

Standard Nine Financial Resources

Description

Despite significant fluctuations in the global economy, continued financial stress related to state and federal support, and various other funding sources over the last several years, Goodwin College has ensured that its finances have remained sufficiently stable to support its mission. Goodwin College consists of Goodwin College, Inc., Goodwin College Foundation, and its real estate portfolio of residential properties, held under the name of Campus Realty, LLC, all nonprofit entities.

Presently, the majority of the college's revenue is derived from tuition, with a minimal amount from residential rents and grant funding. Tuition revenue remains strong for Goodwin, following a steady five-year growth in enrollment, and appears to be strong for the foreseeable future. Unfortunately, during times of financial turmoil, grant revenue will continue to show fluctuations as foundations regroup to recover declines in their endowments. Each year, the college recognizes the ebbs and flows of funding and, as a result, mirrors such events when preparing annual budgets, operating plans, and reviewing its Three-Year Plan. The college vigorously pursues new sources of revenue, building and diversifying its funding base. Each year, the college embraces a new fiscal paradigm as a result of its strategic planning process, matching future revenues with estimated operating expenses while securing and maintaining educational quality.

The college maintains the majority of its funds in non-restricted operating accounts, establishing a goal to maintain at least nine months of operating funds available at all times. In addition, the institution has a \$1.5M line-of-credit to assist in its cash flow needs.

Each month, the Chief Financial Officer and Director of Business Services distribute a financial package to members of the Board of Trustees' (BOT) Budget and Finance Committee, the President's Cabinet (all Vice Presidents), and selected members of the President's Advisory Committee. Included in this package is a comparative income statement and balance sheet, a detailed breakdown of expenses comparing previous and current fiscal years, a forecast of full-year income, schedules highlighting important financial ratios, construction cash flow, and Campus Realty financial statements. This is a very detailed financial compendium - essentially a monthly audit - that the various administrators and board members find very useful. All financial records are maintained according to Generally Accepted Accounting Principles (GAAP). Copies of these records are available for review by the college community and the general public upon request.

Planning and Budgeting

A conservative philosophy guides budget preparation. The planning and budgeting process includes the integration of academic, student service, fiscal, development, and physical resources priorities necessary to advance the college's operating and strategic planning objectives. The budgeting and expenditure process is implemented through the utilization of the college's financial accounting system, Peachtree. Within the Peachtree system, each department has a budget. Departmental managers receive their financial reports monthly, comparing actual to budget, to ensure prevention of cost overruns.

Analysis of the planning model is an integral part of the annual operating budget process. The college's budgeting process begins in the early spring. Budget requests are linked to department goals which are tied to the college's mission and strategic goals. Budgets are created by academic department chairs, service department heads, and program managers.

Between May and July, the individual budgets are summarized by the Budget and Finance Department and presented to the President.

The President, Executive VP/Provost, Chief Financial Officer, and the Assistant VP for Enrollment Services review the enrollment projections, fees, tuition, and operating expenses for the upcoming fiscal year to determine the revenue portion of the budget and establish tuition and fees. Upon final review of the revenue and expenditure projections, the Chief Financial Officer presents the proposed budget to the Budget and Finance Committee of the BOT for approval. After approval by the Budget and Finance Committee, the budget is posted to Blackboard for easy access for all board members to review prior to their meeting. Board members are invited and encouraged to raise questions and concerns regarding the operating budget. Once finalized, the Chairman of the Budget and Finance Committee submits the proposed budget to the full Board of Trustees for approval. Throughout the year, the BOT monitors the institution's annual operating budget, including capital expenditures, fees and tuition, and Institutional Aid.

Internal financial reporting has seen a significant improvement in terms of both quality of the information that is being published and the content quality. On a monthly basis, department heads and administrative managers now receive a year-to-date actual vs. budgeted expenses spreadsheet from the Finance Department for budget tracking purposes. All financial information is available to the Board of Trustees and its committees on Blackboard.

The college has an integrated planning and evaluation process to deal with unfavorable events. Contingency planning is a critical part of the college's operations. The college addresses most of its contingency needs by maintaining various fund balances upon which it can draw, if necessary, as well as its line of credit. In addition, cash-flow modeling is a large part of our monthly operations, providing an eighteen-month outlook to meet the needs of one-time expenditures that may be related to capital projects or operational expenses.

Sources of Revenue

As stated earlier, the main source of income for the college is tuition and fees. The college is diligently working to increase non-tuition revenue. Our federal, state, and private foundation grants increased from \$1.95M in FY 2007 to \$4.22M in FY 2008. FY 2009 is forecasted at \$1.5M. The college continues to expand its real estate holdings prudently. Campus Realty now owns 25 houses consisting of 40 rental units at a cost basis of \$4.7M dollars. The rental units generate just under \$30,000 monthly in gross revenue. On a net income basis, this portion of the real estate portfolio is breaking even after adding back depreciation and debt service. More importantly, Goodwin will continue to control the surrounding area to provide a safe environment for our students: in the long-term Goodwin will use this 100-acre area to expand its campus.

Fundraising is another important source of income. Goodwin College has made significant strides in building an advancement department that combines the latest in innovative fundraising ideas with traditional techniques. A central development office conducts all fundraising initiatives. A highly energized and experienced fundraising staff focuses on key functions including alumni relations; annual fund; corporate, foundation, and government grants; events; leadership/major giving, and planned/deferred gifts. The necessary infrastructure to maximize fundraising efforts is in place, including policies and procedures. Within the past year, constituent records in our fundraising database grew from 2,000 to 3,000. Working closely with the trustee liaison to the Office of Advancement and the Development Committee of the Board of Trustees, the first-ever annual fund campaign was

launched October 1, 2008. In FY 2009 the campaign reached 117% of its first-year goal. The Annual Fund, which started to see growth in 2008, comprises contributions from faculty, staff, friends, alumni, business, and trustees of the College. These funds are added to the Goodwin College Foundation and are ear marked for scholarships.

The college conducts its fund raising effort through the Goodwin College Foundation, incorporated in Connecticut as a non-stock, private corporation under IRS code section 501(c)(3). Income and expenses of the Foundation are consolidated with Goodwin College's annual audit. A separate Foundation Board is responsible for managing and investing all restricted and non-restricted funds. The Foundation is responsible for making certain that all gifts, restricted and non-restricted, are directed toward the intentions of the donor. At the close of the college's fiscal year, September 30, 2009, the cash held by the Foundation was \$824,551.

The members of the President's Cabinet are encouraged to seek other revenue sources to enhance the quality of the institution's programs and the quality of learning. Initiatives to offer new programs must also meet a market and budget test with the Department of Higher Education and the Board of Governors for Higher Education in Connecticut after gaining approval of the Goodwin College Board of Trustees.

Institutional Effectiveness

Audit and Compliance

Numerous internal and external controls help ensure financial integrity. In this age of transparency, awareness, and increased accountability, the Audit and Risk Management Committee of the BOT has taken on a significant role in facilitating the Board's fulfillment of its oversight responsibilities for reporting requirements as a 501(c)(3) institution. Its responsibilities include review of internal audit reports and policies and procedures regarding internal controls, compliance with all legal and regulatory requirements, and the selection and hiring of the external auditing firm. Goodwin College has only received unqualified opinions from our independent external auditors since its inception. The annual audit is conducted in accordance with Government Auditing Standards for Financial and Compliance Audits, the Federal Single Audit Act Amendments of 1996, and the provisions of the Federal Office of Management and Budget Circular A-133.

Goodwin College retains the services of O'Connell, Pace, & Company, P.C., an independent certified public accounting firm, to perform Goodwin College's annual state and federal audits. All audits have been filed on time and there have been no significant non-compliance issues. External and internal audit reports and management letters are presented to the President of the College, his senior administrators, and the Board of Trustees to ensure that appropriate action is initiated and incorporated.

Fiscal Policies & Documentation

All fiscal policies, including budgeting, investments, insurance, risk management, contracts and grants, and fund-raising and development activities are clearly stated in writing. The Financial Aid, Finance, and Accounting offices all have policy and procedure books that are available for review. All operating procedures are substantially documented.

Appraisal

Goodwin College has experienced significant increases in its net income for the past several fiscal years and forecasts this trend to continue. With the aid of various grants and steady enrollment, net income has not been an issue for the college. Given the college's current

enrollment and future projections, there are sufficient funds to meet the educational objectives of our programs. There are ample reserves to ensure continuing progress in expanding our educational offerings.

Since the last NEASC visit, the position of Chief Financial Officer (CFO) was filled in August 2006. The incumbent has over 20 years of senior-level financial experience. He quickly recognized that changes had to be made in order for Goodwin to move forward. Since then, significant improvements have been made with respect to relationships with banking institutions, the annual budgeting process, and the monthly preparation of the financial package for the Budget and Finance and the Audit and Risk Management Committees of the Board of Trustees. There have been enhancements to, and improvements in, policies and procedures within the Finance Department. However, there has not been an adequate training process put in place to ensure that these policies are well understood in the academic and administrative departments in the college. The resultant gap between the existence of policies and their practice may at times lead to inefficient and/or ineffective action. The CFO office recognizes that there is a need to provide better training for department heads and managers.

While many not-for-profit institutions are not required to follow the guidelines of the Sarbanes-Oxley Act of 2002, the college has in fact been following the increased demands for accountability and transparency in financial reporting. We recognize that senior management and our Board of Trustees and its committees are accountable for nearly everything that occurs under their watch, especially changes in the institution's financial health. To that end, Goodwin College has a clear set of budgeting and auditing guidelines that are reviewed annually.

The college has selected a new Student Information System (SIS) - SonisWeb - that includes an integrated financial module to replace its out-moded software packages. The Finance Department will benefit greatly from this change, primarily due to the large number of pre-loaded reports. This new system will also reduce the relatively large number of monthly adjustments now necessary to reconcile the two current systems.

Regarding cash flow, the College does an excellent job of forecasting an 18-month trend. The working relationship with our banking partner, New Alliance Bank, has been very beneficial for the college in refining the cash management process. At the start of each of the three semesters (January, May, and September), the college realizes a significant influx of cash that helps maintain its liquidity needs. Even though the college has a \$1.5M line of credit to cover payroll and various incidental expenditures, if needed, the college's cash flow is more than ample to handle payroll, payables, capital expenditures, and debt service. The new variable to Goodwin's operating model is the monthly payment of debt service on nearly \$24M borrowed for campus expansion. The approximate cash outlay for principal and interest is \$1.7M annually.

Another positive trend the college has experienced over the past several years is the growth of its unrestricted net assets. Since outlining and enforcing its capital expenditure policy three years ago, the college has become more efficient in selecting and targeting items to be capitalized; in the past, these may have been erroneously expensed, having a negative effect on the bottom line.

Goodwin College continues to move forward with its moderately aggressive plan to expand its campus and programs, demonstrating the prudent allocation of financial resources to execute its mission and purposes. Our annual audits have shown that the college has

operated in a fiscally responsible manner. The administration is acutely aware of the dangers of doing too much too fast. Therefore, it is Goodwin's policy to move slowly and thoroughly prior to seeking approval for new programs of study.

Regarding our continued growth, gross tuition revenue from FY 2005 to FY 2009 was \$12,612,000 and \$24,233,000 respectively, representing a 92% increase over the five-year period. This substantial increase is primarily due to the continued efforts to meet our student body needs and requests, employing effective retention efforts, introducing online learning, and aggressively recruiting current high school graduates as well as adult learners. For the fiscal years ending September 30, 2007, and September 30, 2009, changes in unrestricted net assets increased from \$4,669,000 to \$9,059,000, an increase of 94%. Our academic programs, most notably the Nursing program, designed to meet the needs of its community, will continue to play a crucial role in our continued growth strategy. Significantly, tuition increases at Goodwin have been kept to a minimum, compared to other institutions in our geographical area.

Goodwin College prides itself on allocating a significant amount of its cash flow to support the institution's programs. Operating expenses reflect that for the fiscal years 2005 through 2009, program costs accounted for over 80% of total operating expenses.

Areas of Achievement

- Successful conversion of institution from a for-profit entity to a nonprofit entity.
- Hiring of a CFO with senior-level financial experience.
- The successful conversion to FASB standards of accounting.
- A budgeting process tied to department goals and the strategic plan.
- A facilities and financial planning process tied to enrollment projections.
- Communication of the management, discussion and analysis of monthly operating results to the Board of Trustees and senior management.
- Development of a complete fiscal policy manual.
- Growth of Foundation account from approximately \$20,000 in FY 2005 to \$885K in FY 2009.

Areas of Concern

- Remaining competitive with program offerings to reach enrollment projections.
- Departmental managers have limited knowledge and understanding of financial systems and reports.
- Transition from current financial software to new SIS system and financial reporting package.

Projections

The long-term financial health of Goodwin College looks very bright. In the near-term, cash flow will continue to be tied to tuition revenue and enrollments. Fundraising as noted earlier will gradually take hold as our footprint broadens and the student population grows over the next three to five years. As Goodwin College moves forward as a baccalaureate institution, the Board of Trustees, led by the Budget and Finance Committee and Audit and Risk Management Committee, must continue to monitor financial issues and transactions that can affect the feasibility and timing of strategic decisions.

A modest five-year fiscal projection has been prepared for the institution through 2013. The projections in this model, even at a modest increase in the rate of enrollments, reflect that the institution will be able to maintain financial stability. Over the next few years the college needs to:

- Work to ensure that revenues continue to generate a sufficient cash flow to maintain and expand the campus, support our programs and student life, and support our annual debt service.
- Work towards increasing non-tuition revenue to 10% by 2013.
- Continue to expand the campus by purchasing an additional 40 residential properties in our targeted real estate portfolio areas. In addition, the college will be looking to acquire the rights to approximately 1,000 acres of land along the Connecticut River to advance our Environmental Studies program.
- Increase, substantially investments in financial aid, especially grants and scholarships, to support student needs.
- Begin the implementation of a three-year fundraising plan that projects an increase in the annual fund campaign from \$170,000 in FY 09 to \$217,000 in FY 2010 and an increase in the endowment of \$3M by 2012.
- Provide training to all managers and department chairs on how to read and understand budgets and other financial reports.