would be tantamount to saying that the current subsidy was too high. To remedy this, they argued that states and higher education institutions should share in any savings that result from cost containment.

Massy (2003) stated that some colleges and universities are conducting academic audits in an attempt to identify costs and control spending. Academic auditors review "education-quality processes." Reviewers look at what is being done to assure teaching and learning results on campus. These types of audits, although not specifically targeted at expenditures, help educators to review techniques that may result in new practices being implemented that are more efficient and can save money. Cost containment measures, however, are taking hold again (Hebel, 2003). Recently, the Lumina Foundation announced that it is sponsoring more than $25 million in grant money to support cost-cutting initiatives in an attempt to improve access to higher education.

Ehrenberg (2000) argued that private colleges also need to begin implementing cost-savings measures. That is, they cannot always rely on tuition increases to cover costs. His advice was that trustees in these institutions should spearhead efforts to rein in costs so that increases are not financed through tuition. By keeping costs down, access to private higher education will be enhanced, especially for low-income students. He also explains that controlling costs for trustees of public institutions is more difficult because they do not often have the power to set tuition rates and are more reliant on public funding. In addition, they have to abide by higher education policies enacted by the state.

He is quick to point out, however, that private colleges and universities are also the recipients of public policies that provide tax advantages in the form of tax deductions for donations, exemptions for property tax, exemptions for tax on endowment principal earnings, and federal loan programs that enable students to borrow money. Therefore, they should be wary that policymakers may rethink these advantages in the face of excessive and wasteful spending. As Ehrenberg (2000) puts it, the "public's willingness to bear those costs has been based upon the belief that higher education yields broad benefits to society." According to Ehrenberg (2000), successful cost containment strategies by private colleges and universities can be done. He cited the following example. Rice University can charge much less tuition than some of its counterparts because it has developed a very streamlined and efficient administrative structure and is very discriminating about the types of graduate programs it offers.

It is just good policy to engage in cost-savings practices. As Ehrenberg (2000) contends, colleges and universities that want to attract corporate assistance should not be perceived as being inefficient, especially in light of corporate efforts to cut costs in their own organizations. Corporations will be more likely to spend money or donate funds to higher education institutions that are more careful spenders.

Summary of the Literature Review

At the outset, the subject of cost containment looks more quantitative. However, after conducting this literature review, it appears that the problem of financial management is more of a qualitative one involving organizational behavior. This review also reveals that there is a great deal of information concerning the financial management

strategies utilized to stem fiscal problems. In short, there is no lack of methods available to help colleges and universities learn to reduce spending. Also, there appears to be general support among higher education experts that discussing and, hopefully, implementing cost-containment procedures is a concept that portends well for the future of higher education. Unfortunately, escalating costs have the potential to impede access for students, hinder higher education output in general, and ultimately negatively affect the overall economy of the nation.

The purpose of this study then is to isolate the financial management techniques used by small private, non-profit colleges which are currently, or have recently, faced financial difficulties. This study will attempt to compare institutions that are in the process of tackling or have overcome their financial problems. In this sense, this study is different because it is not only an outcome-based approach but it also investigates ongoing attempts at reducing fiscal stress.

CHAPTER 3

RESEARCH METHODOLOGY AND DESIGN

Introduction

The purpose of this chapter is to outline the research methodology employed for this study. In an effort to determine the financial management processes of these small private, non-profit colleges, this study utilized a multiple case-study approach. The strategy consisted of extensive interviews, document analyses, and an examination of current financial management procedures and practices. The collected data and the emerging themes or trends are later presented and described in a cross-case analysis.

To effectively outline the research methodology of this study, this chapter will utilize the following approach. First, the participants for this study are discussed. Second, the additional financial criteria for the selection of participating institutions are presented. Third, the final sampling strategy utilized is given. Fourth, a description of the collection of the data is provided. Fifth, a discussion of how the data were analyzed is described which includes a rationale for using the multiple case-study approach. Finally, a Researcher as Instrument Statement and a section on Trustworthiness and Credibility are provided.

Participants

The participants chosen for this study were small private, non-profit colleges in the United States, all of which have recently tackled financial management issues. All of the schools are primarily baccalaureate degree - granting institutions, have student enrollments between 500 - 3,000 and can be classified as Carnegie II institutions.

At the outset of this study the intent was to identify small private, non-profit colleges that met the above description from only the Middle States, Southern, and North Central accreditation regions. To make certain that the colleges chosen to participate had faced financial difficulties in the recent past, only institutions that had experienced financial problems since 2000 were considered. The initial pool of potential participants was then established through a review of both agency accreditation warnings, for failure to comply with various financial standards, and the most recent lists of colleges that failed the DOE's financial-responsibility test. For example, a review of recent data (for fiscal year 2007) indicated that there were 114 colleges and universities that did not meet the financial responsibility criteria, many of which are in the accreditation regions being studied (Blumenstyk, 2009). Failure to meet either the accreditation agencies' or the DOE's financial standards were indicative of the fact that a college had been recently experiencing financial difficulties. As Blumenstyck et al. (2010) have pointed out when discussing the financial-responsibility test, "Failing the test is typically an indicator of a college's overall financial fragility" (p. 1). Any small private, non-profit institution from the accreditation areas studied that were on these lists was included as a potential participant.

Additional Financial Criteria for Selection of Participants

As mentioned previously, colleges were considered for inclusion in this study if they experienced significant financial difficulties within the last decade. In an effort to reduce the original sample set to a more manageable one and to further establish that potential participants can accurately be characterized as such, potential participants were subject to additional criteria. This procedure also avoided the problem of inadvertently including colleges that do not fit the profile of a college needed for this study. These additional criteria, as well as the minimum criteria for inclusion, are listed below. Having met one of these criteria provides an adequate signal that an institution is currently experiencing, or has recently experienced, significant financial stress. However, any institution that met more than one of the criteria listed below was given preference as this would be further evidence of the fact that an institution was experiencing fiscal difficulties.

Financial Criteria for Inclusion

Minimum Financial Criteria

1) If a college has failed to attain the minimum score of the federal financial-responsibility test, at least once since fiscal year 2007. The passing score, which is currently 1.5, is a composite of 4 accounting ratios. The score, referred to as the Composite Financial Index (CFI) is used by the federal government to determine the fiscal status of all higher education institutions. These ratios are defined in the Chapter Four.

2) Whether a college has been cited by its regional accreditation agency, since 2000, for failure to comply with existing fiscal requirements and has, therefore, jeopardized its accreditation status resulting from such failure.

Additional financial criteria

3) Whether end-of-fiscal-year endowment balances have decreased significantly, i.e. greater than 10%, in any consecutive years since 2000.

4) Whether an institution needed to utilize endowment funds to pay debt or has relied on higher payouts (generally > 5%) to fund operating expenses or has had to resort to layoffs since 2000.

After determining which colleges were good candidates for inclusion based on the above financial criteria, additional non-financial criteria for selection were applied. These included whether or not the college or university is representative of small private, non-profit colleges in the Carnegie II category. For instance, all potential colleges to be used in the study are liberal arts colleges whose primary missions are to provide baccalaureate degrees, although in some cases these colleges may have graduate programs. All of the colleges have existed for at least 50 years. This fact indicates that these institutions have had a history of financial success for most of their existence. If this were not the case, they would not have survived for a substantial amount of time. Ultimately, 14 institutions that met all of the criteria for inclusion, i.e. both financial and non-financial,

and many that met more than one of the financial criteria, were identified and used as the initial sample.

Final Sampling Strategy

The strategy for deciding which of the colleges to approach for participation in the study reflects a purposeful sampling method, was staggered, and involved the following steps. As mentioned previously, 14 colleges were identified that met the criteria as described above. All 14 colleges have experienced some type of significant financial challenges in recent years and, therefore, were good candidates as units of analysis for the purpose of this study. It was not practical to send invitations to all 14 as this may have resulted in an excess of participants. To preclude any chance of that happening, and to reduce the list of potential candidates to a manageable one, the following sampling strategy was utilized. Also, in an effort to obtain a better contrast and richer and more descriptive results, colleges were first selected according to the accreditation regions outlined in the study, the Southern, Middle States, and North Central. The rationale for sampling colleges from different accreditation regions is that the financial challenges faced by small private, non-profit colleges may be potentially different depending on the region of the country the institution is located. For example, the cost of living will vary from region to region. Different costs can be reflected in different revenue and expenditure levels for colleges, enrollment totals, and the amount of tuition a college can charge. In addition, the accreditation standards concerning financial management practices, although similar, will not be identical from region to

region. Colleges in different regions will operate in different regulatory environments which may result in dissimilar financial management practices.

Finally, in an effort to make the study more interesting and rich, two colleges from each accreditation region were selected according to the stage of financial challenges the college is facing. For instance, the first college selected in each region was the one that best exemplified a college that is in the incipient stages of experiencing financial challenges. Next, the second college selected in each region was the one that best exemplified a college that has been experiencing financial challenges for a longer period of time, and therefore, has had more opportunity to implement strategies that addressed these challenges. Both of these determinations were made through an analysis of the financial criteria discussed above, i.e. length of time on the list of colleges that failed the federal financial-responsibility requirements and the length of time since an accreditation warning. This sampling strategy resulted in more information concerning how institutions face financial challenges in different stages of fiscal strife.

Using this approach letters of invitation initially went out to two of these colleges identified as such in each region. This method spanned all of the regions that this study started with and provided for a greater geographical richness. It also provided more information concerning the problems and solutions associated with colleges in the various stages of confronting financial challenges. The sampling strategy was successful and resulted in seven institutions agreeing to participate. Each of the accreditations regions used in this study is represented.

Data Sources

The bulk of the data was obtained from interviews with college officials of the participating institutions such as presidents, finance directors, and trustees who are responsible and have oversight of college finances. These officials were able to provide insights that would have been difficult to capture otherwise, and they were able to provide unique perspectives about their institution's financial management practices and future plans to mitigate financial difficulties. All participating institutions are anonymous and are identified in the study by a pseudonym. An interview protocol was developed in the early stages of this study and used during the interview process. The interview protocol consisted of a series of open-ended questions. The open-ended questions were broad enough to elicit as much information about the procedures and policies as possible. Information was sought not only about the process in general but also about procedures that are unique to the institutions studied. When necessary, respondents were asked follow-up questions or asked to clarify answers when appropriate. All of the interviews were conducted over the phone.

The additional data collection method consisted of document analyses. In an effort to glean additional relevant information regarding the financial management practices of these institutions, all documents that were available, relating to financial and management practices, were collected and reviewed when applicable. These included the following: 1) public information such as annual reports, financial statements, 990 tax forms, or any other extant financial data, 2) strategic planning documents, 3) accreditation documents, and 4) newspaper and journal articles.

In addition, before interviews took place, the researcher asked participants for artifacts in an attempt to formulate more discerning and insightful questions and to begin the process of artifact review and analysis.

Data Collection Procedures

The major strategy to collect data for this study, besides a review of extant financial data, was an interview protocol which contained 12 semi-structured questions. A copy of the Interview Protocol is provided in Appendix A. All of the respondents were asked the same questions. The semi-structured format allowed the researcher to ask different questions depending on the answers provided. Using a semi-structured format yielded more information about the financial management practices of these colleges than a close-ended format would have.

As mentioned previously, this study employed a collective multiple case-study approach. The multiple case-study approach was appropriate because this study chronicled or described the organizational procedures involved in conducting financial practices at small private, non-profit higher education institutions. As Yin (2009) points out, a multiple case-study approach can be utilized to analyze a single issue. Yin states that this type of approach helps to increase knowledge concerning organizational phenomena. In this study, several small private, non-profit colleges were analyzed in an effort to explore their financial management practices. As a result, a story about the organizational processes and financial management practices at each of the participating institutions was revealed and described. In addition, any variations in organizational procedures were uncovered and assessed. Through the use of the multiple case-study

approach, similarities in organizational procedures between higher education institutions, that met the criteria for participation, also developed.

In essence, the study attempted to ascertain if there are parallels in financial management practices and policies in comparable types of colleges. The use of this type of qualitative approach enabled the researcher to discover emerging themes. Out of a possible 14 colleges that met the financial criteria for selection, seven institutions agreed to participate. This yielded enough data to pursue a holistic analysis of the methodologies and organizational cultures that exist in small private college departments responsible for financial matters.

The results of these interviews and the review of artifacts culminated in a cross-case analysis to determine the financial management strategies that have resulted in either a successful turnaround or culminated in a plan for financial rescue. First, during the data reduction stage, the collected data were assembled and analyzed. The researcher then reduced the data through a coding exercise. This made the process of discovering and isolating the emerging themes easier. In an effort to attach more meaning to the data and depict the financial management activities accurately, the coding was initiated before all of the interviews were completed. For example, at the completion of the first interview, responses were reviewed extensively with the intention of looking for keywords. This same process occurred after the completion of all other interviews and review of institutional artifacts. Later, the responses for each interview were reviewed separately and the keywords for each were listed with the intent to identify themes about financial management practices.

This study relied solely on an inductive approach. Utilization of this type of analytical technique allowed patterns and themes to be developed unencumbered by the experiences of other colleges that have experienced fiscal difficulties in the past and whose experiences are now reflected in the literature. There were some similarities. However, the variety of missions, governance infrastructures, histories, and management styles of these types of higher education institutions infers that the problems that led to their individual fiscal difficulties, in addition to the strategies employed to overcome these problems, had the potential to be vastly different. As Allen (1999) and Eaker (2008) pointed out, there are no single financial remedies or resolutions that are effective for all colleges. Instead, the successful solution is often the reflection of the organizational structure of the institutions as well as the kind of financial dangers it is confronting. Taking this into account then, coding themes were developed as the data were analyzed. Keywords, derived from both the interviews and document analyses, were discerned and utilized to discover themes. Using this type of analytical strategy enhanced the possibility of uncovering both unknown causes of fiscal stress and any new financial management strategies.

Analysis of Data

The analysis of the data was comprised of the following steps. First, whenever possible, available financial data about the college were reviewed prior to any of the interviews. This provided a knowledge base for the researcher concerning the financial condition of the participating institution and allowed the researcher to ask more useful and insightful follow-up questions. Second, after each interview was conducted, the

researcher analyzed the responses, along with the financial data, and identified keywords or terms that were used more than once. After all interviews for an institution were completed, these keywords or codes were collected and analyzed again within an institution. For example, when interviewing the President of Mid-Atlantic College she talked about the need to be more transparent concerning the sharing of financial data among senior personnel at the college. According to the President, transparency concerning financial data would enhance the financial decision-making process at the college in the future. As part of the analytical methodology of this study the researcher then assigned the code or keyword 'transparency' to this part of the interview. This same process was repeated for the other interviewee at this particular institution.

This same search for keywords or codes was conducted for all seven institutions that participated resulting in a collection of keywords or codes for each institution. To discover emerging themes regarding the financial management strategies of small private, non-profit colleges, the researcher then collected all of these resulting keywords and common experiences of all the participating institutions and compared these to each institution using a cross-case analysis strategy to determine if there were any links regarding common concerns. In this study this technique consisted of counting the times the codes or keywords were used as part of the interview responses for each institution and then ascertaining if the frequency of a term signaled that a theme was emerging. Essentially, keywords were used to determine whether or not experiences were similar across institutions.

An example of this process also involves the keyword 'transparency'. This term was used several times by the respondents when discussing the need to convey the

financial data of their institutions to all senior personnel and across all significant college units. The researcher then compared the use of this term or keyword whenever it was used. For example, the President of Urban College also used this term several times in his responses. Therefore, the frequency of use in the Urban College interview was compared to the respondents at Mid-Atlantic College, and the remaining institutions, to determine whether or not the concerns regarding transparency of financial data were comparable across institutions. If this were the case, which it was for this example, it signaled or indicated to the researcher that an emerging theme associated with the transparency of financial data was an important aspect of effective financial management. In addition, the terms 'deferred maintenance' and 'debt' were also used several times by many of the respondents from different institutions when discussing costs. These keywords, also, signaled an emerging financial theme regarding debt management by using the same process. This was repeated until all of the emerging themes that resulted from this study were gleaned from the data.

Finally, the data obtained from each institution were provided in separate sections in Chapter 5 or the "Findings" section of this document. Each of the sections includes the participant institution's financial management history, its recent financial dilemmas, and the proposals or plans to deal with the financial difficulties.

Researcher as Instrument Statement

My qualifications as a qualitative researcher include a Bachelor's degree from Hunter College in New York City with a major in history. In addition, I have earned a Master of Arts in Urban Studies from the University of Maryland and a Master of

Education degree from Plymouth State College in New Hampshire. Recently, I have attended the University of Virginia where I have been pursuing a Ph.D. in Higher Education. My coursework included higher education management, finance, and research classes. Among the courses I completed are: the Economics and Finance of Higher Education, Economics and Education Policy, Organization and Governance in Higher Education, Higher Education Policy, Foundations of Educational Research, and Qualitative Analysis.

My professional experience includes more than 10 years of college-teaching which consists of teaching both social science and business courses. In addition, I have worked as a financial and research analyst in many different professional capacities.

I am the primary researcher for this study. My educational and professional experience allows me to effectively analyze the financial conditions of small, non-profit colleges and make objective and relevant observations and judgments concerning the financial challenges facing these institutions. However, as the primary researcher, it is also important to note that my biases concerning financial management practices at these institutions have the potential to influence the results of this study. For example, my major bias concerning the financial management practices of small private, non-profit colleges includes a belief that small private colleges should always practice conservative financial management strategies.

Trustworthiness and Credibility

To preclude the possibility that my bias in this regard may have unintentionally influenced the findings or resulted in other omissions, and to reduce the possibility of

subjectivity and provide more credibility concerning the data analysis, a peer review of the original data, the findings, and the emerging themes was conducted. A letter provided by the peer reviewers is provided in the Appendix B. In addition, in an effort to make sure that the researcher correctly described the findings of all of the participant institutions, all of the interviewees were sent preliminary summary narratives, concerning only their individual institutions, for their review. Any changes or omissions that were indicated by the interviewees through this process were amended in the final narrative for the institution.

CHAPTER 4

FINANCIAL CONTEXTS OF PARTICIPATING INSTITUTIONS

Introduction

The purpose of the chapter is to provide data concerning the CFI for all of the participating institutions which are supplied in the table below. The CFI, which is a composite score derived from four financial ratios, is used by the DOE to assess the financial condition of colleges and universities that participate in federal financial aid programs (Hudack, Orsini, and Snow, 2003). These ratios are: 1) the Primary Reserve Ratio, 2) the Net Income Ratio, 3) the Return on Net Assets Ratio, and 4) the Viability Ratio.

The Primary Reserve Ratio measures the percentage of assets that can be liquidated quickly compared to an institution's total expenses for a given year. The ratio is determined by dividing expendable net assets by total expenses. The importance of this ratio is that it provides an idea of how long an institution could pay its expenses without any additional revenue. For example, a ratio of .5 or better means that an institution could pay for its expenses for the next 6 months (or 50% of 12 months), which is considered adequate in terms of financial health.

The Net Income Ratio measures deficits and surpluses from the operating budget. The ratio is determined by dividing the deficit or surplus total by the total operating income.

The Return on Net Assets Ratio assesses the change in total assets. To determine this ratio, the change in net assets is divided by total net assets. The importance of this measure is that it determines the real rate of return for an institution and provides a glimpse of how much the institution is growing. Generally, this ratio should be in the range of 6 – 7%, which factors in a 3% inflation rate, for a real return of 3-4%.

Finally, the Viability Ratio determines the ability of an institution to pay its long-term debt. Higher ratios signify that a college has more money to pay off these obligations. The ratio is determined by dividing expendable net assets by long-term debt obligations.

These four financial ratios are weighted according to importance and then added together to form the CFI. The weights of each of these ratios were determined by the Financial Accounting Standards Board (FASB). The DOE considers 1.5 or above a passing score (Hudack, Orsini, and Snow, 2003).

Overall Fiscal Conditions of Participating Institutions

Composite Financial Indices for FY's 2007 – 2009

Fiscal Year	2006-07	2007-08	2008-09
Southern College	1.5	1.5	1.2
Mid-Atlantic College	2.7	0.7	0.5
Central College	2.2	1.4	1
Independence College	1.8	1.6	1.2
Methodist College	1.6	1.1	1.1
Urban College	3	1.5	0.7
Colonial College	2.3	2	1.3

All of the participating institutions failed to meet the minimum passing score of 1.5 at least once during these fiscal years as indicated by the above table. Out of a possible 21 fiscal years, there were 10 years that these institutions failed to meet the minimum score. Additionally, for 5 of the fiscal years, scores were barely passing at 1.5 or 1.6. Only one of the participating institutions scored above a 2.7 for any of the fiscal years reported.

CHAPTER 5

FINDINGS

Format of Findings

Results for each of the participating institutions are provided below. First, however, in an effort to provide a better understanding of the financial conditions of the participating colleges in prior years, financial data concerning fiscal years 2005 – 2009 are provided for each institution. All of these data were secured from a review of 990 tax forms for non-profits and the Integrated Post-Secondary Education Data System (IPEDS), both of which are publicly available. These data consist of the CFI for FY's 2007 - 09, enrollment numbers expressed in full-time equivalents or FTE's, Revenue from Tuition and Fees per FTE for FY's 2006-092, Total Investment Income, Ending Endowment Balances, and Revenue minus Expenses for FY's 2007-09.

The Revenue minus Expenses balances are important because they indicate whether an institution has been operating with a deficit. A review of the following combined data reveals that five of the seven participating colleges have had an operating deficit in at least 1 fiscal year during the period from FY 2007 – FY 2009. In addition, of the possible 21 fiscal years analyzed for all of the participating institutions, the data indicate that there were nine years in which these colleges' revenues did not meet or exceed expenses.

Total Investment Income balances are also important to analyze because they provide information concerning revenue that colleges often count on to support endowment payouts and other spending. Of the 35 fiscal years reviewed for all of the institutions, there were 12 years (34%) that these colleges experienced losses in investment income.

Finally, a review of the Ending Endowment Balances data provides insight as to an institution's ability to rely on payouts. In addition, an analysis of endowment balances over time also sheds light on both the overall market value of an institution's portfolio and the success of its investment strategies. A review of the data for all of the institutions reveals that endowment balances fluctuated during much of the time period analyzed, especially when investment income was negative.

The remainder of each section in this chapter contains narratives which reflect the results of the interviews and data analyses from each of the participating institutions. These findings consist of the following sections: 1) a description of the college, 2) a summary of the type of governance, 3) the financial challenges of the college in the recent past, the present, and the future, 4) the strategies that each college has utilized to overcome these financial challenges, and 5) how college officials measure financial success. Each of the findings section will end with a summary. For consistency sake, and to preserve the anonymity of the participants, similar position titles will be used for each college studied whenever possible.

"Southern College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Southern College					
CFI - (only for FY 2007 - 09)			**1.5**	**1.5**	**1.2**
FTE - Full-time Equivalent	1,139	999	766	533	535
Rev. from Tuition and Fees per FTE - FY 2006 - 09		8,439	10,304	12,920	12,116
Total Investment Income	386,035	75,612	490,155	69,927	(49,227)
Ending Endowment Balance	4,111,664	5,171,310	5,762,670	4,638,452	4,597,195
Revenuse - Expenses (only for FY 2007 - 09)			1,988,298	1,359,380	1,033,365

The fiscal problems experienced by this institution in the recent past are primarily due to decreases in enrollment and investment income. As a result, operating surpluses declined over this time period. However, despite reductions in enrollment numbers and revenue from investment income, Southern College was still able to maintain a passing CFI score of 1.5 for both FY's 2007 and 2008. In FY 2009, however, the CFI fell below the minimum score to 1.2.

This institution experienced extreme fluctuations in enrollment since FY 2005. For example, estimated full-time enrollment (FTE) for this institution was as high as 1,139 in FY 2005. In subsequent years it steadily decreased and dipped to as low as 533 in FY 2008, a decrease of more than 50%. However, enrollment numbers began to rise again by FY 2010 when they increased to more than 700 FTE's. Despite the fluctuations in enrollment, revenue from tuition and fees per FTE steadily increased, on average, during this same time period. For example, it increased by 44% from FY 2006 to FY

2009. Total income from tuition and fees, however, was reduced by more than 27% from FY 2007 to FY 2009.

Total investment income fluctuated a great deal also. In FY 2005, investment income was reported as amounting to more than $386,000. The next year it dropped to approximately $75,000. It went up again in FY 2007 to almost $500,000 only to go down again in the following year to almost $70,000. Unfortunately, the college lost money in FY 2009 when investment losses totaled nearly $1 million.

The endowment balances for this time period increased in successive fiscal years from FY 2005 to FY 2007. For example, the endowment, which amounted to more than $4 million in FY 2005, increased by more than $1.5 million to approximately $5.8 million by FY 2007. Later, it decreased by $1 million in FY 2008 and was approximately $4.5 million by the end of FY 2009.

Revenue minus expenses balances for FY 2007 to FY 2009 reveal that although the college operated with a surplus for this time period, the surplus decreased in these years by approximately $1 million. For example, the operating surplus in FY 2007 amounted to almost $2 million but was only $1 million by FY 2009.

Participants

One interview was conducted at Southern College. In attendance were the President and the Finance Director.

Description

This institution is a small liberal arts college located in a rural section of the state. The college boasts that it has a 1:12 faculty to student ratio, which helps the college to support a personalized approach to instruction. It currently has a full-time enrollment of 600 students. The college was described by the interviewees as being unique because of its programs, especially its photography and arts programs.

Governance

The operation of the college today involves a 20 member Board of Trustees (Board) which has ultimate authority over all actions at the college. The Board hires and evaluates the president of the college and also has final approval over tuition rates. In the years prior to the new regime, the Board was described as being overly involved in the financial management affairs of the college. Today, this function is essentially the responsibility of the President. The President relies on a management cabinet which includes six senior officials of the college. This cabinet meets on a weekly basis and makes decisions, especially financial ones, on a group basis. According to the Finance Director, this results in better decisions overall. In addition, there is a Faculty Senate. Although this body has no formal authority, it was described as one that wields a great deal of informal authority within the college.

Financial Challenges: Past, Present, and Future

Past

Prior to the installation of the current President, the college was placed on probation by its regional accreditation agency for failure to comply with financial standards. In FY 2009, the college operated with a deficit in excess of $2 million. Although the Revenue minus Expenses balance was decreasing in the three previous fiscal years, the college still operated with a surplus until FY 2009. The President described the financial operations in the recent past, i.e. before the college was placed on probation, as not being "mission relevant." That is, decisions were not always made that supported the uniqueness or the market niche of the college. The Finance Director indicated that there were so many administrative changes in the years leading up to the financial difficulties that it was difficult to retain any type of financial management continuity. He described it more as a crisis management mode of operations. He did, however, point out that there was probably not the need in prior years to be critically mission focused as it is now. In addition, the Finance Director described the financial problems leading up to probation as largely being the result of a cash flow problem. He attributed it to a lack of control that all came to a head over time.

Present

Today, tuition comprises most of the revenue stream at this institution. For example, it was reported that tuition accounts for 74% of total revenue. The President acknowledges that the college is currently too tuition dependent as a result and she is working to increase other revenue streams. The rest of the revenue stems from profit from auxiliary enterprises at the college and donations garnered from fundraising efforts. The college is currently making efforts to increase enrollment. There is definitely room

for more students and the college is presently half the size it once was. The tuition-discount rate is about 40% per student on average.

Expenditures, on the other hand, mostly consist of institutional support. This can include anything outside instruction and represents 37% of expenditures. The next largest portion of expenses is for instruction at 30%.

According to the President and the Finance Director, capital costs do not play a role in the fiscal problems at the college. They indicated that the college's debt position is not that bad.

Future

The respondents indicated that physical plant issues will be a major concern in future years.

External and Internal Factors Affecting Financial Management

External

The external factors that affect the success of the college the most include the regional economy. The area in which the college is located is an economically challenged region. However, both respondents indicated that the college can potentially benefit from this due to the fact that it can provide the higher education services that may be needed in conjunction with any future economic development plans for the area. The Finance Director also noted that, in terms of economic development initiatives, the college reaches out to first-generation college students.

The accreditation process is also an external factor that influences financial management. Because of this influence the college now views accreditation as an ongoing process, not just one that is done every decade. The President indicated that the accreditation process is beneficial because it provides a great structure for financial models. The college looks at accreditation targets on a weekly basis as a result. The respondents also noted that the regional accreditation agency warned the college that in the future it has to show that it can raise unrestricted funds and cut down on expenses.

Internal

The respondents indicated that the internal factor that is most important to meeting the current financial challenges of the college is the successful implementation of programs that reflect the new student-centered approach, which will help the college achieve financial success.

Strategies to Address Financial Challenges

New Financial Management Procedures

The major priority of the President is to be more transparent with financial data so that the Board and other key personnel know what the financial status of the college is at all times. In an effort to achieve this, the President indicated that the college would develop a "dash board" approach to the presentation of financial data where pertinent ratios and other important budget data would be presented in a way that is easily accessible to the Board and other personnel. In addition, the President also moved the

college's Development Report to the overall financial report in an effort to remove the financial siloes that previously existed. In another move intended to streamline the financial process, the President moved the college's Foundation Director under the supervision of the Finance Director so that advancement and fundraising activities are given priority.

Despite the fact that Southern College's strategy to meet financial challenges involves enhancing the financial management communication across all college units and improving fundraising efforts, it appears that the bulk of the effort to improve the college's financial condition is concentrated on enrollment management.

Enrollment Management

Both respondents emphasized the importance of enhancing enrollment numbers at the college. The President asserted that under her regime there will be a more focused approach to the recruitment of students, whereas before the concern was just to concentrate on the number of students admitted, not the type of student admitted. In other words, the goal now is not just to fill the seats, but rather to attract more committed and more academically inclined students who will want to attend the college because it is right for them. She argued that, over time, student success should improve the morale of the entire college and help to enhance enrollment. The President also commented that attrition rates in the recent past may have been due to the fact that college was not stable financially. This is changing and, as a result, should improve retention rates.

Recent enrollment was also affected by the fact that there was a revolving door of enrollment management directors. This turnover was attributed to the fact that these

personnel were generally low paid. The Finance Director pointed to the lack of continuity in this regard as a major contributor to not meeting enrollment goals in the recent past. At present, there is no one in the post. The responsibility for this aspect of college operations is in the Provost's hands. Up until recently, the college hired a recruitment firm that just supplied them with names. Today, the college uses a recruitment firm that deals exclusively with small colleges, and it was described as being a cheaper alternative.

Fundraising

Fundraising activities will take on a new and more important role here at the college. The respondents indicated that the college does not presently have much of an endowment. For example, in FY 2009 the ending endowment balance was reported to be more than $4.5 million. The low endowment balance was attributed in part to the fact that for much of its history the school was a two- year women's college and due to "old-line thinking" there was not much emphasis put on the endowment. In addition, this led to the college losing track of much of the alumni over the years. For example, in recent years alumni donations only amounted to 3% of all contributions to the college. The highest percentage of alumni giving the college ever recorded was only 11% of all contributions.

Finally, the respondents stated that the college will concentrate on increasing revenue from tuition and from auxiliaries, which are both tied to the level of enrollment.

Measuring Success

Both respondents indicated that financial success will be measured by how effective the new procedures are that monitor the fiscal health of the college. For example, the college now looks at its financial position and cash flow on a daily basis. In addition, there are monthly and quarterly revenue and expense reports. The Finance Director also indicated that the CFI is reviewed more often and with the assistance of the college's accountant. The college is particularly interested in the primary reserve ratio. It was communicated that these ratios were not generally looked at on a regular basis until recently.

Summary

The financial challenges faced by this institution do not appear to be insurmountable by any means. There is now an increased emphasis on monitoring financial data on a regular basis and trying to attract the type of student who will be more committed to the goals of the institution, which will likely enhance retention rates in the future. In addition, the college will try to revamp its fundraising efforts to attract more donors. However, the new vigilance concerning the financial status of the college appears to be the most important aspect of the new financial management approach. This new attention to finances should preclude any significant financial problems in the future.

"Mid-Atlantic College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Mid-Atlantic College					
CFI - (only for FY 2007 - 09)			**2.7**	**0.7**	**0.5**
FTE - Full-time Equivalent	1,290	1,309	1,167	1,180	1,233
Rev. from Tuition and Fees per FTE - FY 2006 - 09		12,148	14,397	15,610	16,091
Total Investment Income	354,013	343,063	907,196	(513,057)	(865,497)
Ending Endowment Balance	4,995,024	5,026,851	6,003,835	5,550,694	4,664,103
Revenuse - Expenses (only for FY 2007 - 09)			1,992,896	355,157	(1,655,648)

The recent fiscal difficulties experienced by Mid-Atlantic College in this time period involved a reduction in surpluses which eventually led to deficit spending. The major problem involves a loss in investment income. The college's CFI scores were 2.7 in FY 2007, but dropped significantly to .7 in FY 2008 and .5 in FY 2009.

Enrollment numbers essentially stayed the same during this period, around 1,200. Revenue from tuition and fees, however, continued to rise during these years, which helped to offset other income losses. For instance, during this time period it went from approximately $12,000 to $16,000, and increase of 33%.

Total investment income saw an increase of more than $550,000 in FY 2007 from the previous year. However, the next two fiscal years saw investment losses of more than $500,000 in FY 2008 and more than $865,000 in FY 2009. The endowment balance went down by approximately $900,000 as a result.

Revenue minus expenses balances for FY 2007 to FY 2009 reveal that the college operated with operating surpluses for both FY 2007 and FY 2008 despite the fact that the surplus of almost $2 million in FY 2007 dropped by more than 82% in the next year, FY 2008, to approximately $350,000. Unfortunately, the surplus turned into a deficit of almost $1.7 million in FY 2009.

Participants

Two interviews were conducted at Mid-Atlantic College. These were with the President and the Finance Director.

Description

This institution is a small Catholic liberal arts college, founded by the Dominican Order in 1939, and is located in a very large urban metropolitan area in the Middle States accreditation region. It has small class sizes and a personal atmosphere and currently enrolls more than 2,000 students. Even though the college has many professional programs such as nursing, business, and a new Ph.D. program in applied behavior analysis, all students graduate with a solid foundation in the liberal arts. Mid-Atlantic College describes itself "as a leader in providing transformative education that addresses societal needs and challenges."

Governance

The college has a two- tiered Board of Trustees that works in conjunction with each other. The upper Board is comprised of four Sisters of the Order of St. Dominic. The Sisters who sit on this Board have broad authority, which includes the final say in the mission of the college and the hiring of the president. The upper Board also has fiduciary responsibilities that include authority over major purchases of land and the issuance of debt. One of these Sisters on this upper tier also serves on the Finance Committee of the lower tier of the Board. The lower tier of the Board is comprised of up to 35 members who are lay people. There are elements of shared governance also in that there is a

Faculty Council that represents professors and addresses their concerns and the faculty also controls the curriculum.

The President, who is also the first lay president the college has ever had, is the Chief Executive Officer (CEO) of the college and is responsible for the day-to-day activities and the budget, which is developed by the President in collaboration with the Finance Director. However, the Board has final approval over the annual budget.

Financial Conditions: Past, Present, and Future

Past

Just prior to the installation of the current President, the college was beginning to experience serious financial stress. To make matters worse, it was soon evident to the new President that the financial condition of the college was not shared with the Board, faculty, or staff. The President attributed this lack of communication to a tradition of the way things were usually done. For example, she said that in the past, if the financial data were asked for once and were not forthcoming, then it was never asked for again. In short, there was not a climate of transparency when it came to keeping the Board and senior managers informed of the current financial condition of the college.

The President went on to explain that there were three significant causes that contributed to the devastating financial condition and the recent low CFI score, which in FY 2008 was .7. First, she indicated that the downturn of the overall economy meant that the balance of the endowment suffered. Second, in 2006, in an attempt to finance a new residence hall at the lowest possible cost, the college entered into an interest rate swap

agreement as part of a bond issue. An interest rate swap is a transaction between the college and the bank (the bond issuer) in which the college agrees to pay the bank a fixed interest rate on the principle of the debt while at the same time the bank agrees to pay the college a variable rate based on a pre-determined international interest rate (in this case the LIBOR) plus a pre-determined amount of additional interest (usually expressed in basis points) based on the principal amount. In this way, the college would be assured of only having to pay a fixed rate of interest until the debt matures. The bank, or the bond issuer, would benefit if interest rates went below the fixed-interest rate during the course of the debt issue because it would receive the fixed-rate as a minimum. The college, on the other hand, would not benefit if interest rates went down because it would receive less interest from the bank than the amount of interest it was required to pay. When asked why the college did not attempt to obtain a fixed-rate in the first place, it was expressed that the college does not have a bond rating so it would not be cost-effective to issue fixed-rate debt.

Unfortunately, in the interim interest rates plummeted, which meant that the college was on the losing end of the agreement. The Board agreed to the interest rate swap because of its potential to save the college money and because of presentations by the bank to members of the Board at the time. As the President explained, no one thought that interest rates would go down as much as they did in subsequent years. This resulted in a loss in the market value of the interest rate swap of $2.4 million which the college was required to record as a liability. Despite the fact that it is an unrealized loss, meaning it is just on paper and does not increase the college's debt payments, it still affects the college's CFI negatively. The Finance Director added that the interest rate

swap agreement was entered into at the suggestion of the bank in an effort to create a hedge for both the college and the bank in the event that interest rates rose and the college might default on the loan. He also stated that at the time of the bond issuance fixed rates were in the 6% range and that even with a variable rate, plus the associated fees for a Letter of Credit (LOC), it was still more cost effective for the college to enter into this type of debt arrangement. In addition, even though the college did not lose any cash as a result of being on the wrong side of the swap, it can only restructure or refinance the debt associated with the swap if it pays off the swap or waits until interest rates rise enough so that the college is no longer on the wrong side of the swap.

Finally, the President's predecessor left a $1.2 million budget deficit which left little chance of building a surplus anytime in the near future. However, as the current President was quick to point out, deficit budgets were not the norm for the most of the college's past and, up until recently, expenditures rarely exceeded revenue. Instead, this particular deficit situation seemed to be an anomaly that was due to an exaggeration of projections for enrollment, development, and residence hall occupancy, all of which would translate into less revenue for the coming fiscal year.

Present

The President stated the net assets have improved in the last two fiscal years and the college is now in a positive financial position. She indicated that net tuition fees rose by 7.5 %, and revenue from auxiliary income went up also, although some of this revenue growth was offset by decreases in interest and dividend income.

The President reported that the college's recent CFI indices were as follows: in FY 2009 it fell to .5 while in FY 2010 it increased to 1.2. These indices meant that the college would still be on the list of financially troubled institutions and that the college would have to post LOC's, a further expense at a troubled time. However, during the interview the President cheerfully remarked that because of the new financial management practices that she was able to implement, the college will be off list of colleges that failed the federal financial-responsibility test at the end of this fiscal year and the CFI will increase to 1.5 for fiscal year 2011.

In general, the President indicated that revenue in most years consists of tuition and fees (85%) and money made from outsourced activities and small grants (15%). When asked about support from outside sources, the President stated that until recently the college was the recipient of a $700,000 grant from the state. Unfortunately, due to the fiscal distress that the state was also undergoing, this grant money dried up and would probably not be available to the college any time in the near future. However, residents of the state still receive grant money from the state for tuition which benefits the college indirectly.

Like in similar institutions its size, expenses mostly include personnel and benefits. According to the President, however, debt payment is a big amount too. In an effort to prevent future budget scenarios like recent ones, as part of the budget cycle every fiscal year, the President's new fiscal policies mandate that $500,000 be set aside for deferred maintenance and an additional $500,000 be contributed to the endowment.

According to the respondents, the mission of the college helps to direct any new academic programs, such as the new doctoral program previously mentioned, and other

new service programs like nursing. For example, the new Ph.D. program was viewed as necessary because the state where the college is located has an unusually high incidence of autism compared to other states. These ministry or service programs help to fulfill the mission of the college. The college ministerial approach is also furthered through its student body which includes many students from low socio-economic backgrounds, first-generation students, and students who speak English as a second language.

Future

When asked about challenges in the future the respondents pointed to the challenge of implementing the five-year strategic plan. In addition, there was mention of dedicating at least $1 million to plant renewal and increasing the endowment.

External and Internal Factors Affecting Financial Management

External

The President stated that the greatest external factors affecting financial management at the college were the economic downturn, the failed swap agreement, and the financial crisis of the state that resulted in the loss of the sizable grant that the college had come to expect over the years. She also stated that families in the state are having a more difficult time as a result of the economic downturn, which can affect a family's ability to contribute towards tuition costs, which means that the college has to be in position to distribute more financial aid.

Internal

The President described the internal factor that contributed most to the financial management climate was the unwillingness of some faculty and staff to believe that there was a financial problem, which meant that it was even more difficult to implement new financial practices and get people to support new policies if some in the campus community were reluctant to believe that a problem existed in the first place. This was exacerbated by a sense of entitlement among faculty, which, she described as not uncommon in higher education in general. Finally, she used the term "silo mentality" to refer to how the knowledge of the financial predicament of the college was known by only a few and not shared with all college units. Prior to her administration, the financial condition of the college and financial data in general were considered the bailiwick of a few individuals and not the concern of all personnel. The President set out to change this heretofore pervasive mentality on campus. She noted that "now we all have to look at the big picture."

Strategies to Address Financial Challenges

New Financial Management Procedures

The words of the President succinctly summed up her new approach to financial management, "I am going to be transparent and implement two-way communications." As a result there is now a Strategic Planning Committee, which is the first time in the college's history that the budget and planning functions are linked. In addition, the President and her cabinet, which is made up of seven senior college officials, work

collaboratively with each other and the strategic and board committees to solve the current financial difficulties and prevent future ones.

In an effort to stem the financial problems the President faced upon taking office, she had to come up with a plan. First, she held an emergency meeting of the cabinet where it was decided to hold a retreat during the summer to identify $750,000 in budget cuts. This was followed up with a meeting of all faculty and staff in September, shortly after the start of the new academic year, in which she charged them with the responsibility of coming up with an additional $250,000 in budget cuts. This allowed faculty and staff to have input in the process. She basically told all department heads to figure out what your department is doing now that you do not need to do. In other words, they had to decide what was critical to the department and what was not. Any services that were deemed to be superfluous would be either cut completely or accomplished with less money.

At the same time, she apprised all Board members of the serious financial problems plaguing the school. Surprisingly, according to the President, there were a myriad of responses to this news, which included incredulity that the college even had financial difficulties. To make matters worse, while all of the budget changes were being discussed and implemented, unexpectedly, the state reduced its grant to private colleges to zero, which meant that even more money had to be cut.

Overall, the changes resulted in 15 people being layed off. One senior administrative position, with high salary, was eliminated through attrition. The number of faculty positions was left intact because of tenure and other considerations. In addition, savings were found by implementing new policies regarding limits on vacation

and sick day accrual. For example, accrual for vacation days was capped at five and accrual for sick days was capped at two. Also, the matching for the retirement fund went down from 8% to 3%. Later, the matching percentage went back up to 5% where it is now. Despite all of these budget cuts, the President indicated that there was not a noticeable decrease in services on campus.

Other financial management innovations implemented by the President that should ultimately lead to cost-containment include a new five-year strategic plan which is approved by the Board. In addition, there is a new Risk Management Plan which is in process. In essence, the President stated that the overall aim is that expenses will never exceed revenue and that the new emphasis is to be conservative in terms of spending until the contributions for deferred maintenance and the endowment are met. The current endowment balance is $6 million. Currently, there is no payout as the college is just trying to let the endowment balance grow.

The President's proactive leadership style is just not limited to overt financial problems. It includes other aspects of college operations as well. For example, when there was some disenchantment being expressed over conditions in the residence halls, she did not delegate the addressing of these concerns to other staff. Instead, she dealt with it directly by meeting with the students. Solutions were developed forthwith, students were happy with the result, and any future potential revenue loss from students moving out was avoided. This swift action on her part speaks to her concept of college operations as being interdependent and viewing administrative functions as a whole instead of as separate and distinct responsibilities.

Enrollment Management

Enrollment management at the college is done in-house and not outsourced. Today, as a result of the recent financial management changes, the enrollment management function is more recognized as an integral and important aspect of the financial management planning process. Whereas prior to her presidency, the Enrollment Director only met with the former President twice annually, the Enrollment Director now meets with the President on a regular basis. The Finance Director supported the increased emphasis on enrollment management when he characterized it as the "end all and be all," meaning that the college is highly tuition dependent. In addition, the President does not just leave these responsibilities to the Enrollment Director. She, too, is also heavily involved in the recruitment process. For instance, she meets with students and parents at open houses and does radio spots that advertise the college and speak to the personal atmosphere on campus. Also, she personally calls every presidential scholarship recipient. Enrollment has increased as a result of these changes, especially in the new nursing program which has 85 new students. The college is also seeking other heretofore untapped sources of new students like the military and area secondary students who are enrolled in dual programs at their high schools where they can earn college credit.

But perhaps the enrollment management initiative that best signals the college's new approach is a recently implemented and innovative program designed at enhancing retention efforts for the freshman class. The President indicated that this was the brainchild of the Enrollment Director. The college's Registrar identifies any freshman who received a D, F, or a W for any required course that was taken during the fall

semester, such as a writing or math class. The college invites these students to re-take the course in an accelerated fashion, at no charge, during the winter session held in January. So far, 16 students have availed themselves of this opportunity and all of them have passed their courses. It was reported that the parents of the students were delighted at this prospect and that the program shows the commitment the school has towards its students. The President asserted that the program gives new college students, who have to make so many adjustments to college life which may affect their grades, a second chance in the event that the getting used to the college experience was overwhelming or difficult. The new program is an effort to keep these students and help them be successful.

Measuring Success

The President mentioned several factors that would signal the success of the newly implemented financial strategies at the college. Among these are getting off the DOE's list of colleges that failed the federal financial-responsibility test, attaining a $1 million surplus every year, meeting enrollment and residence hall targets, and giving back to employees in the form of raises and the reestablishment of former benefit levels.

The Finance Director also mentioned that attaining a CFI score that was significantly higher than the standard would also be a measure of success.

Summary

This institution has profited from the excellent leadership of its new President. She has taken the necessary steps to communicate that the college was in the midst of a

serious financial condition that needed to be addressed forthwith. She has set a new tone on campus that makes staff more aware of the financial condition of the college, and she has created mechanisms by which personnel and the Board can contribute to alleviating present and future financial problems. The focus on minimizing expenditures and increasing revenue should result in better financial conditions in future years.

"Central College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Central College					
CFI - (only for FY 2007 - 09)			2.2	1.4	1
FTE - Full-time Equivalent	644	602	571	574	549
Rev. from Tuition and Fees per FTE - FY 2006 - 09		10,338	11,257	11,974	12,358
Total Investment Income	930,414	658,941	1,643,844	(432,410)	(1,799,558)
Ending Endowment Balance	16,593,018	17,456,415	18,941,349	18,690,380	16,052,157
Revenuse - Expenses (only for FY 2007 - 09)			188,133	1,431,197	1,781,058

The fiscal problems experienced by this institution in the recent past are primarily due to a decrease in enrollment and a decrease in investment income.

In FY 2007, the CFI of College C was 2.2. In the next fiscal year, 2008, the CFI dropped below the minimum passing score of 1.5 to 1.4. In FY 2009, the CFI fell even further to 1.0.

Enrollment numbers from FY 2005 to FY 2009 decreased by 95 students. For example, total FTE was 644 in FY 2005 but only 549 in FY 2009. However, revenue from tuition and fees still increased by 20% from FY 2006 to FY 2009.

Total investment income suffered a dramatic setback from FY 2005 to FY 2009. For example, in FY 2005 total investment income was approximately $930,000. In the following year, FY 2006 investment income dropped to approximately $659,000. In FY 2007 it increased again to more than $1.6 million. The next two fiscal years, 2008 and 2009, saw negative balances in this category of approximately $432,000 and $1.8 million respectively.

The endowment balance was approximately $16.5 million in FY 2005. It increased to almost $19 million by FY 2008, but experienced a decrease in the two following fiscal years and as of FY 2009 the endowment balance was more than $16 million, which is essentially a little less than what the balance was in FY 2005.

Revenue minus expenses balances for FY 2007 to FY 2009 grew by significant amounts from FY 2007 to FY 2009. For instance, in FY 2007 it was over $188,000. In FY 2008 it was more than $1.4 million. By FY 2009 it was almost $1.8 million.

Participants

Four interviews were conducted at Central College. These were with the Finance Director, the Director of Administration, the Foundation Director, and the Chairman of the Board of Trustees.

Description

This institution can best be characterized as a small liberal arts college, located in the North Central Accreditation region. It is affiliated with the Presbyterian Church and is more than a century old. The college states that it has a 1:12 faculty to student ratio,

which helps the college to support a personalized approach to instruction. It currently has a full-time enrollment of just under 700 students, with 750 projected for fall 2011.

The college was described by some of the interviewees as being unique in terms of its commitment to the students, which influences its overall academic culture. One college official emphasized how dedicated and loyal the staff is. He went on to describe the campus environment as one that is "safe, clean, and friendly," which he attributed, in part, to the deep roots within the nearby communities from which the college attracts many of its students. He also emphasized how the college is situated in a part of the state that is essentially rural and is widely known for its natural beauty, which has allowed the college to offer special academic curricula such as environmental and outdoor programs.

The mission statement, which was recently changed to reflect the new attitude on campus, is intentionally brief and conveys the student-centered approach of the college as well as effectively encapsulates the campus culture. It was clearly evident during the interview process how important the mission statement of the college is vis-à-vis the daily management of the school.

Governance

The operation of the college today was described as being much more centralized than it was in the recent past. While the day-to-day activities of the college today are handled by the President and his management team, which is made up of six senior college officials, all major policy decisions are handled by the Board of Trustees (Board). However, the Board does work with the President on administrative matters through the Chairman of the Board (Chair), who is the official liaison with the President.

The Board, which is presently comprised of 35 members, but is authorized to include up to 42 members, is solely responsible for the hiring of the president and the approval of the budget. In fact, it has ultimate authority over all actions at the college. The entire Board meets three times a year and has a financial oversight committee comprised of four board members who meets monthly with the President and the Finance Director to discuss the budget and other important financial operations of the college. In addition, there are Board committees such as the investment committee and the property sub-committee that also deal with financial matters. All of the committees meet three times a year and make recommendations to the full Board concerning approval of the budget and other important financial management decisions.

The college has a Student Assembly and a Faculty Assembly. One of the respondents stated that the Student Assembly of the college plays a more important role at this time than does the college's Faculty Assembly, which is not surprising considering the college's emphasis on students.

The President runs the college with the assistance of his management team, which consists of the Provost/Dean of Faculty, Executive Vice President/COO (Director of Administration), Director of Financial Operations, Dean of Students, Vice President for Advancement (Foundation Director) and Executive Assistant to the President. However, there is no doubt that the President is the driving force behind the running of the college and the implementation of the successful financial management strategies that have significantly improved this institution. Everyone who was interviewed attested to the fact that the current success of the college was directly attributed to his leadership. His approach can best be described as a student-centered one. As one of the members of the

management team put it, "The president always makes decisions through two filters, which are: 'What's good for the students, and what's in the long-term best interests of the school.'"

Financial Challenges: Past, Present, and Future

Past

The Finance Director indicated that in the recent past the college experienced financial difficulties that culminated in successive years of operating deficits and a buildup of external debt that amounted to almost 25% of total assets. During these years, the college had to borrow funds from its endowment to cover costs. Taking this extra borrowing into account, the total indebtedness amounted to almost 45% of total assets. Because of these fiscal events, the CFI fell below the minimum passing score of 1.5. Other respondents mentioned that there was also a decline in both enrollment and fundraising that contributed to the financial problems during this time.

Present

According to financial statements provided by the college, tuition and fees, net of financial aid, represented upwards of 60% of total operating revenue in 2009 and 2010. The balance was covered by auxiliary enterprises (11.3%, mostly from student room and board charges), endowment income (6.4% in 2009, 3.7% in 2010) and significant increases in contributions. For example, contributions and gifts increased from approximately 7% of total operating revenue in fiscal year 2008 to 19.1% in 2009 and

26.9% in 2010. The Chair indicated that the college continued to show an increase in contributions despite the fact that contribution levels, in general, had suffered for similar institutions during the recent economic downturn. The payout rate on the endowment was recently reduced from 5.5% to 4%, which lowered the annual payout to just over $400,000.

As of fiscal year 2010, the last period for which data are available, the CFI score had risen to 2.86, well above the minimum 1.5 score. This was mainly due to several significant contributions, including one gift of $10 million to retire external debt and add to the permanent endowment. The fact that total full-time enrollment increased 22.3% in one year also was a key contributing factor.

Although expenditures increased by roughly 10% from the prior year, percentages for all categories essentially stayed the same except for instructional compensation (due to additional faculty required to serve the increased enrollment). All of the interviewees agreed that personnel expenses, by far, represented the biggest portion of expenditures. For example, expenditures for instruction - approximately 31% of the total - make up the greatest amount. According to the Finance Director, approximately 65% of expenditures provide for instructional compensation and operations along with auxiliary functions and student services.

When the interviewees were asked how the mission affects financial management decisions, they all emphasized how financial decisions are made with the students in mind. The Chair explained that financial decisions at this institution are always made to comport with the new mission statement. He mentioned how financial management plays a significant role in allowing the college to achieve its mission and stressed how

operating funds are a concern because "we have to meet our financial goals to achieve all of our other ones." The Advancement Director agreed that every financial decision is made based on the mission, or in other words, whether it is beneficial for the students. She also said that because the mission drives fiscal decisions, the college has to be very conservative in terms of spending on items not central to the mission. She also stated that the college must ensure that financial resources are placed where they are most needed to best serve the students' academic, financial, and social needs and in order to facilitate the successful completion of degree programs.

According to the Chair, the biggest challenge facing the college today is the growth of the student body. After that, it involves increasing the endowment and developing successful fundraising efforts that are sustainable on an annual basis. The Director of Administration agreed and stated that, despite the importance of enrollment numbers, sustaining donor gifts is even more important because enrollment will reach a saturation point at some time. Therefore, emphasis has to be given to sustaining donor gifts because of their greater potential. The Finance Director asserted that the college's most pressing challenge today is to continue on the financial path of operating equilibrium by increasing enrollment, managing expenses, building a sustainable endowment, funding capital additions, and providing for deferred maintenance.

Future

According to the Finance Director, the major financial challenges in the future involve the college's ability to continue on the current financial path of balancing the budget, which means being able to meet all of the present day challenges listed above.

Other concerns about future financial problems that were expressed by other respondents also involved deferred maintenance costs and the need to enhance the effectiveness of fundraising activities. The Advancement Director indicated that stabilizing enrollment and competition with public and for-profit institutions will be a major concern in the future. She also indicated that there is always a balancing act between the tuition-discount policy and enrollment. For instance, she said that this dilemma essentially involves "how much financial aid do we have to offer and how much can we afford."

External and Internal Factors Affecting Financial Management

External

The Director of Administration expressed how the local economy plays a significant role in the success of enrollment management goals. The local industries, which include coal and lumber, can suffer when there is a national economic downturn. As he explained, when the housing sector suffers nationwide it can result in the local lumber yards closing down and the resulting job loss can affect some of their students' ability to pay tuition. Competition with public colleges that have lower costs was also cited as a problem. Other interviewees indicated that many students are dependent on federal financial aid programs so they can afford tuition. Other concerns included competition from other higher education institutions, especially public colleges that cost less to attend.

Internal

All of the respondents communicated how the new management style of the President has affected this college financially for the better. The hands-on management approach can best be described as one in which the President, with the aid of the management team and the Board, has effectively increased revenues while holding down expenses. The Finance Director also mentioned the importance of budgeting practices, strategic planning, staffing, and recruiting and retention efforts as major internal factors affecting financial management practices.

Strategies to Address Financial Challenges

Enrollment Management

According to the Director of Administration, who is also responsible for enrollment management, the college's goal is to increase the student body to 800-900 students. Despite the fact that the latest tuition-discount rate was approximately 45% and rose from 33% the year before, total net tuition revenue still increased. In other words, the higher tuition-discount rate, which influenced enrollment decisions, resulted in more revenue overall. Perhaps the most telling indicator of success was also cited by the Director of Administration. He noted that applications for a recent two-year period increased nearly three-fold (from 577 to 1,607). At the same time, new students who committed to attending the college during the two-year period increased by 56% (from 198 to 310), allowing the college to be more selective and thus dramatically increase the quality of the entering class. For example, the percentage of entering students with a high school GPA of 3.0 or higher increased from 43% in 2008 to 63% in 2010.

Finally, the college's new regional scholarship program was referred to as a very successful recruitment and retention effort. This program, which originated with the college, is dedicated to attracting local area students. Students who are admitted to this program attend this private college for a cost not much greater than they would incur if they attended a state college.

Fundraising

Gifts in support of current operations tripled in fiscal year 2009 (from approximately $700,000 to $2,176,000) thanks largely to gifts from several major donors. The college has a goal of stabilizing at this level on an annual basis from a broader donor base. The Director of Administration noted that more alumni are now starting to donate which gets people excited because they want to be with a winner. He cited the President's weekly letter which goes out to alumni and highlights what's going on at the college as a great communication vehicle to keep them connected. In addition, the Advancement Director acknowledged that success of the regional scholarship program gives the college an opportunity to approach regional donors, local businesses, and alumni as part of its new approach to charitable giving.

Measuring Success

When asked how the college measures financial success the Chair unequivocally stated that the best way to gauge success in this regard was growth. That is, the college wants to increase enrollment significantly and if this is accomplished then the other aspects of financial success will follow. Other respondents also indicated increases in

yearly giving as an indicator of success. The President has set annual quotas for giving that the college stringently attempts to meet. The Finance Director stated that financial management success results in a balanced budget that provides for the progressive needs of students, faculty, and staff and the funding of capital reserves and deferred maintenance. In addition, she also stated that success means meeting the need for the growing demands of technology in the classroom, for program enhancement, and expansion of the college in general. Finally, she indicated that sustainable financial strength as represented by positive CFI ratios also translates into success.

Perhaps the most telling indication of the importance of assessing progress at this institution were the words echoed by the Director of Administration, "What gets measured, gets done." As mentioned before, the President sets the tone at this institution and clearly he has impressed on his staff the importance of reaching goals that will keep the college in the black and enhance the academic and financial climate of the college in general.

Summary

The financial challenges that this college had been experiencing in the recent past have been met to a large degree, although all of the respondents recognize that there is still more work to do. The increases in enrollment and gifts - and the resulting ability of the college to balance its budget - are, without a doubt, the result of a broad team effort of the entire campus community inspired by the effective financial management leadership style of the President.

"Independence College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Independence College					
CFI - (only for FY 2007 - 09)			**1.8**	**1.6**	**1.2**
FTE - Full-time Equivalent	1,830	1,808	2,147	2,142	1,981
Rev. from Tuition and Fees per FTE - FY 2006 - 09		7,382	6,700	8,130	8,777
Total Investment Income	636,561	657,211	1,333,775	(527,772)	(2,171,050)
Ending Endowment Balance	9,300,119	9,212,160	10,370,951	9,653,421	7,229,515
Revenuse - Expenses (only for FY 2007 - 09)			(29,947)	333,982	(916,490)

The fiscal problems experienced by this institution in the recent past are primarily due to losses in investment income and lower enrollment numbers. The CFI for Independence College was 1.8 for FY 2007. In FY 2008, it was still over 1.5, but just barely at 1.6. In FY 2009, the CFI fell below the minimum passing score of 1.5 to 1.2.

From FY 2005 to FY 2007 enrollment showed an increase of almost 19%, going from 1,808 to 2,147. Enrollment started to decline, however, in subsequent fiscal years, and for FY 2009 enrollment was back to less than 2,000. Revenue from tuition and fees, although, continued to rise from FY 2006 to FY 2009.

Total investment income more than doubled from FY 2007 to FY 2008 from approximately $657,000 to approximately $1.3 million. The next two fiscal years were not as good. In FY 2008, it was negative at approximately $528, 000 and in FY 2009 it fell even more to an approximate negative balance of $2.2 million.

The endowment balance for this institution went from approximately $9.3 million in FY 2005 to approximately $7.2 million in FY 2009 for a drop of almost $2 million.

Revenue minus expenses balances went from a deficit of nearly $30,000 in FY 2007 to a surplus of approximately $334,000 in FY 2008. In FY 2009, the college experienced a deficit of more than $900,000.

Participants

One interview was conducted with the Finance Director.

Description

This institution is a small independent private liberal arts college located in a small to medium-sized urban metropolitan area in the Middle States accreditation region. It currently enrolls more than 1,700 students. This institution's ability to offer small classes allows it to provide a unique and personal experience for its students. It was founded shortly after the end of the Civil War and started out as a private academy. For most of its history it was a two-year college and began offering baccalaureate degrees in the late 1990's.

Governance

The college operates under the concept of shared governance. There is a Board of Trustees that has between 35-38 members. The Board has only an oversight role in relation to the management functions of the college. The President is the chief executive officer of the college and also sits on the Board. The President has a weekly cabinet meeting. His cabinet includes Vice Presidents for Finance, Academic Affairs, Student Affairs, Enrollment, and Institutional Advancement. The Finance Director stated that the

faculty has a Senate but this body only has informal power, although he did assert that the administration believes it has a duty to work with the faculty, but it is not obligated to do so.

Financial Challenges: Past, Present, and Future

Past

The college had experienced acute financial problems during the 1990's. More recently, fiscal years 2006 and 2007 were also described as unsuccessful in terms of finances. However, the Finance Director said the college started to turn the corner financially in FY 2008. He described the college's past financial problems as resulting from "not managing our own resources well." In addition, borrowing became more expensive. For example, he stated that the college sometimes had to pay for LOC's, which, can sometimes mean 200 extra basis points and can represent up to $100,000 in any fiscal year. He also attributed recent financial problems to the reduction in the endowment balance. For example, it went from $9 million to $6 million. In addition, the state grant for private colleges was reduced by half.

The college also experienced problems regarding its debt status and its CFI score. For example, in an effort to save money, the college refinanced its long-term debt with the bank. The college entered into a 20-25 year bond issue which, according to the Finance Director, would allow the college to deal with deferred maintenance, build a new residence hall, and refurbish a vacant building. Through this new debt issuance the college was able to bring down the annual debt payment from $1.5 million to $1.1

million for a savings of $400,000. The college is unable to issue debt with a fixed rate because it does not have a bond rating. Therefore, it has to float debt with a variable rate that the bank then guarantees through a LOC. To provide protection against the variable rate increasing, the college entered into an interest rate swap agreement that later went against the college, i.e. interest rates went down in the interim. As the Finance Director explained it, in the recent debt issuance, the LOC cost 200 basis points. He went on to explain that this additional interest is added to the nominal 3.66 % fixed interest rate for the swap contract for a total 5.66% annual percentage rate.

Present

The Finance Director indicated that at present tuition and room and board represent 85% of total revenue. The second biggest portion of revenue is government grants from the state. The next largest portion is private gifts. The current payout from the endowment is 5.75% which represents a rolling average of the past three years. In essence, the payout in this instance is really a reclassification of this money to unrestricted funds which, according to the Finance Director, is really a budgetary decision. The Finance Director also indicated that ideally the college would like to have the payout be 4%, although he indicated that the payout is not that critical because the endowment is not that big. The current endowment balance is around $7 million.

In addition, the state in which the college is located also has two programs that support private colleges. The first is a grant that goes directly to the institution to help defray costs. The Finance Director stated that the institution has discretion to use these funds however it wishes. The college received as much as $800,000 as recently as five

years ago, but today the grant only amounts to about $400,000. Currently, the college's average tuition discount rate is 42%. The Finance Director also said that sometimes the college will leverage the discount rate in an effort to increase revenue, especially if enrollment projections are not being met on time.

Compensation for employees makes up the most significant portion of expenditures at $11.5 million. Contract payments to vendors for dining and other contract services the college outsources are next at approximately $3 million. It was noted that the bulk of these funds would also consist of salaries if these services were not provided by third-party vendors. Finally, benefits for college employees were put at $2.5 million.

When asked about how the mission of the college affects financial management, the Finance Director asserted that the mission informs decisions about how we generate revenue. He noted that the college is a resource-strapped institution that operates very close to the margins. For example, when financial difficulties were especially acute bill payments sometimes had to be postponed until the next fiscal year. He added that the students are also aware that we sometimes "operate on a string," but that does not hinder progress. This positive outlook of both the staff and the student body was attributed to the President, who was described as the person who is most responsible for the "survivor attitude" of the institution and as someone who does not make excuses for not having a surplus of funds.

Future

The Finance Director stated that controlling health care costs may be a problem in the near future. He anticipates that these costs may increase by as much as 15 - 20%. This increase in costs may push the college to look for other alternatives. As far as other future financial challenges are concerned, the Finance Director indicated that the college will have to make significant campus improvements. As he explained it, to do so, the college will have to borrow and raise funds to afford new infrastructure and facilities for the 21st century student.

External and Internal Factors Affecting Financial Management

External

The Finance Director noted how the recent economic downturn has affected the college's financial condition in two ways. First, he mentioned the importance of the accreditation process in terms of financial management. For instance, in fiscal year 2009 the college had to record the liability of the interest rate swap which meant that the college fell below the CFI minimum of 1.5. He explained the low score, however, as a temporary condition. The Finance Director indicated that there were essentially three reasons why the CFI declined. In order of magnitude these reasons were: 1) loss of market value in our investment portfolio, 2) loss of market value of a derivative financial instrument (interest rate swap); and 3) loss of value of perpetual trusts from which the college benefits. In addition, he noted that the college recently received a $1 million grant that was matched. These funds were recorded as revenue which made the CFI look stronger.

The Finance Director also cited the regional accreditation agency as an external factor because it also monitors the college's financial condition every year when the required financial data are sent to the DOE.

Second, he noted that the capital markets seem to be drying up. Because of this, borrowing costs are increasing, which can be significant to this type of institution. He stated that in order to borrow money or issue debt the banks charge the college for LOC fees which are paid annually until the debt matures. In one particular recent incident, a lender originally wanted to charge the college 250 basis points for a loan, but the college successfully negotiated the fee down to 200 basis points which represented a significant cost savings.

Internal

The Finance Director noted that the college has to look hard at its endowment management practices. He explained that in the past decisions regarding the endowment were made using a committee approach. However, he indicated that the college eventually learned that this kind of decision making process could be cumbersome and had the potential to prevent college officials from making timely decisions. In essence, the Finance Director stated that "we learned that we had to be more agile when it came to making decisions in this regard." In addition, the college also had two advisory firms, one for fixed-income securities and another advisor for equities. He stated that this was not beneficial for making decisions. The college now uses only a single advisor for the whole endowment fund and the Finance Director works more directly with the

endowment process. He has new authority to act or make time sensitive decisions as long as he acts within the stated policy of the college.

Strategies to Address Financial Challenges

Enrollment Management

The Finance Director indicated that enrollment goals for the college's upcoming academic year are usually set in October. If enrollment goals are not being met, then the revenue yield is not as great. When asked what the college does in these circumstances, he indicated that it considers repackaging tuition discounts in order to enhance enrollment. The college utilizes the services of a higher education consulting firm to help with enrollment management in this regard. He also noted that today the average tuition discount rate is 42%.

The Finance Director also stressed the importance of retention and that to sustain momentum of its financial management success he also has to work on enrollment management issues to boost retention efforts. He stated that, for him, recruitment and retention efforts involve more than just one thing. That, in essence, it is really about "a million little things" that the college has to pay attention to such as establishing a campus environment that students enjoy and appreciate. This may include making certain that the infrastructure is in good shape and that there is a viable social atmosphere that includes numerous activities so students will want to live on campus. For instance, he conveyed the fact that the Vice President for Student Affairs recently implemented some new policies that changed the atmosphere on campus for the better. According to the Finance

Director, if students do not enjoy living on campus because there is nothing for them to do, they are never going to assimilate. In fact, the Finance Director went on to describe retention success as the most critical aspect of financial management and he indicated that it also leads to better graduation rates.

Fundraising

The Finance Director stressed the need for the college to focus on current operations and capital projects and restructure fundraising plans to reflect this. He also indicated that the college recently just finished a successful capital campaign which included a $1 million grant matching program that enabled the college to renovate the student center.

Measuring Success

The Finance Director stated that measures of success include the college being more profitable, paying down the debt, and being able to dedicate 3-5% of the revenue towards the bottom line for a budget surplus.

Summary

This institution had experienced fiscal stress for a number of years. Because of its financial history it is sensitive to the need to be vigilant concerning its fiscal condition. The Finance Director has been successful at finding ways to save money through both refinancing of the college's debt and emphasizing retention.

"Methodist College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Methodist College					
CFI - (only for FY 2007 - 09)			1.6	1.1	1.1
FTE - Full-time Equivalent	420	911	845	897	1,111
Rev. from Tuition and Fees per FTE - FY 2006 - 09		6,612	8,530	8,631	4,983
Total Investment Income	1,213,017	1,207,308	2,016,129	(761,150)	(2,980,827)
Ending Endowment Balance	10,464,459	11,901,534	13,442,905	12,150,224	9,056,850
Revenuse - Expenses (only for FY 2007 - 09)			933,585	(908,673)	(1,060,711)

The fiscal problems experienced by this institution in the recent past are mainly due to lower investment returns that led to deficit spending. The CFI in 2006-07 was passing at 1.6, but the college only attained a CFI of 1.1 for both FY's 2008 and 2009.

Enrollment numbers increased by from 420 in FY 2005 to 1,111 in FY 2009 for an increase of 165%. However, revenue from tuition and fees per FTE fluctuated for most of these years. For example, it was $6,612 in FY 2006 and jumped to more than $8,000 for both FY's 2007 and 2008. It went below $5,000 in FY 2009.

Total investment income increased from FY 2006 to FY 2007, which was approximately a 67% gain. The next 2 fiscal years, 2008 and 2009, saw major investment income losses of more than $760,000 and almost $3 million respectively.

Endowment balances were decreased as a result of the investment losses. The endowment lost more than $1 million in FY 2008 and more than $3 million in FY 2009.

It is not surprising then that this institution had operating deficits in both FY 2008 and FY 2009. These deficits amounted to more than $900,000 and over $1 million respectively.

Participants

Three interviews were conducted at Methodist College. The President, the Provost, and a member of the Board of Trustees were interviewed.

Description

This institution is a small Christ-centered traditional liberal arts institution which was founded almost a century ago and is affiliated with the Presbyterian Church. It prides itself on its serious commitment to the Christian perspective and its effort to integrate faith with the learning experience. The institution evolved from a women's junior college. While it still offers associates degrees, it was granted permission to give four-year degrees in the 1960's, although it still offers associate degrees in some disciplines. Besides the liberal arts, it also provides business and arts programs. It has an extensive adult education program at three satellite campuses throughout the state. It also attempts to create a Christ-centered atmosphere at these adult education centers by engaging in a cohort system of education whereby a particular group of students take classes together throughout their college experience here. Total student enrollment is approximately 1,000 students in which half of the students are in the traditional program and half are enrolled in the adult education program.

Governance

The college's Board of Trustees has 26-28 members at any given time. It meets twice annually and establishes broad policies. The Board also hires the president of the

college and expects that the president will carry out these policies. However, this was not always the case. Prior to 2005, the operations of the Board were characterized by one respondent as being haphazard in the sense that the staff would come to the Board with expectations and anticipate that the Board would carry them out. In 2005, this all changed when the role of the Board became more of an oversight one and gave the President and his staff a lot of freedom to execute management responsibilities as long as it coincided with Board policy.

The Trustee stated that the current President has been on the job for the past seven years, and his management success has allowed the Board to focus on policy and not worry about whether certain management responsibilities are carried out. The President has a cabinet comprised of six Vice-Presidents, an Associate Dean, and an Executive Assistant. There is also a Faculty Meeting which is comprised of the faculty as a whole. This governance body has an Academic Affairs Committee and a Faculty Executive Committee made up of 13 members including all nine Department Chairs. The Faculty Meeting oversees all curriculum policies and also makes recommendations to the Board.

Financial Challenges: Past, Present, and Future

Past

The college was not without its share of financial problems during much of the last two decades. For example, prior to the installation of the current President, the college had been running deficits for several years. Unfortunately, data that would have shed better light on the financial condition of the college were not shown to the Board.

As the Trustee put it, "There was an attempt to paint a rosy picture when the truth would have been better."

When the present President arrived he had to tackle this issue right away. It would not be easy, however, considering that the $2.5 million line of credit was depleted. The college would run a deficit again in fiscal year 2008, which was largely the result of having to pay a significant amount of money to fix financial aid problems that stemmed from the college's adult education initiatives. The college had to pay approximately $800,000 to make sure that it was in compliance with federal financial aid regulations. The relatively new adult education program was set up, with the help of a for-profit marketing partner, as a cohort program that ran in 5 – 7 week academic intervals. The college opted for this type of program because of the format's prior success in other parts of the country. For example, in the cohort program students generally take one course at a time for each academic term. The advantage of this type of a program is that students can work full-time and still be considered full-time students. It also allows these students to attain an associate's degree in two years or a bachelor's degree in four without having to quit their jobs. The college would soon discover, though, that it was not equipped to deal with the federal financial aid regulatory compliance issues that were associated with this type of non-standard term initiative. The President indicated that the $800,000 was used to hire new employees, pay a consultant, budget funds for overtime, and to install a new system. All of these were all necessary to comply with the federal regulations. Today, the college still utilizes the non-standard term approach because of the successful implementation of the new administrative changes. In the meantime, the

college has severed its relationship with the private marketing firm in an effort to reestablish its creditability.

The recent financial troubles were further exacerbated when two of the college's creditors called some outstanding loans. As a result, the college had to immediately pay back $4 million in debt. The covenant of one of the loans had a provision that the net income of the college had to be similar to what it was in the early 1990's, when the debt was first issued. The college's deficit spending of recent years provided the impetus for the actions. For example, the bank that issued LOC's for a 1999 bond issue, which was used to renovate dormitories, called the loan on the grounds that covenant provisions in the original debt agreement allowed the bank to do so in the event that the college was ever in a deficit position. The bank gave the college an ultimatum. Either the college could restructure the debt or it had to pay back the balance immediately. Because of the costs involved with restructuring, estimated at $100,000 which included the annual cost of the LOCs plus additional legal fees, the college chose to pay back the loan. To do so, it had to liquidate a substantial portion of its endowment and will pay itself back over time. The President described this as being the cheaper alternative and one which would ultimately improve the college's cash flow position. To make matters worse, around the same time, another bank that the college had been doing business with in terms of providing credit, decided to renege on this relationship on the basis that they no longer wanted to extend lines of credit which, according to the President, was likely due to the fact that the federal banking reserve requirements were being enhanced at the time and the bank needed these funds. This unfortunate occurrence left the college without a credit provider.

As if these problems were not enough, all of this was occurring in the midst of the 2008 financial difficulties being experienced nationwide. As the President explained, the poor performance of the stock market meant that endowment returns would be reduced and donors would be in less of a position to give money. This was coupled with the fact that families would be less able to afford tuition which could translate into fewer enrollment numbers. Finally, the college was forced to part with more money when it had to reimburse tuition to students who had enrolled in certain education programs that were part of the adult education program. Many of the students who enrolled in these programs did so with the understanding that they would be reimbursed by the federal government for student loans incurred if they obtained teaching jobs in particular fields. Unfortunately, this turned out not to be the case. The college and the private marketing firm acknowledged that the students were unintentionally misled and, together, they agreed to pay back the students for loans that were acquired as a result of enrolling in these programs. The college had to assume most of this burden and, as the one respondent noted, the financial liability extends beyond just one fiscal year.

All of these financial problems meant the college had to implement reductions in salaries and eliminate seven positions through early retirement and attrition. In addition, the college stopped contributions to the retirement fund and discontinued retirement benefits of any kind indefinitely. Raises were also discontinued and deferred maintenance programs were stalled. This financial management scenario, coupled with less government funding and no payout from the endowment, was described by the Provost as the "perfect storm."

Present

The Trustee admitted that in prior years there were some failures on the college's part in terms of fiscal monitoring that led to financial problems of the past. Today, however, the President has successfully implemented financial management strategies that have put the college in a much better financial condition.

Today, tuition represents about 65 – 70% of total revenue. The endowment is about $10 million and the payout is 4%. The college also receives aid from the state. Unfortunately, the President noted that these funds are also in danger of drying up due to the downturn in the economy. When asked about the predominant revenue sources, the Trustee characterized all of the revenue streams as amounting to "not enough."

It was reported that expenditures for salaries accounts for approximately 36 - 38% while institutional support, which can include anything that is non-instructional like maintenance, administrative support, or plant costs, represents about 25%. Student support, which can include athletics, student affairs, and student life, makes up 26 % percent of expenditures while auxiliaries account for 13%. As one respondent stated, salaries make up most of the expense because the college is "in the people business."

The mission of the college and how it affects financial management decision making was described by the President as being specific in some ways and general in others. He stated that financial management decisions are made with the students' best interests in mind. In addition, financial management decisions are made with a Christian perspective that reflects the college's mission. The Provost described the college as having a valued-centered distinct mission which is linked to the Biblical tradition. The institution is conservative and more missioned focused and service driven as a result.

The Trustee added that the mission affects financial management in a practical sense in terms of fundraising in that it allows the college to appeal to donors with a similar outlook. He also noted that the mission influences how the staff interacts with each other in general, which would also include financial management decision making practices. For example, he stated that financial management decisions regarding how the college's staff is treated are heavily influenced by the mission. He also emphasized how this perspective means that at their institution decisions are not entirely about the numbers. In essence, there is a religious focus beyond the numbers. He followed this up by noting that the mission of the college is evident in that we all pray before staff meetings.

Today, the college is still on the list of colleges that failed the federal financial-responsibility test as it is considered an institution that is experiencing financial distress. According to the President, it does not have to post LOC's because the CFI falls between 1.0 and 1.5. As he explained, A CFI of below 1.0 would result in a DOE requirement to post LOC's in the amount of 10% of total financial aid, which would mean an additional expense to the college. As the college now only has to monitor its cash flow to make sure that the CFI is brought up to 1.5. It has a 3 year window to comply. Beyond that, the college will have to post the LOC's which require an annual outlay of cash. This would also mean that the college would not be able to take advantage of the float that exists under good fiscal conditions. The President went on to clarify that the Primary Reserve Ratio, which is one of three ratios that make up the CFI, was low in recent years and brought down the CFI score which resulted in the college being on the list of colleges that failed the federal financial-responsibility test in recent years. Additionally, the President indicated that the college's Net Income Ratio, which also contributes to the

calculation of the CFI, in other years alone would have resulted in a failing score. Fortunately, the Equity and the Primary Reserve Ratios, i.e. temporary restricted assets were always high, were enough to offset it and result in a passing CFI.

Future

When asked about future concerns, respondents expressed the need for capital improvements and the need for the college to give more attention to deferred maintenance issues.

External and Internal Factors Affecting Financial Management

External

When asked about the salient external factors that influence financial management at the college, the President indicated that there is concern that traditional programs are being priced out of the market and that these programs can often result in too much debt for students. He characterized higher education today as being more of a private good rather than a public good. He elaborated by stating that the whole dynamic of higher education, and especially the role of small colleges, is changing. In past years, he noted that colleges could rely more on revenue sources from stock market investments, donors, and state grants, but now these sources of revenue are evaporating. He went on to say that colleges today are becoming more like business, and because of that "either you operate as a business or you die."

The interviewees were also asked about how the accreditation process affects financial management at the college. The Provost referred to the warning status that the college is currently under by its regional accreditation agency regarding its financial status and how this impacts the college's growth. It was indicated by another respondent that the warning status was the result of the following 4 occurrences: 1) the recent budget deficit, 2) a low CFI (1.2), 3) a drop in the investment portfolio, and 4) internal management problems. The Provost added that, "If we cannot deal with the warning status, then the accreditation process constrains the college from any aggressive development," meaning that it will be difficult to start any new academic programs. He also stressed the utmost importance of having to maintain a balanced budget in order to grow and indicated that the warning status will be reviewed during the next fiscal year. In short, according to the Provost, the accreditation process puts the college under a lot of stress.

The President asserted that the timing for the recent accreditation reaffirmation was not good. He indicated that the college's reaffirmation was last year. According to the Trustee, the college has one year to clean up its financial act. The regional accreditation agency wants to see that the college is operating in the black. In the year prior to the issuance of the warning, the college had losses in its investment portfolio. The Trustee stated that there were no cash losses, only losses in the worth of investments. In addition, he expressed concern about how accreditation agencies, in general, are becoming increasingly more concerned about the non-financial aspects of higher education institutions. According to the Trustee, his college's regional accreditation agency wants to see another year of evidence that the college is continuing to engender

spiritual values, which is one of the goals of the college as stated in its mission. He also expressed another concern about the accreditation process and how it now involves greater concern over whether or not colleges are successfully demonstrating that their students are performing and learning. Essentially, the agency wants to make sure that a college's teaching is effective. The Trustee stated that one way the agency measures this is to monitor what percentage of a college's graduates pass state license tests such as in the nursing programs and other academic fields.

In addition, almost all respondents indicated that the level of public support and the state national economy are external threats to fiscal health. It was also mentioned how the regional economy can affect the college too. The college is located in what is traditionally one of the poorest regions in the nation. Extended periods of economic decline nationwide have an even worse impact for this institution.

Internal

When asked to identify the internal factors affecting financial management all of the respondents communicated that the college's ability to solicit donors and manage the enrollment process were vital concerns. In addition, the ability to manage costs associated with staff was also mentioned on several occasions. The President added that internal factors also included the support or lack of support for change within the college. For instance, he was quick to point out the importance of the emotional connections that exist vis-à-vis the mission of the college and the staff, especially faculty. He went on to note that a potential barrier to change could involve the conservative nature of the faculty regarding the evolution of the traditional higher education model. He stressed that

professors tend to love the traditional model because of the benefits that accrue to students. In short, he expressed that there may be reluctance to change the ways things have been done in the past. This may mean that the implementation of new strategies, meant to enhance the fiscal status of the institution, may draw opposition in some ranks. According to the President, this is especially troublesome because the traditional model is changing. He also noted that management problems along these lines may be exacerbated by the fact that there is a shared governance approach to decision making within the institution.

Strategies to Address Financial Challenges

New Financial Management Procedures

The college, under the leadership of the current President, is initiating a number of changes to make certain that its financial future is secure. A strategic plan was put into place in 2005. It was pointed out, however, that the strategic plan was driven by the deficits, not the accreditation process. As mentioned previously, the President relies on his cabinet to address fiscal challenges. Also, the President works continually to establish a rapport with the Board by sharing financial data that ultimately helps to address financial difficulties.

Enrollment Management

There is an ongoing effort to increase the number of students in both the traditional and adult education programs. The Provost indicated that enrollment in the traditional

program had plateaued at about 450 students for the last several years and the college is currently aiming for incremental growth here as it wants to increase enrollment to somewhere between 550 - 625 students. The Trustee pointed out that there is no capacity beyond this. As the Provost put it, the college is now poised for strategic development in its adult programs and the college also desires growth in its traditional program. To aid in this effort, there will be a partnership with a new firm to leverage financial aid.

The success of the adult program was also characterized as being critical because the college makes money from it that it uses to offset other costs. The college has severed its long-standing relationship with the private marketing firm and is in the process of duplicating these services in-house. Today, it buys recruitment lists from companies and is going to hire a new enrollment management staff. The adult education centers were strategically located in an effort to attract students. As the Trustee put it, "You have to go where the students are. " Retention rates are high at these centers as a result of the cohort and non-standard term programs. It was described as a system that fosters camaraderie among the students and provides a sense of belonging assuming that the cohort bonds. Also, there will be new academic programs ready to be rolled out in 2011 which includes the expansion of the teacher education program.

Respondents also indicated that there is a need to better define the college's constituency which should have a positive effect on admissions and also enhance contributions. In an effort to increase giving, the college is engaging the services of a well-known consulting company to help in these matters. As one respondent put it, regarding the need to define the college's constituencies in terms of both potential students and potential donors, the college has to "Build the Funnel." That is, the college

has to find donors who support its mission and students who want the programs the college offers such as its outdoor programs. More importantly, as one interviewee stated, it has to find students who value what the college does and are looking for an intimate connection between students and faculty in a Christ-centered campus.

It was reported that the college presently has a tuition-discount policy of approximately 29%. The college aspires to increase this to 30 – 35%, which should work to improve admission numbers.

Competition, especially from public and for-profit colleges was cited as a problem affecting enrollment. In a bad economy students often seek these cheaper higher education alternatives. For example, one of the respondents attributed, in part, the inability to meet the recent fall enrollment goals to competition from other higher education institutions.

Fundraising

The college has recently hired an Advancement Director, who has experience and has been successful at other venues. He has been building a staff which will focus on building a better relationship with alumni, which was described as being mediocre by some of the respondents, and with other potential donors who support the mission of the college.

One of the respondents said that the recent economic downturn meant that investments were underwater. For example, as of FY 2009, the value of the endowment was underwater by $1 million. However, the President indicated that the value of the endowment balance was not underwater as of June, 2011.

Measuring Financial Success

According to the Trustee, the first test to measure financial success is a simple one. It just involves looking at the budget to see if revenues exceed expenditures. In addition, he stated that if the endowment grows, i.e., there net increases to the balance, then the college is on the track to financial success. He also indicated that the state of deferred maintenance can also be an indicator of success. In other words, if the college can use current funds to maintain and repair the infrastructure, then this would be a good sign that the college is on its way to ameliorating its financial status. In other words, this can be used as a gauge of financial health. Other factors of financial progress were reported to include good financial management practices such as the President's cabinet working closely with the Board, new program development, and the success of the adult education program.

The Provost mentioned several indicators such as a good CFI, a balanced budget, and a clean audit. In addition, he stated that the college wants incremental growth in is traditional program, meeting the college's capital needs and reducing the level of deferred maintenance. Finally, he mentioned the well-being of the community and ability to invest in the staff.

The President emphasized that one measure of success was the college's ability to be fiscally minded and be able to minimize spending and watch expenses. For him, this would also include being vigilant about what the institution borrows. He went on to state that if he had to do it again, he would have restructured loans in a different way which would have increased the composite ratio of the college. He also indicated that the

expansion of both the adult and traditional programs would be an earmark of financial success as well as the college's ability to maximize the use of its physical assets.

Summary

The greatest financial challenges for this institution involve increasing enrollments and monitoring expenses. The college has to make certain that it does not get into a deficit position again. The college is developing in-house programs to improve enrollment. Its adult education initiatives appear to be extremely effective and will continue to help offset costs in the traditional program. In addition, the debt position of the college should be enhanced as long as it remains fiscally conservative. The compliance issues regarding the adult education program should not create additional expense in the future.

"Urban College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Urban College					
CFI - (only for FY 2007 - 09)			**3**	**1.5**	**0.7**
FTE - Full-time Equivalent	1,008	513	1,081	988	1,059
Rev. from Tuition and Fees per FTE - FY 2006 - 09		20,393	10,980	10,724	10,984
Total Investment Income	818,009	1,421,657	2,996,386	818,009	(3,998,572)
Ending Endowment Balance	23,728,234	24,668,470	26,708,393	23,728,234	19,782,781
Revenuse - Expenses (only for FY 2007 - 09)			1,556,330	(666,870)	(6,312,787)

The fiscal problems experienced by this institution in the recent past are the result of major losses in investment income. The CFI was 3.0 in FY 2007 but fell to 1.5 in 2008 which appears to be the result of a budget deficit. It most likely fell even further to .7 in the following year, FY 2009, from an even greater budget deficit and a major loss in Total Investment Income.

Enrollment numbers essentially stayed around 1,000 with the exception of FY 2006 when it fell by almost 50% to 513. When enrollment stabilized around 1,000 FTE's, from FY 2007 to FY 2009, revenue from tuition and fees per FTE stabilized also, at around $11,000.

There was more than a $1.5 million surplus as early as FY 2007. This changed drastically in the next fiscal year, 2008, when the operating deficit amounted to more than $650,000. The deficit in the next fiscal year, 2009, increased almost tenfold amounting to more than $6.3 million.

Participants

An interview was conducted with the President.

Description

The college was described as a small liberal arts college that will always remain under 2,000 students. The campus is located in a downtown urban setting but looks rural. This college is an Antebellum institution affiliated with the Methodist Church and is more than 150 years old. While there is still a strong affiliation and at least 5 Church officials serve on the Board in an ex-officio capacity, only 14% of the students are Methodists and the college receives less than 1% of its revenue from the Church.

However, the college does have general education requirements that oblige all students to take at least two religion courses, and the school has a chapel and a chaplain. Otherwise, the President described the college as being essentially independent.

Governance

The college's Board of Trustees can have up to 43 members, although at present there are only 29. The Board hires the President, sets tuition rates, and approves the budget. There are committees within the Board such as those responsible for academic, finance, and budget issues. The President is the day-to-day manager of the college. There is a presidential cabinet of 10 people. Although two more people have been added to the cabinet since the installation of the new President, he stated that he uses this body for advising purposes only. Instead, this President runs the college with the help of what he calls, the "Core Operations Group" which is comprised of the Vice Presidents of Academic Affairs, Enrollment Management and Marketing, Student Affairs, and Administration.

Financial Challenges: Past and Present

Past

The recent financial problems of the college are reflected in the fact that the current President is the fourth person to hold that post in the last year and he has held the post for only the last 9 months. The President indicated that there was a failure of governance and stewardship in the past that led to the current fiscal problems and

affected the college's ability to obtain credit. He explained that the college's creditor, a large national bank, was concerned that the college had been operating for the last 2 years with a deficit and insisted that the college change its administration if the bank were to continue providing credit.

The current President indicated that during the deficit years there was a new initiative to raise additional revenue to balance the budget. The college wanted to implement a distance learning program that was predicted to earn enough income to cover 25% percent of the operating budget, which would have definitely averted future deficits. This program never came to fruition, and the college continued its financial woes. Instead, endowment funds were being used to cover expenses. The college was writing checks to cover the budget deficit. According to the current President, this was not picked up by the college's auditors because the FY 2008 and FY 2009 budgets were being done at the same time. In FY 2008 there was a $5 million dollar loss and in FY 2009 there was a $7.5 million dollar loss. To make matters worse, the bank forced the college to liquidate all of its investments and put the entire endowment in a Certificate of Deposit, which resulted in a $2 million dollar loss for the college. To provide another indication of the present precarious financial condition of the college, the President added that the current debt to asset ratio is now 3 to 1.

Present

The President reported that most of the college's revenue comes from tuition and room and board, and only 8% comes from fundraising. The annual payout is 4.5% of all accounts which earn income and it is usually between $400,000 - $500,000.

When asked about the predominant types of expenditures at the college, the President noted that because the college is a "human services business" most of the outlays are comprised of payroll. He listed facilities upkeep as the next biggest amount of expenditures. Debt service was characterized as being modest at about $1 million a year.

Commenting about how the mission of the college affects financial management procedures, the President stated that the college has a history of serving many first-generation college students which means that it retains a liberal tuition-discount policy and strives to sustain good aid programs.

External and Internal Factors Affecting Financial Management

External

For the President, an important external factor that impacts the success of the college includes the public's view of higher education in general. He stated that today many students' perception of higher education is that it is only about getting a job, which creates a challenge to the liberal arts degree. He asserts that there is still a niche for the liberal arts and that the college has to effectively communicate this for it to flourish. The President underscored the fact that the college has a successful track record of almost 175 years of providing a liberal arts education and still believes that a broad education is the best preparation for any job. He went on to state that the economy, as it affects tuition costs and endowment earnings, is also an important external factor affecting financial management.

Other external factors include accreditation. The college is currently undergoing its 5th year reaffirmation process with its regional accreditation agency. Because of the recent fiscal problems, the President stated that there is the impression by some that the college and other small colleges are being "bullied" by the accreditation agency. He characterized the process as one in which the agency is increasing its oversight and requirements such that it is now becoming "a negative process." He stated that the college has had "every test and every financial scrub" and it is "constant." In addition, the agency is now doing a program review. He further described the whole process as disruptive and beyond the reasonable requirement.

When asked about the important internal factors, the President talked about the "interesting mix of morale and commitment problems" that is a result of the recent financial crisis. He asserted that for some in this college community, it sharpened their commitment, while for others it did not and that those people began to feel vulnerable. Because of the financial difficulties facing the institution, some professors and staff looked for and took other jobs. He also talked about the range of opinions concerning how long it will take the college to stabilize its financial condition. Some in the college community think that it will take as long as 5 to 10 years. The President indicated that he thinks it will only take 3 years.

Strategies to Address Present and Future Financial Challenges

New Financial Management Procedures

The President indicated that the new personnel coupled with the increase in the financial expertise on Board will help the college get on the right financial path. He noted that the financial management strategies are completely different today than they were prior to his presidency. In addition, the President stated that there will be a renewed effort to revamp fundraising efforts.

Enrollment Management

The President said that enrollment management is the "single most important factor" in financial success and "nothing else comes close." He stated that the college has the capacity to increase the student body by 200-300 students. The college has been at approximately 1,200 students for a number of years

To make sure that enrollment numbers increase, the college is hiring a new enrollment manager this spring. The new Vice President for Enrollment Management and Marketing was described by the President as someone who has had a great deal of success in this regard in prior positions. In addition, the college will still use some consultants to aid in the enrollment management function.

The President indicated that retention efforts will also be improved and the goal is to increase retention by 5%. To aid in this effort, the college recently implemented an automated early alert program with an electronic form that goes directly to the Vice President of Academic Affairs. This strategy allows the college to intervene on a student's behalf to prevent unnecessary attrition. According to the President, as a result of this program, the spring enrollment and retention numbers were the best in years.

Measuring Success

The President pledged to the Board complete transparency regarding financial matters. Now there is a monthly financial report that is provided to the Board and includes cash flow numbers and endowment balances. In essence, it is a "dashboard" explanation of the financial status of the institution. He also said that the college will now measure success against the budget but that enrollment enhancement is still the key to financial success.

Summary

This college appears to be poised to correct its financial difficulties and to be able to meet any future financial challenges. The new financial practices that make data more transparent and the ability to successfully leverage the financial expertise from the staff and the Board will definitely aid in this effort.

"Colonial College"

Recent Fiscal Condition

FY 2005 – FY 2009

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09
Colonial College					
CFI - (only for FY 2007 - 09)			**2.3**	**2**	**1.3**
FTE - Full-time Equivalent	2,014	2,081	2,123	2,074	1,971
Rev. from Tuition and Fees per FTE - FY 2006 - 09		11,224	12,028	12,832	13,187
Total Investment Income	316,093	326,172	308,093	(65,462)	(943,029)
Ending Endowment Balance	4,853,026	5,096,016	5,831,352	5,690,020	4,948,371
Revenuse - Expenses (only for FY 2007 - 09)			2,121,472	1,442,448	(1,855,083)

The fiscal problems experienced by this institution in the recent past are primarily due lower investment returns. The college had passing CFI scores of 2.3 in FY 2007 and 2.0 in FY 2008. In FY 2009, the CFI was only 1.3.

Total FTE enrollment essentially stayed the same from FY 2005 to FY 2009 at around 2,000. However, during most of this time period, from FY 2006 to FY 2009, revenue from tuition and fees per FTE increased by almost $2,000 from approximately $11,000 to $13,000.

Total investment income was positive from FY 2005 to FY 2007 with returns exceeding $300,000. Total investment returns started to decline precipitously in FY 2008 with negative returns amounting to more than $65,000. The following fiscal year, 2009, was far worse. Negative returns amounted to approximately $1 million.

The endowment balance experienced both increases and decreases during this time period. It was more than $4.8 million in FY 2005. It grew by almost $1 million by FY 2007. However, it started to drop by almost $250,000 in FY 2008 and by more than $700,000 in FY 2009 so that it was essentially the same as it was in FY 2005.

Revenue minus expenses balances for FY's 2007 and 2008 resulted in surpluses of approximately $2.1 and $1.4 respectively. This positive financial scenario changed abruptly in FY 2009 when the lack of investment income helped to contribute to a more than $1.8 million operating deficit.

Participants

One interview was conducted. In attendance were the President and the Finance Director.

Description

This institution is affiliated with the Methodist Church. It was a two-year college until the late 1970's. It is located in the state capital and the campus was described as being landlocked without a great deal of space to grow. Enrollment is approximately 1,500. Almost 50% of the students are first-generation. The respondents described the college as one that prepares students for a global education. The college also has an adult education program in a nearby city.

Governance

The college's Board of Trustees can have up to 28 members. The Board is responsible for hiring the President and approving the budget. The President is responsible for the day-to-day activities of the college. The President relies on a cabinet made up of senior management officials including the Finance Director, the Academic Affairs Officer, the Dean of Students, the Advancement Officer, the Director of Admissions, and the Athletic Director. The Finance Director described the management process as one in which all the members of the President's cabinet share in the decision making process. The President added that he has the final say in all management decisions but can also empower individuals to make decisions independently.

Financial Conditions: Past, Present, and Future

Past

The Finance Director noted that in the mid-to-late 1990's the college was experiencing severe financial problems. For instance, from 1993 to 1998, the college ran deficits every fiscal year. This was attributed to the fact that the number of students was less than what could sustain the budget. The college embarked on an aggressive campaign to increase enrollment numbers. The President said that enrollment has increased from about 600-700 students a decade ago to 1,500 today. Coincidentally, the last year the college ran a deficit was in FY 2001 and the college's financial status has been improving ever since.

More recently, however, the college has faced two other financial problems that are not quite as challenging. First, it found itself on the 2009 federal financial-responsibility test list of colleges that had not met the minimum CFI score of 1.5. Its score was just under at 1.49. The low score was attributed to recent losses in the value of endowment assets, which were described as paper losses but are still factored into the calculation of the score. The Finance Director stated that the college will be well above the minimum for FY 2010. The respondents also verified that the college was not required to acquire LOC's because it has a 3 year window to correct the problem and this has been accomplished. In addition, the regional accreditation agency cited the college for not complying with one of its financial standards. The agency wanted the college to more effectively demonstrate how the latest strategic plan is linked to the budget process. As explained by the Finance Director, the agency wants to see projections for operating and capital budgets for upcoming years. He also indicated that the agency does not hold the college to these projections. Rather, it requires them so that the college will incorporate these forecasts into future planning procedures. In effect, it forces the college

to be thinking about revenue and expenditure in conjunction with the implementation of new programs and other future changes. The Finance Director indicated that this change is in the process of being implemented.

Present

When asked to discuss present financial problems, the President stated that the major concern was finding the right mix of students who can both afford the tuition and have the academic preparation necessary to be successful. Other concerns expressed included the ability to control costs and to limit tuition increases, the reallocation of the budget, and the downturn of the economy which resulted in endowment losses. Although these endowment losses were just on paper, they can also result in reduced payouts. Finally, the President communicated concerns that students and their families are also feeling the effects of a bad economy, which makes it difficult to afford the costs of going to college. He said that sometimes as a result of the poor economy the incidence of paying bills late is much higher than in years prior to the economic downturn, which has the potential to affect the cash flow position of the college.

The bulk of the revenue was reported as coming from tuition and fees. The college has a small endowment in which earnings are used just for particular scholarships. In fact, as of FY 2009 the endowment balance was negative in excess of $1.8 million. Unfortunately, the state in which the college is located does not provide any student or institutional aid.

Like similar institutions, the major category of expenditures includes costs associated with personnel and institutional financial aid. Debt management was stated to

be only 2-3% of expenditures. The respondents emphasized that most of the revenue is spent to provide a good education and create a safe campus and good living conditions for the students.

The mission of the college affects financial decisions in the sense that the college uses Christian principles to create a personalized education experience. It was also noted that the mission means that the college strives to reach out to all of its students whenever possible so that they can afford tuition. Because of the importance attached to this mission, the respondents stressed that a potential student's socio-economic background does not deter them from accessing a higher education at this institution.

Future

Future financial problems may include implementing plans outlined in strategic and campus master plans.

External and Internal Factors Affecting Financial Management

External

The external factors cited by the respondents that affect the financial management of the college include the following: 1) the condition of the economy and the resulting jobless rate, 2) the less expensive tuition costs of potential competitors, 3) the growing variable costs to operate the college such as energy and health care costs, and 4) the availability of housing in the local area. It was pointed out that this last concern can cost the college money if students opt to live off campus.

When asked to react to the accreditation process and how it affects that college financially, the President stated that today higher education is more about "illustrating outcomes" than it was in the past and, therefore, the college is now much more cognizant of the outcomes and assessment of programs. The seriousness of the college in this regard is reflected in the fact that in the past two years it has hired two full-time employees just to deal with institutional research and assessment issues.

When asked about how the financial management decision making process has been affected by the recent economic downturn, the respondents pointed to the nature by which all economic decisions go through a more vigorous screening process as compared to prior years when there was more flexibility in the budget. As the Finance Director put it, "It doesn't take much to throw something off" meaning that there is not that much of a financial margin in the event there are unexpected increases in costs or losses in projected revenue. The President followed up this comment by stating that as a result of this tenuous budget situation the college has to engage in a constant monitoring process concerning its financial condition.

Internal

According to the respondents, the internal factors that can affect financial management include the need to hire additional employees when new programs are started or existing programs are enhanced. The ramping up the nursing program was given as an example of this.

Strategies to Address Financial Challenges

Enrollment Management

As mentioned before, the college enhanced its enrollment by 100% in the last 10 years. It was able to do this by building new residence halls in combination with an aggressive enrollment campaign. Enrollment management is still an important financial management function. It was expressed that the Admission Director's input is taken very seriously by the management team. The respondents also expressed how the size of a new class and student characteristics can affect retention rates. The college has several retention programs and an early alert system. For instance, the respondents noted that there was an Academic Support Center with increased staff and offerings over the years. Despite the fact that the enrollment management function is done in house, the college still utilizes the services of a consultant who was described as "a third eye that checks things." The President noted that the admissions consultant also makes recommendations. The Finance Director also indicated that the average tuition discount rate this year was 28% whereas last year it was 31 – 32 %.

Measuring Success

Both respondents indicated that financial success is measured through an examination of the annual audit. In addition, the President stated that success would also be assessed by whether or not the college was able to implement plans or construct facilities. However, they both accentuated the fact that it's not just about the money. For example, the President said that "It is just not about having a positive bottom line but also about using all of your funds wisely." The Finance Director also referred to revenue vis-

à-vis financial success as being more about "spending it the right way and earning it the right way" He elaborated on this comment by using a theoretical example of an inefficient enrollment management strategy that just attracted a certain number of students and not the right kind of student for an institution. He explained that it would be better to utilize funds in a way that resulted in the recruitment of students who complete their studies and want to be at your college rather than to attract students who will leave after the first year and increase the attrition rate.

Summary

The financial challenges faced by this institution are essentially over. The drastic increase in enrollment has enabled the college to deal effectively with its financial problems. Finally, the President noted that when a college does not have endowment earnings to rely on it has to learn to live within its means and, therefore, it learns to be fiscally conservative.

CHAPTER 6

CROSS-CASE ANALYSIS

Introduction

The purpose of this study was to investigate the financial management practices at small private, non-profit, liberal arts colleges that have experienced financial difficulties in the recent past. To do this effectively, a multiple-case study approach was utilized. Seven small, non-profit colleges agreed to participate.

The following themes that emerged from the study of the financial management practices of the seven institutions studied are enumerated below. The first theme deals directly with financial management and leadership strategies and how these affect an institution. The next three themes deal with strategies to enhance revenue through enrollment management, fundraising, and debt management. The last theme deals with how colleges assess financial management success.

Emerging Themes

1) *The Communication of Financial Data with the Board of Trustees and other Key Personnel has to be a Priority.*

If small private colleges do not pay attention to their financial status on a regular basis, it can lead to cash flow problems and, ultimately, deficit spending. Most of the colleges studied admitted that there were severe financial management problems that led up to the problems. The inability of an institution to monitor funds on an annual basis and engage all key personnel, such as senior management and the Board, appears to be a precondition to the onset of major financial challenges. In almost all of the cases studied respondents indicated that the fiscal problems were the result of a lack of vigilance stemming from financial data not being shared across all college units. Many of the college officials interviewed communicated that prior to the recent fiscal problems financial data seemed to be the bailiwick of a few personnel and not something that was often distributed or even used for planning purposes. In the instance of Mid-Atlantic College, financial data were not shared with key decision makers and, over time, this lack of communication became, in essence, a standard operating procedure. Perhaps in some of the cases studied the exogenous factors that contributed to the fiscal adversity could have been prevented or minimized if there were more sharing of the data. At the very least, providing information about the financial state of the college would create recognition on the part of staff, trustees, and the faculty that there were problems on the horizon that would have to be dealt with. Perhaps knowledge of this type could even avert a financial crisis. In addition, it would also inform other college officials of the inadequacy or lack of any short or long term plan to stay solvent. Again, using Mid-Atlantic College's experience as an example, as part of the management moves to save money department heads were asked to reassess what they thought were the required services that their departments offered and to use these as base to begin to eliminate

superfluous programs. This was essentially a zero-based approach to budgeting that had to be implemented during a financial crisis. Knowledge of the college's financial shortcomings in advance may have helped in this particular instance. In the case of Methodist College, operating deficits resulted in outstanding loans being called. Unfortunately, the endowment fund had to be used as a source of money to meet these loan obligations. The college, in effect, borrowed money from itself and plans to pay the funds back over time. However, in the meantime this lack of budgeting vigilance will result in lower overall endowment returns for the near future.

It must also be noted that efforts to meet the financial challenges at these colleges did not just involve money. Meeting the challenges also involved the successful implementation of the financial management changes. Two of the respondents were quick to point out that the reaction by some staff and Board members to the news that there was a financial crisis, and that there would be changes made to deal with these challenges, had the potential to act a barrier to the implementation of these changes. They communicated that the unexpected reaction ranged from disbelief that there was even a problem in the first place to reluctance to change because of the belief that the "old ways" worked and they didn't want to abandon the traditional model. Successful implementation of new financial strategies clearly involves convincing other college personnel to support the new strategies.

In all of the cases studied, the financial difficulties are being addressed and financial management is more of a shared and open process than it was prior to the onset of the fiscal difficulties. For instance, many of the college presidents stated that they would strive to be more transparent concerning financial data and that there would be

regular and consistent monitoring of revenue and expenditures. In addition, several of the college officials, especially the Finance Directors, maintained that there would be a new emphasis on the monitoring of the accounting ratios that determine the CFI. They also mentioned that doing so would help with the monitoring process overall.

In addition, the accreditation process, which requires that colleges have rigorous fiscal policies that support a balanced budget, was viewed in some instances as a way of encouraging the new financial management approach of transparency. For example, officials at Southern College said that the accreditation process would no longer be viewed as an event that occurs only once a decade. Rather, they now view it as an ongoing process that helps the college to attain and sustain fiscal health.

It is true that some of the colleges are further along than others in terms of meeting their own particular financial challenges. What all of the colleges have in common, though, is a drastic change in management style that facilitates the implementation of strategies to bring about solutions. Effective leadership, therefore, is the key to solving financial challenges. This type of leadership style requires not only effective communication skills, which may involve convincing some on campus that there is a problem, but also the ability to recognize and leverage the staff's and the Board's financial expertise and engage these personnel in the process of change. It must be noted that for many of the institutions studied there were new people appointed to high level positions which included presidents, finance directors, and enrollment managers. The need to hire employees with the financial expertise and skills to ameliorate the financial situations at these institutions is critical to financial management success.

Finally, it is important to note that many of the respondents conveyed the importance of meeting the financial challenge discussed above. In fact, they emphasized how singularly vital and imperative it was to solve budgetary problems because, in essence, effective financial management is the foundation for all other college activities. In fact, as the President of Colonial College commented, regarding the tenuous budget situation at his institution, there has to be a constant monitoring process concerning the college's finances. This statement applies to every institution that participated in this study.

2) The Importance of Enrollment Management Activities to Effective Financial Management.

All of the colleges noted how important enrollment management was to their types of institutions because tuition is so important to financial success. The President of Urban College stated that enrollment management is the single most important aspect of financial management success at colleges like his. The President of Colonial College communicated how prior financial problems went away when enrollment was essentially doubled. Finally, the Finance Director of Mid-Atlantic College described enrollment management as the "end all and be all" for his institution.

Six important aspects of enrollment management and its importance to financial management emerged from the interviews. First, and perhaps most important of all, is that all of the participating institutions had a newfound recognition of the importance of this function and how it relates to successful financial management. As a result, these

institutions are being much more proactive in their enrollment initiatives than was the case in the recent past. This is clearly evident in the quotes above and the new importance that these institutions have recently attached to this critical organizational function. For instance, the Finance Director at Southern College indicated that up until recently the Director of Enrollment Management for their institution was generally not a high paying position which, unfortunately, led to an excessive amount of turnover in this job. He stated that the lack of continuity in this regard translated into lower enrollment numbers. Today, this college is giving new emphasis to this position by making it a more important one. The President of Mid-Atlantic College has also recognized the importance of this function by requiring that the person responsible for enrollment management meets with her on a regular basis, making this organizational decision making process more of a collective one and involving more senior personnel in the process. This was not the case with prior administrations at this institution, as it was generally just the responsibility of one person. Central College and Independence College have increased applications significantly by implementing admissions goals and monitoring these targets on an ongoing basis. The Finance Director at Independence College acknowledged the importance of enrollment by describing it as consisting of "a million little things," recognizing that it involves many different aspects of a college's operations, not just academics. For example, he stated that admissions and retention success can often include maintaining an adequate infrastructure and implementing a good social environment for students. Officials at Methodist College have recognized the importance of enrollment management to financial success by initiating new academic programs at new satellite campuses. These programs were described as being non-

standard ones, meaning it utilizes different class schedules, which are also reflective of the new flexible approach that this institution utilizes in its pursuit to enhance enrollment. These programs are essentially geared to non-traditional students and are set up in a way to best accommodate the needs of working adult students. Finally, Urban College and Colonial College not only perform the enrollment management function in-house, but believe it to be so important that these institutions also rely on consultants to provide insights concerning overall enrollment management functions. As the President of Colonial College stated, consultants act as a "third eye."

Second, almost all of the interviewees conveyed the importance of taking a more focused approach to the recruitment of students. For example, it is not only about getting the right amount of students but also getting the right student to attend your institution. As the officials of Southern College pointed out, better academically prepared students will improve morale on campus and ultimately enhance retention. For instance, just trying to target a certain number of students was no longer enough. Instead, as the President of Southern College stated, you have to know what your college's niche is in the higher education market and then go after those students who are likely to succeed at your institution. In fact, she indicated that this approach in the long run would help with retention efforts and contribute to the financial stability of the institution. In other words, colleges have to attract the students who want the programs that your college has. In addition, recognizing what your college's niche is and then sticking to it can be an effective tool in enhancing enrollment. According to some respondents, in the past there was too often a lack of recognition and concern about their college's niche.

Many of the respondents also expressed that enrollment numbers had declined in the past because there was a "shotgun approach" to recruitment and that it was left to chance.

In addition, when these colleges utilize consultants in the enrollment management process, they also want the consultants to be more focused in their recruitment approaches. It was stated a couple of times that, prior to the implementation of new recruitment approaches, colleges that utilized consultants were often just provided with a list of names. Now, however, the consultants are hired with the understanding that they should take a more narrow approach in their recruitment efforts and provide names of potential students that would likely apply to the institution because it is a good match for the student.

Many college officials also said that there was a renewed sense of mission at their colleges which also helped these institutions to focus their recruitment approaches. In the case of Methodist College, positive results in the recruitment process are largely due to the fact that the college now seeks students whose needs coincide with its mission and the programs the college offers. Also, the President of Colonial College stated that their major concern was finding the right mix of students who can both afford the tuition and have the academic preparation necessary to be successful college students.

Third, many of these institutions are utilizing a more personal approach to recruitment and in the process communicating the distinctive attributes of these types of institutions. This personalized approach to recruitment communicates to the potential student that the campus environment will meet the needs of a student who is seeking a more personal approach to learning. In essence, this is what sets these types of institutions apart from other sectors of higher education. For example, at Central College

a personal phone call is made to the prospective student soon after the application is received, In addition, the President of Mid-Atlantic College communicates directly with presidential scholarship recipients and welcomes them to the college. This institution also pays for radio advertisements where the President talks about the college and extols its virtues. Both of these approaches signal to potential students the personalized education experience that they will receive if they opt to attend college there.

Fourth, most of the participating institutions recognized the need to be aware of their competition and how enrollment numbers may be affected by it. Therefore, they now pay more attention to tuition pricing in relation to the cost of attendance of similar institutions. For example, when asked about how external factors affect their college's financial management success, respondents expressed concern over the competition and the need to be aware of what the competition was so that you could effectively market your institution. For instance, they also pointed to the for-profit institutions and the public higher education options that, in general, may be cheaper for students.

Another major component of the more focused approach to enrollment management vis-à-vis the competition, which was also mentioned several times by respondents, was the necessity to know the local economy and the financial condition of your constituents. As the Enrollment Director from Central College stated, most of their students that attend his college come from the surrounding counties and if the local economy suffers, then there may be repercussions in terms of the a student's ability to pay for a college education. As a result, Central College initiated a scholarship program that is directed to potential students who live in nearby counties which has the effect of

making tuition comparable to the competition. Students from these surrounding counties attend the college for the same price as the state's public tuition cost.

Fifth, many of the participating institutions also acknowledged the necessity of leveraging tuition-discounting to increase financial aid to attract more students. It was stated several times how colleges would utilize the tuition-discount as a means to increase numbers. A more generous discount usually results in higher number of admitted applicants deciding to enroll, which increases overall tuition revenue. There was a great deal of recognition about how the tuition-discount policy could be leveraged to increase enrollment if it appeared that the number of admissions were lagging. For example, both Central College and Independence College leverage tuition discounts in an effort to increase overall tuition revenue, which also allows more students to attend their institutions. In addition, Methodist College uses a consultant to help it leverage financial aid to attract more students. Finally, retention efforts are also an important aspect of enrollment management. Many of the colleges indicated how important reducing attrition was in terms of financial management success. For the participating institutions, enrollment management does not just involve getting students to apply to the institution and enrolling. It also involves retention efforts. In other words, it is also about creating an atmosphere that keeps students enrolled and having them make adequate progress towards graduation. For instance, many of the participating institutions were renewing efforts to counter the incidence of attrition and improve retention. These can include providing the right academic programs or even implementing programs that monitor when students are having trouble academically.

Some of the colleges had implemented innovative programs such as in the cases of Mid-Atlantic College and Colonial College. For example, Mid-Atlantic College had great success implementing a program that provided new students who were failing required courses the opportunity to take the courses again at no charge. Albeit, this approach is a novel and fairly new strategy at reducing attrition, other participating colleges also had programs to retain students who were not maintaining minimum grades. For instance, Urban College and Colonial College had early warning systems in place that alerted the college administration if students were in danger of failing a class. In addition, Colonial College enhanced its Academic Support Center by hiring more staff and increasing academic support strategies.

In essence, effective enrollment management is a key component of successful financial management at small private, non-profit colleges.

3) Fundraising has to be enhanced and focused to find donors who will support your mission.

Most of the respondents indicated that the endowment payout was an important aspect of revenue. In some cases it was mentioned that the payout was critical to the financial success of the institution. However, whether or not the payout was described as critical or not, all of the colleges are seeking to find ways to strengthen gift giving so that endowment returns will increase in future years and be a more reliable source of revenue. In some cases, advancement activities were described as being haphazard and there were no programs in place to contact potential donors. For example, in the case of Southern

College the officials noted that in prior years alumni were not even contacted concerning the support of their alma maters.

Respondents indicated that enhancing fundraising efforts is essentially a twofold process. First, fundraising and its potential to increase revenue has to take on a new importance in the organization, especially in light of the recent economic downturn and the potential to have investment losses. In essence, it has to be a priority. Many of the participating institutions have come to recognize that there has to be a new emphasis placed on fundraising strategies. For instance, Southern College indicated that the "old-line thinking" regarding fundraising has to be replaced with a more modern perspective. Other institutions, such as Urban College, indicated that it will revamp efforts to increase gift giving.

Second, the recognition that fundraising should be given more importance results in attempts to implement new fundraising strategies which involve a more focused approach in terms of cultivating an active donor base. For example, several of the college officials interviewed stated that it was extremely important to cultivate donors who would support the college's mission. This was especially true for colleges with a religious affiliation. For instance, Methodist College stated that they seek donors who support their religious education mission by actively defining the college's constituency. In addition, Independence College indicated that it recently completed a capital campaign to fund a new building on campus that included matching funds. The Advancement Director of Central College stated that her college also cultivates donors who support the college's mission in addition to cultivating regional donors which includes local businesses.

Another strategy to cultivate potential donors involves alumni. Several of the participating institutions recognized that they needed to effectively communicate with their former students in an effort to seek their financial support. For example, Central College has developed a newsletter about recent happenings at the college that is aimed specifically at its alumni. It helps to maintain contact with former students and aids in the process of soliciting donations. In addition, Methodist College has hired a fundraising expert who has had success at other institutions building better relationships with alumni. The communication between this institution and its former students was described by one of the respondents as being mediocre. Essentially, by focusing on potential donors who support your mission, a college may receive more money in terms of gifts than by just appealing to donors in a broad sense.

Finally, most of the respondents emphasized that advancement activities that are focused require specific goals. For example, Mid-Atlantic College has now made fundraising targets an integral part of its annual operating budget. That is, it includes its fundraising targets as a line item in the budget. If this institution is successful in this type of approach, it will be able to rely on a consistent payout from year to year.

As one respondent succinctly put it, fundraising "cannot be left to chance." Donors who support the college's mission have to be actively cultivated.

4) Know Your Debt Status and the Potential Drain This Could Be on the Budget.

All higher education institutions have infrastructure that has to be developed and maintained which requires the necessity of issuing debt from time to time. The reliance

on credit, whether it be long or short term, is critical to the success of any college, especially tuition-dependent ones. Knowledge of capital markets and debt instruments then is necessary to ensure that a college is able to borrow money cheaply and pay back debt in a timely manner. As tax-exempt organizations, there is no advantage to issuing more debt than necessary. College officials, therefore, have to be both knowledgeable and prudent regarding the use of borrowed funds not only because of its potential to build infrastructure and help reduce deferred maintenance but also its potential to squeeze already tight budgets.

The importance of the operating budget and the capital budget and the link between the two is also important. In at least two of the colleges studied, operating budget deficits led to bank loans being called. Paying back the loan with reserves lowered the CFI in both cases. In addition, college officials have to weigh the risks involved with variable interest rates and interest rate hedges. Both of the colleges that engaged in interest rates swaps were required to do so by their creditors in order to borrow funds. The banks required it in the event that interest rates went up. Unfortunately, interest rates went down and the colleges were on the wrong side of the swap. In both cases the losses were on paper, but it did bring down each college's CFI because the paper losses had to be recorded as a liability. As one Finance Director explained, the actual annual debt payment did not go up as a result of being on the wrong side of the swap as long as we do not try to restructure the debt before it matures. In effect, entering into a swap agreement is good as long as a college is on the winning side. Being on the wrong side precludes the possibility of restructuring debt to avail a college

of even lower interest rates which would work to save it money in the long run. Fixed rate options, therefore, may be better in the long run.

5) Measuring Financial Management Success

Respondents indicated that determining the success of the new financial management strategies would be accomplished in basically two ways. First, many of the colleges mentioned comparing their individual indicators to the industry benchmarks. For example, many of the respondents mentioned looking at the change in their CFI or whether there was a surplus in the budget. Several respondents indicated that there would be more attention given to accounting ratios and other budget measures such as a clean audit, a balanced budget, increases in donations and enrollment, and lowering debt payments.

Still other respondents stated that financial management success would be measured not just by numbers, but also by how successful the institution was in implementing the changes to address the current financial challenges. These measures of success included financial management transparency and the successful communication of the financial environment of the institution. In short, success in this regard would be assessed by how successful the college was at changing its organizational approach to finance. Other non-numerical attempts at measuring success included the ability to give back to the staff by reinstating lost benefits and giving raises and infrastructure development. Finally, both respondents from Colonial College emphasized that financial success also means using your funds wisely.

CHAPTER 7

DISCUSSION

The colleges that participated in this study experienced financial difficulties that originated from a mix of both internal and external problems. The exogenous factors, such as the recent downturn in the national economy and the concomitant financial repercussions such as the lowering of endowment balances, reductions in enrollment, and, in some cases, the interruption of state-aid are all difficult to deal with for small private, non-profit colleges that too often operate on a narrow financial margin. However, these external problems can be dealt with more successfully if the internal financial management procedures are effective. As Cowan (1993) pointed out when discussing colleges that have put their financial difficulties behind them, financial success depends more on "internal" than "external" forces. Cowan (1993) also argued that colleges that have successfully met their financial challenges have done so as the result of relying on better financial information that can be used to monitor fiscal progress, but it also takes a talented and effective leader to make changes and involve the rest of the college in the process of change.

This study supports Cowan's (1993) argument. In all of the colleges studied, the meeting of financial challenges first required the talents of a president who was able to recognize that there were financial problems and then was able to implement new management strategies to overcome them. This type of leadership and management requires the capability to communicate that there is a problem to the entire college

community, especially when there is some resistance as in the cases of Mid-Atlantic College and Urban College. It then requires the necessary skills to develop effective solutions and implement them successfully. This is all the more challenging considering the difficulty of carrying out any type of organizational change, and especially under dire financial conditions.

Although there were many commonalities among the participating colleges regarding the strategies implemented to overcome financial challenges, each of the institution's solutions was unique to its own particular financial situation. This comports with Allen's (1999) contention that there is no single solution for adverse financial conditions that small colleges face. Instead, colleges that are experiencing financial challenges need to develop solutions that coincide with their particular problems, whether it is the need for more revenue, a reduction in expenditures, or a combination of both. None of the institutions in this study relied on just one new program to improve financial conditions. Instead, there was always a reliance on a mix of strategies that addressed both enhancing revenue through new strategies to increase enrollment or enhancing fundraising efforts. Solutions also included actions taken to reduce expenditures like renegotiating debt or implementing a purchase order system to reign in unnecessary spending. Essentially, the leaders in this study did what was required to create change to meet the financial challenges their institutions faced.

Perhaps the most important result of this exploration of financial management practices, and one that supports Eaker's (2008) assertion that successful colleges share information with key personnel and their governing boards, is that the leaders of the institutions studied have done just that. The word 'transparency' as it relates to the

sharing of financial data was mentioned several times by the respondents. In fact, there was recognition that the sharing of financial information was not just a luxury but, rather, a necessity if the present financial crisis was going to be dealt with successfully and future financial problems were to be forestalled. The Presidents of Mid-Atlantic College and Urban College both stated that they pledged to their respective Boards that their management styles would include a transparent approach to finances.

However, improved financial management practices and efforts at improved communication through transparency are highly dependent on how financial data are presented. For the financial management leadership of small private, non-profit colleges to be effective, college presidents must heed the advice of Arnett (1922) regarding the importance of presenting financial data in a clear and lucid fashion. His words are still applicable today. The results of this study support the importance of the communication of financial data and how the implementation of new financial management strategies is dependent on it. As Arnett (1922) pointed out when talking about the importance of conveying financial data, "It is often said that financial reports are made to conceal the situation rather than disclose it" Even though Arnett (1922) argues that this is not the intent, "yet the effect they produce is frequently of that nature." He goes on to say that this impression is given by a "poor arrangement of subject-matter, lack of coherence and sequence" and by the "abundance of inconsequential details." In short, Arnett (1922) espouses the use of financial reports that are "clear, concise, and complete. Its contents should be arranged in logical order and its terminology not too complicated."

Many of the colleges studied were attempting to follow Arnett's admonition by resorting to a "dashboard" approach of presenting the data. There was much recognition

on the part of the respondents that financial transparency would only work if the data were de-mystified. The "dashboard" approach would reduce the data down to its important elements, help other personnel and constituents in their comprehension of the data, and aid in the monitoring process. Many of the respondents also mentioned how their colleges would utilize accounting ratios related to the CFI, audit data, and accreditation benchmarks to measure financial progress. For all of these strategies to work, and to get other personnel involved in the process, the information must be presented in a clear and unambiguous manner that is easy to understand.

Bowen's (1980) laws of higher education finance, and how these can be resisted, were also reflected in the new financial management perspectives discussed by the respondents. For instance, many of the participants communicated that there was now a better appreciation that their college's mission could not be infinite in scope. Even if this were not the case before the financial troubles began, there is now a renewed appreciation that their colleges have to follow their unique market niche and should concentrate on developing and maintaining academic programs that are distinctive from the competition. This is often accomplished through a more focused approach to recruitment and the development of programs that reflect new demands in the higher education market.

Some of the colleges also indicated an increase in awareness concerning the importance of creating surpluses in the operating budget and not to spend all the funds available, which is also indicative of resisting one of Bowen's (1980) laws. For instance, there is now more recognition in the colleges studied that a higher education institution does not have to spend all of its income. In the cases of Mid-Atlantic, Central, and Methodist there are now specific goals to meet fundraising targets and surplus targets that

did not exist before the new leadership took over. In essence, these fundraising and surplus goals will now be line-items in future operating budgets. For these colleges, surpluses will no longer occur just by luck. This type of approach also reveals a long-term perspective that is rarely seen in higher education and one that Bowen (1980) strongly advocates.

Breneman's (1994) observation that small college services are highly labor intensive was clearly evident. All of the respondents, when asked about the predominant categories of expenditures, stated that the costs of faculty and staff entail, by far, the greatest proportion of spending. Presidents who needed to reduce expenditures immediately recognized the need to carve out savings by introducing reductions in pay and benefits. For instance, in Mid-Atlantic College, Methodist College, and Urban College faculty and staff had to endure reductions in compensation and some jobs were eliminated all in an effort to save the college. These cost-savings measures were not done without reluctance and, as it was expressed in a couple of instances, faculty and staff who were not let go sometimes left the institution anyway as a result of the disappointment over both the recent financial environment and how the new financial management strategies were changing the institution.

Surprisingly, there was very little mention of any attempt to implement strategies to minimize the effects of the "cost disease" as defined by Baumol (1993). The only exception to this was when the Finance Director of Central College indicated the need to allocate funds to improve technology in the classroom and school libraries. And as Zemsky and Massy (1990) stated, it is easier for private colleges to implement cost-savings measures than it is for their public counterparts and that lower overall costs can

create a competitive advantage for private colleges. Although many of the respondents recognized that their colleges are in competition for students with other institutions, and that potential students are opting for less expensive alternatives like public colleges and universities, there was also no mention of any formal strategies to determine the competition and utilize cost-savings measures to compete with these institutions. In addition, none of the colleges implemented any of Vedder's (2004) recommendations in terms of reducing instructional costs or reducing staff on a permanent basis. In some cases, positions were eliminated but only as a result of an immediate effort to reduce costs.

In addition, the institutions that participated in this study showed that they now emphasized the importance of the intangible assets now more than before, as Bowen (1980) discussed. For instance, in all institutions there is now an increased awareness of the importance of attracting the right students and donors for the college. Most importantly, however, is the new emphasis on internal financial management practices.

Finally, in an effort to create a contrast concerning financial challenges, the sampling strategy attempted to include colleges that were in different stages of financial difficulties. Although this is difficult to gauge with any certainty, and the participants all have on-going financial problems, it did appear that some of the financial challenges were more recent than others. For example, colleges such as Southern, Mid-Atlantic, Methodist, and Urban were still in the midst of meeting the challenges and their difficult financial conditions could still be characterized as acute. In the cases of Central, Independence, and Colonial more time had passed since the institutions were in the acute stage and they already appeared to have had some success with their new financial

management strategies. It could be said that these institutions had, to a major extent, overcome their financial problems. However, even though the former and latter groups of colleges found themselves in financial troubles for similar reasons and the solutions implemented to reduce these troubles were also similar, there was a distinct emphasis on the part of the institutions that are further along that there is always a constant need to monitor finances. This was especially evident in the cases of colleges such as Central, Independence, and Colonial. The former group of colleges (Southern, Mid-Atlantic, Methodist, and Urban) recognized it too, but not to the same extent. Perhaps this was due to the fact that this group of colleges is worried more about the present and not thinking too much of the future at this point.

Also, there was an attempt to contrast the participating colleges in terms of the various accreditation regions. Although there were no stark differences across regions in terms of financial management practices and strategies to meet financial challenges, the colleges located in the Southern and North Central regions did express a greater concern over the impact that the local economy could have on admissions and the ability of students to pay tuition.

CHAPTER 8

IMPLICATIONS AND RECOMMENDATIONS

Implications

Good financial management is timeless and it is not dependent on economic conditions. Although the intent of this study was to isolate the reasons why small private, non-profit colleges experienced financial difficulties in the context of the recent the economic downturn, the financial management approaches used to meet these challenges can also be utilized during favorable economic conditions. That is, the emerging themes deduced from this qualitative study can be applied at any time because exogenous threats to the financial status of any higher education institution are always there and are often unexpected. In addition, the monitoring of financial data is also timeless and should be done constantly regardless of economic conditions.

The themes deduced from this study can also be applied to other types of higher education institutions that are experiencing similar financial difficulties, not just small private, non-profit ones which are the units of analysis for this study. However, it is not likely that a single solution to financial difficulties will suffice in most cases. In addition, other small colleges can look at themselves to see if they are experiencing the same problems and decide if the strategies that the participating institutions utilized will work for them. However, it is important that colleges do not think that they are similar to other institutions in all respects and copy their success plans. Rather, higher education

institutions should be prepared to explore a myriad of possible remedies to improve their financial conditions.

Finally, financial management is everyone's concern, not just the Finance Director's or the President's. It could be argued that financial management is the single most important aspect in any college or university and therefore has to be given the utmost priority under any economic conditions. Even though some of the financial problems isolated in this study may correct themselves during good economic times, it does not mean that higher education administrators should not continue to make financial responsibilities a priority. Better economic conditions still require that colleges know their market niche in the higher education sector and know how to solicit donors who support their missions.

Recommendations

1) Give financial management the priority it deserves and be ever vigilant about the college's financial status. Communicate financial data with all senior college personnel and engage these stakeholders in the fiscal process. Make financial data easily accessible and easily decipherable. Do not get lost in the details. Do not let your management team be too specialized.

2) Monitor your finances constantly. Think of it as an ongoing process. Make sure that your institution is compliant with regulatory and accreditation requirements. Think of these processes as a help, not a hindrance. Use your measuring approach to financial success as a guide.

3) Look for money in places that are not obvious. For example, by lowering consultant fees, reevaluating existing programs, or by renegotiating debt.

4) Leverage your expertise on campus by utilizing all the financial expertise on campus like professors and trustees. Hire the right people who will embrace the new financial management techniques.

5) Do not stick to standard operating procedures and do not be inflexible in your financial management approach.

6) Think of financial management as a long-term goal.

7) Stick to your core competencies. The college's mission should guide program and infrastructure development. This will help the college to focus in both enrollment and fundraising initiatives.

Limitations of Study and a Suggestion for Further Research

The limitations in this study involve three aspects. First, the study is limited in terms of time and scope in that it is restricted to the time context in which the study was conducted. For example, any findings or emergent themes would apply only to financial management practices during the time of the study and not to any other small private college administrative strategies or procedures. For example, there may be attributes of

this time period, from 2000 to the present, that are unique, in terms of financial-aid regulations, state-aid higher education practices, and the general demand for a college education that may impact the current financial situation of small private, non-profit colleges and will not influence financial practices at these types of institutions in later years. For instance, when the economy improves, enrollments may increase and the financial health of many private colleges may be enhanced as a result. Perhaps the financial fate of small private colleges will soar with better economic conditions. In addition, small private colleges in different areas of the nation may have financial concerns or constraints that are dissimilar.

Second, there are numerous institutional characteristics that are unique to every college and university. For example, implicit in the multiple case-study method is the notion that the study is limited in the sense that the information gleaned is only about one particular organization or organizational aspect (Yin, 2009). There may be organizational constraints or policies at one college that impact financial management practices that do not exist at another. Also, there may be aspects of the communication process and decision making procedures that are not captured in the nominal or official descriptions of the financial management process. These decision points, and other pertinent organizational differences, may also be difficult to capture in the interview process or through an analysis of official documents. In short, the whole picture may not be given.

The initial attempt of this study was to analyze small private, non-profit colleges that are experiencing or have recently experienced financial difficulties. The caveat here is that the participating institutions were not uniform in terms of their missions, histories,

and financial management practices. Indeed, some of these colleges were different in terms of their outcomes. This study only serves to provide some insights and direction for higher education institutions encountering comparable circumstances.

In addition, it must be noted that there is some sample bias in this study in that the results only reflect the experiences of colleges that were willing to participate in the study.

Lastly, further research into the reasons why small private, non-profit colleges experience financial difficulties may involve conducting an intensive single case-study of a comparable institution. A study of this type will have the potential to capture more nuances concerning the organizational procedures that led up to the financial difficulties and will also be better able to explore effectively the implementation stages and success of meeting the financial challenges. In addition, it will also allow for a more in-depth investigation of financial management strategies for a single institution and effectively trace these over time using a longitudinal perspective.

Conclusion

All of the participating colleges developed financial difficulties due to a combination of a lack of vigilance regarding fiscal matters and an inadequate strategy to monitor fiscal conditions. These institutions did not make financial concerns a priority nor did they make financial responsibility a shared one. Finally, these institutions were not focused regarding their missions and how these relate to enrollment and fundraising initiatives. Because these small, non-profit colleges often operate on a narrow margin, the senior administrators of these institutions have to make certain that finances are

transparent and monitored on a regular basis. Although implementing new financial organizational and management strategies will not always preclude the possibility of financial problems in the future, as these are often the result of exogenous economic factors, implementing these changes will make certain that future financial problems do not catch these institutions unaware. Those institutions which are led by effective and knowledgeable leaders will benefit the most. This study revealed that surviving financial difficulties requires strong leadership, especially from the college presidents who are responsible for the day-to-day activities of the institution. The governing board of an institution plays an important role also. It has to have the foresight to hire an effective manager who will take the necessary action to solve financial problems and plan for long-term success. Finally, financial success also requires that the Finance Director is able to communicate effectively and be able to explain arcane financial concepts. The colleges that participated in this study were fortunate to have Finance Directors who were able to effectively communicate financial concepts.

All of the colleges in this study are currently making progress by improving their financial conditions by being more vigilant concerning finances, communicating the financial posture of their institutions across all college units, and measuring progress. In addition, for all the colleges there is an increased focus on enrollment, fundraising, other revenue initiatives.

Finally, the findings of this study have produced beneficial insights for financial managers, business officers, and other administrators at private colleges. The findings not only add to the literature in terms of isolating the causes of financial stress, but they

also helped to discern trends regarding the successful and unsuccessful strategies that private college administrators have at their disposal to address financial concerns.

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Appendix A

Interview Protocol

1) Please state your title and describe your role here at the college.
2) To better understand how your college functions, please describe its distinctive attributes as compared to similar institutions.
3) How does the mission of the college play a role in financial management decisions?
4) What is the governance structure of your institution? How does this affect the financial management decision-making at your institution? Please provide a brief description of how financial management decisions are made at your institution.
5) Please comment on the predominant streams of revenue and expenditures for your institution and which ones are the most important.
6) What do you deem to be the greatest financial challenges the college has faced in the recent past? What are the greatest financial challenges today and in the future? Have these specific financial challenges always existed? If not, please explain.
7) What external factors shape the financial environment at your institution? How do internal organizational structures and procedures influence the financial environment of your institution?
8) How does enrollment management play a part in the success of the college or play a role in financial management decisions?

9) How does the accreditation process influence the financial management environment at your institution?
10) What aspects of the financial management process at your college have been most affected by the recent economic downturn?
11) Please describe, in detail, how the college plans to meet current or future financial challenges and what organizational actors will be involved in the implementation process?
12) How does your institution measure financial management success? How do you know that the challenges have been met? How will the financial future of your institution be affected?

Appendix B

nsni NATIONAL SOCIAL NORMS INSTITUTE
at the UNIVERSITY of VIRGINIA

May 13, 2011

James Powell
Ph.D. Candidate
Curry School of Education
University of Virginia

Hand Delivery

RE: The Financial Management Practices of Small Private Non-Profit Colleges

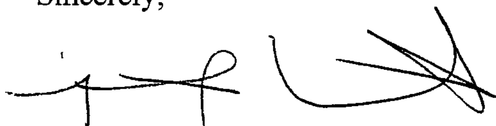
Dear Jim,

We each reviewed your interview notes in comparison to the content of your dissertation. Adrienne Keller reviewed the schools you identified as A, B and C (7 interviews total) and jennifer bauerle reviewed the schools you identified as D, E, F and G (6 interviews total).

We both found your handwritten notes to be clear and readable with excellent correspondence between the notes and the content of the dissertation. Your content was both accurate and complete, covering all major themes raised in the interviews and not inserting any material that was not reflected in the interviews.

Congratulations on a job well done. If you need any further documentation, do not hesitate to ask.

Sincerely,



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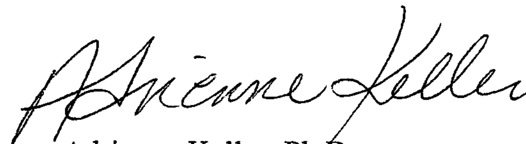

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