

NEASC STANDARD NINE FINANCIAL RESOURCES

Introduction

This section describes the manner in which Franklin Pierce University has preserved and enhanced its financial resources in order to support its academic and other activities. It details the process by which the University manages its financial resources and allocates them in a way that reflects its mission and purposes; it demonstrates that the University has developed the ability to respond to financial emergencies and unforeseen circumstances.

Description

Franklin Pierce has preserved and enhanced its financial resources since its 1998 decennial review.

The Endowment has grown from \$5.8 million to \$11.2 million. The Net Assets of the University have grown from \$11.98 million to \$16.53 million, the unrestricted Net Assets have grown from \$9.7 million to \$11.1 million, and the permanently restricted Net Assets have grown from \$1.18 million to \$2.43 million. (Exhibits 9.1, 9.2, 9.3)

The debt service expense has increased since the five-year interim report as a result of both the 2004 bond issuance of \$11 million and the financing of additional student housing in 2003. The University carefully evaluated and made a conscious decision to invest in its future by enhancing the campus and programs of the College at Rindge. The University is reducing capital expenditures in fiscal year 2008-2009 and beyond and using fundraising efforts to help limit the operational capital outflow to help offset the annual debt service related to this debt.

The land, buildings, and equipment, net of Depreciation, has increased from \$30.76 million to \$50.18 million as the physical plant of the College at Rindge has undergone a major transformation and expansion. This investment in facilities has resulted in construction of the state-of-the-art Marlin Fitzwater Center for Communications in 2002, the upgraded replacement of off-site student housing in 2003, the construction of additional student housing in 2004, upgrades to the athletic fields in 2003, the construction of a new boathouse and lakeside center in 2004, the construction of a new auditorium within the Campus Center in 2006, a new entrance walkway to the Campus Center in 2007, and the current construction of a new academic building that was completed in summer of 2008.

The University has increased its percentage of annual expenditures on Instruction, Student Services, and Academic Support in the past ten years from 60.13% to 63.8%. This increased allocation was driven by a deliberate strategic planning process. New funds were borrowed through the issuance and sale of \$11 million in tax-exempt bonds in order to support the major investments in academic facilities, athletics, and housing. The relationship between revenue and expenses was rebalanced in the summer of 2004, when circumstances required a reduction of expenses, along with a number of retrenchments.

As a consequence of these actions, Franklin Pierce is more financially stable than it was at the time of the 1998 self-study. The growth in the endowment is significant for an institution with our history, but is not sufficient. A review of our peers, aspirants, and institutions in the New Hampshire College and University Council indicates that the Franklin Pierce endowment is still smaller than those of most competitors. Likewise, although the University's ability to secure additional Tax Exempt Bonds is a measure of its increased security, the increased costs bear heavily on the University budget. Finally, the increase in Net Assets across all funds still reflects that Franklin Pierce remains at the low end of growth when compared with its peers.

Importantly, this growth in financial stability has not been achieved at the expense of educational quality. Spending increases have been targeted strategically to improvements in academic programs. This targeting is most evident in the development of programs within the College of Graduate and Professional Studies (CGPS). As noted in the five-year interim report, the University has allocated significant resources to building a strong CGPS online presence in both graduate and undergraduate programming. This investment has yielded substantial gains for the institution. Online undergraduate programming has grown from a total of 166 student seats in 2004-2005 to a total of 1,917 student seats in 2007-2008. Online graduate programming has grown from a total of 193 student seats in 2004-2005 to a total of 725 student seats in 2007-2008. The growth in online enrollment is steadily replacing in-class registration and has helped to stabilize and grow CGPS net revenues.

Since the 1998 self-study, the University has undertaken to diversify its curriculum through the delivery of new curricula including a Doctor of Arts (D.A.), a Doctor of Physical Therapy (D.P.T.), a Master of Education, an M.S. in Information Technology Management, and an M.S. in Sports and Facilities Management. In addition, the University has begun a B.S. completion program in Nursing, has created an online M.B.A. cohort in Luhansk, Ukraine, and is developing a new campus in Goodyear, AZ. Each of these programs has placed demands on limited resources; however, the resulting growth in enrollment has provided sufficient income to support the programs and make a positive contribution in terms of net income to the University budget.

The D.P.T. program began in fiscal year 2001-2002 generating revenues of \$21,000, producing a new profit of \$18,000 to the University; it has since grown to a program with preliminary figures for 2007-2008 reflecting \$2.4 million in revenue, producing a net profit of \$1.4 million to the University. The D.A. program began in fiscal year 2006-2007 with revenues of \$342,000 and a net profit of \$175,000, and is expected to produce a net profit of \$262,000 on revenues of \$653,000 in 2007-2008.

Growth is also evident at the College at Rindge. The undergraduate student body has grown in the past ten years from 1495 students to more than 1700 students in 2007-2008. The College has also enhanced and expanded its portfolio of international Study Abroad experiences, including *Pierce Walk in Europe*, *Pierce in Vienna*, *Pierce in Athens*, a Lyon-based experience, and a partnership with Arcadia University. Still, the institution remains heavily tuition-dependent. Accordingly, financial stability has been managed through a careful, self-consciously articulated strategy. Investment and growth have been driven by increased enrollment produced by targeted program development in CGPS and focused recruitment in the College at Rindge. (Exhibits 9.4, 9.5)

The Board of Trustees has been involved actively in the management of the University budget throughout this balancing process. The Trustees have exercised appropriate autonomy in all budget and financial matters. The Board is directly involved in all significant stages of building the annual budgets. The Board of Trustees has approved all major financial transactions, including the Marlin Fitzwater Center in 2002, the new student townhouses financed and built in 2003, the bond issuance in 2004, the Pierce Hall auditorium in the Campus Center in 2006, the new academic building, Petrocelli Hall, in 2007-2008, the Campus Village initiative under discussion in 2007-2008, and the Arizona campus project in 2007-2008.

The annual budgets are developed on the basis of a modeling process derived from an internal forecasting document covering ten financial and operating fiscal years. This model has been used for five years and is updated annually during the budgeting process. The model is also modified to reflect experience, changes in internal circumstances, and adjustments required by external environmental forces. Thus, the model has been adjusted, for example, as enrollments at the College at Rindge have reached maximum capacity, and as strategic planning and new initiatives have emerged. Senior Staff has had significant input into assumptions, projections, and decisions in all such activities. (Exhibit 9.6)

The Business Committee of the Board is updated in detail at each board meeting on the status of the budgeting process, including all high-level changes. The Business Committee is given reports detailing the actual budget, its comparison to current planning with all major variances and current projections explained. The full Board is given an update of all this information at each of its meetings and approves the final budget at the annual June meeting.

Especially important in ensuring the effectiveness of this budgeting process is the review of financial aid. The University has in place several processes and procedures designed to review, set, and assess the effectiveness of its financial aid policies and practices. Overall financial aid goals are discussed at the Board meetings. These discussions are informed by staff presentations on historical data, trends, and goals. The University's senior management team also independently reviews the data and meets on a regular basis with key personnel from Admissions, Student Financial Services, Finance, and Academic Affairs. Student Financial Services is responsible for both the distribution of aid packages and the billing process.

Enrollment goal setting is managed internally once the Board and Senior Staff have completed their due diligence. The University consults with Noel-Levitz Associates to insure that the student data set is based on accurate retention and student distribution historical data and that the final student aid targets will allow the University to attract and retain the students it needs to achieve balance. The Strategic Enrollment Management Council is charged with providing management and the Board with an ongoing and systematic review of enrollments, educational trends, and aid. To ensure effective aid management practices, the Board is given a summary of the fiscal year's scholarship aid as a percentage of Tuition and Fees accompanied by recent comparative data. Unusual trends and fluctuations from the goals are reviewed.

The institution strives to ensure sound financial decision-making through a well-organized budget process, appropriate internal control mechanisms, active risk assessment, and timely

financial reporting. A Fixed Asset policy was instituted in 2002, and subsequently revised after Senior Staff and Board review. A travel, credit card, reimbursements and advances policy was established in 2005 and has been reviewed annually since. Purchasing and Human Resources policies are reviewed annually by the Vice President of Finance and Administration, in consultation with the Senior Staff.

Workflows were analyzed for the majority of the functions of the Accounting department including accounts payable, cash receipts, payroll, monthly reporting, account analysis and general ledger functions. Likewise, new spreadsheets for detailed salary analysis for budgeting and expense tracking were put into place in 2002 and new internal controls have been added. They include a tie-out of the major components of revenues and expenses to subsystems for reasonability, including scholarships, tuition, room, board and fees both at the College at Rindge and for site/program revenues and expenses for the CGPS. Internal controls have also been added to safeguard the University's financial resources. These include separation of duties, sign-off procedures for all capital purchases, and the addition of fixed asset software for tracking and inventory.

The University provides timely reporting of monthly financial activities to all Vice Presidents for distribution to their respective reporting units. These monthly reports detail departmental activity, year-to-date balances, budget flows, and funds remaining as a percentage of total budget. Vice Presidents also receive three-year historical summaries of final budgets as well as current-year budgets during the annual budgeting process. The Office of Finance and Administration also provides the Board and senior management with updated projections three times a year, usually at the Board meetings. (Exhibit 9.7)

Because of limited resources, however, the University remains carefully balanced and dependent upon the development of new revenue flows to sustain existing programs while growing the endowment and its net assets. This reality limits the institution's ability to be more effective with contingency planning and institutional preparation for unexpected capital and operational expenditures. The University is working to manage these constraints.

An example of the difficulties posed by these financial constraints can be found in the obstacles encountered with the development of the new Goodyear campus. The University is not currently in a position to enter into additional long-term debt agreements, causing the institution to consider more complicated funding strategies. Another example is evident in the University's exploration of a Campus Village Initiative for the College at Rindge. Again, the University's desires are constrained by the necessity of not absorbing any additional debt.

Similarly, limited financial resources have also required the University to focus almost exclusively on market-driven curricular planning. New CGPS graduate and online programs have had a significantly positive impact on the University's financial condition. The success of these programs has also served to offset the steady decline in the adult undergraduate programs. Each new opportunity is carefully discussed, researched and analyzed to ensure that the senior management and the Board of Trustees can make effective decisions. Costs and risks are evaluated in light of their impact on student life, academic programs, and institutional reputation. Budgets are prepared for each new venture to assess potential impact and to determine the

potential risk exposure. Review and feedback are solicited from internal and external constituencies.

Recent examples of this process include the development of the *Pierce in Vienna*, *Pierce in Athens*, and Lyon Study Abroad programs, the delivery of an online M.B.A. in Luhansk, and the development of an Associate of Science in Nursing degree in Goodyear. The planning for operations in Arizona occurred in several phases, beginning with extensive due diligence led by the Vice President for Strategic Initiatives. This phase has been followed by intensive work examining the necessary accreditation and approval processes both in New Hampshire and Arizona, and will be completed with the development of formal business plans that will meet University needs and insure the delivery of quality education. (Exhibit 4.4)

The University has developed a disciplined approach to resource allocation and operational deficit management. The 2001-2002 Academic Prioritization and 2002-2003 Administrative Review processes are good examples of this discipline. These important planning and evaluation efforts involved an extensive review of all academic programs and administrative functions in an effort to reallocate resources, to create efficiencies, and to support targeted growth. Both reviews were also intentionally tied to an articulated, specific intention to craft a realistic plan to anticipate and address issues raised by repeated operational deficits. Such a deficit emerged in the spring and summer of 2005, but senior management actively took steps to manage the short-fall by reducing services across the institution.

The Audit Committee seeks to ensure that the University's finances and transactions are audited in accordance with the generally accepted auditing standards for colleges and universities as adopted by the American Institute of Certified Public Accountants. The Audit Committee engages the external auditors while insuring that the engagement letter and any reports remain separate from the control of senior management. The Audit Committee holds an annual audit planning session and any reports are received initially by the Audit Committee and senior management in independent executive sessions. The agreed-upon full report is presented to the audit and business committees and is received and reviewed by the full Board. The Audit Committee ensures that all items in the management letter are addressed by senior management. (Exhibit 9.8)

The University has policies and procedures that stipulate the conditions and terms under which gifts are solicited and accepted. The University has a formal, written, gift acceptance policy, a similar policy for gifts of art, and a campaign-crediting policy. The Office of Institutional Advancement is responsible for prospective donors, alumni, and the Donor's Bill of Rights. These Rights are posted on the Institutional Advancement web page. Institutional Advancement is forthcoming and accurate about its mission, its needs, and its philanthropic goals in all written materials, letters of solicitation, proposal and publications,

For major gifts, the Office of Institutional Advancement creates pledge and gift agreements that include specific descriptions of the size of the gift, the specific purpose for which it is intended, the fund to which it will be applied, and a full disclosure of the tax implications. For endowed gifts, donors receive annual stewardship reports, and, if relevant, the balance in their fund and the rate of return received on the principal.

In general, then, most major fiscal policies, including those related to budgeting, investments, insurance, risk management, contracts, grants, transfers and inter-fund borrowing, fund-raising, and other institutional advancement activities, are governed by written policies, managed by Senior Staff in accordance with those policies, and defined and reviewed by the Board of Trustees to insure consistent compliance with ethical and sound financial practices. (Exhibit 9.9)

Appraisal

While significant gains have been made in improving the operations and management of University budgets and the budgeting process, its capital structure remains costly and the University must continue to make management of its existing debt a high priority. In the same vein, the University has been remarkably successful in obtaining donations and especially federal funds to underwrite capital projects and program development. Since fiscal year 1999-2000, the University has received or released into unrestricted net assets over \$21 million from contributions, state and federal grants. Examples of the projects and programming successfully funded include: Pierce Hall, the Marlin Fitzwater Center, the Athletic Fields, the Petrocelli Hall academic building, the online M.B.A. in Luhansk, and the B.S. in Nursing completion program. Additional work is necessary to create an ongoing source of contributions to sustain these projects for the long-term.

Although there has been an extensive upgrading of, and improvement in, written policies and procedures within Finance and Administration, there has not been an effective training process to insure that those policies are known well and implemented. The resultant gap between the existence of policies and their practice leads to ineffective action. Finance and Administration recognizes that it needs to train budget managers to understand, implement, and monitor current financial industry standards, and to insure that University policies cover all financial controls required for effective budget management.

Finance and Administration also realizes that the University does not have an effective job performance review assessment process. There is no formal institution-wide process for evaluating individual job performance, for monitoring individual progress across time, or for rewarding employees who consistently produce superior work and service. The current Jenzabar system is insufficient to produce reports necessary to maintain optimal budget management strategies. The Office of Finance and Administration completes some responsibilities off-system, and budget management and reporting is both slow and awkward. The University will be implementing Jenzabar EX in the summer of 2009 (an eighteen-month process). This upgrade is suitable to address these functionality issues and assumes a comprehensive training program for staff.

Finally, the University must address its recurring cash flow problems. The \$5 million line of credit currently available is adequate to the University's needs, but the institution draws on the line too often and too heavily for comfort or efficient management. The Office of Finance and Administration has begun to address this problem by reducing 2008-2009 capital allocation from \$3.5 million to \$2.5 million and building significant contingencies into the operational budgets. Capital expenditures will need to be managed most carefully in the coming years. Such an

endeavor will put short-term pressure on the institution to manage operational expenses better, but the long-term results are essential to effective management and continued growth.

Projection

The Vice President for Institutional Advancement will continue to develop opportunities for attracting and retaining ongoing sources of contributions to underwrite and sustain major capital projects over the long-term. The University has been remarkably successful in obtaining donations and especially federal funds to underwrite capital projects and program development.

The Vice President for Strategic Initiatives will work with other senior management to seek alternative revenue sources such as the Campus Village Initiative that will use existing assets as revenue generating sources and for additional expansion and enhancement of the core mission. Increasing other revenue sources for the University will reduce the dependency on tuition long term. Feasibility phases are currently taking place for CVI and results are expected during the fiscal year 2008-2009.

The Vice President for Finance and Administration (VPFA) will continue to work with other senior management to strengthen the financial position of the University including growing the net assets and investments of the University, and reductions in short term borrowings. Operational budgets beginning with fiscal year 2008-2009 have been built with additional contingencies that should result in operational surpluses in operations, and each year these contingencies will be increased. Capital budgets from operations beginning in fiscal year 2008-2009 have been reduced significantly and are inclusive of contingencies that will be increased annually to gain on the cash position and reduce borrowing.

The VPFA will review and revise all financial policies and procedures to ensure that the system of internal financial controls is at, or above, industry standard. The VPFA will present the Senior Staff and the President with regular updates as the financial policies and procedures are revised.

The VPFA and staff will develop a more robust reporting structure taking full advantage of the newly acquired Jenzabar EX system. Development of this new reporting structure will require a thorough review of the appropriateness of current institutional benchmarks for financial comparisons. The VPFA will develop a new list of appropriate benchmark institutions once this review is complete. A proposal listing the new benchmark institutions and describing the preferred reporting structure should be reviewed and approved by Senior Staff and the President by April 2009.

The VPFA will work closely with the Director of Human Resources to establish an institution-wide training process to insure that the faculty, staff, and administration understand and comply with the financial controls. Training will focus primarily on enhancing employee competencies with policies and procedures and Jenzabar EX software package. The Jenzabar EX training will begin in the spring/summer of 2009.

The Director of Human Resources will develop a standardized job performance review system that will allow for evaluation and comparison of administrative staff throughout the University.

The primary focus of this endeavor will be the development of the policies and procedures required to standardize such a system of review. The new job performance review system should be reviewed and approved by the Senior Staff and the President by October 2010.

The VPFA and staff will develop a formal capital expenditures plan capable of informing the 2011-2015 Strategic Plan. The capital expenditures plan will propose strategic capital allocation scenarios for the 2011-2015 period. These scenarios should be designed to enable optimal cash flow strategies. The capital expenditures plan will be presented to the Senior Staff and the President by April 2010.