National Association of State Administrators and Supervisors of Private Schools — by Scott Rhude

Discussion on Reading Financial Statements for private Colleges
Financial Instability Often Leads to:

- Reduced expenditures on educational activities
- Poor outcomes, retention placement
- Reduced marketing expenditures which only exasperates the financial problem
- Reduced focus on regulatory issues
- Non payment of bills, which often leads to lack of educational and other supplies
- Closure of school, very large disruption to students and faculty/staff
Four Basic Groups of Schools

- Non accredited vocational schools
- Accredited vocational schools
- Young degree granting schools, seeking or having accreditation
- Mature degree granting accredited schools.
Non Accredited Vocational Schools

- Common issues effecting financials:
  - Often are counting on next months enrollment to pay the bills.
  - Often underestimate the expertise needed to comply with regulations. They underestimate the time and money needed to get all the necessary approvals.
  - Often overestimate enrollment projections and underestimate advertising and educational expenses needed to enroll and train students.
  - Often have no safety net of capital to put into the school when not everything goes according to plan.
Young degree granting schools

- Common issues effecting financials:
  - As degree programs go into their 2\textsuperscript{nd}, 3\textsuperscript{rd}, 4\textsuperscript{th} year, the classes get smaller because of retention and they do not budget for this.
  - They often underestimate the cost of the increased demand of degree programs as the programs mature. Faculty costs (advanced degrees and specialized talents), specialized equipment costs, facility/space costs.
  - The increased financial and management burden from regulators from the accreditation commission, state regulators, USDOE, guarantee auditors. As a school gets larger, these costs increase dramatically from consultants, accountants, attorneys etc.
  - Often underestimate the marketing costs needed to support these longer programs.
Mature degree granting schools

- Issues effecting their financials
  - It is hard to turn around a large ship, if revenues fall, they have a hard time cutting costs to compensate.
  - Even though they are doing well, they often do not leave enough equity in the company for a rainy day
  - They get arrogant with their regulators and don’t follow all of the rules
Overall issues to consider

1. The financial strength of the organization. Does the organization/owners have cash and capital to support the ups and downs of this industry.
2. The experience and depth of the management. How many cycles have they been through.
3. How realistic are their projections for enrollment, revenues and expenses.
4. How realistic are they about the amount of management talent and number of staff that they will need to successfully operate the school.
Overall Factors

- Current Liabilities vs. Current Assets
- Capital in Company
- Availability of additional capital from parent company or owners
- Reading the footnotes carefully to determine any potential large liabilities.
- Trends of revenue and expenses