2021 INDICATOR REPORT FOR THE HIGHER LEARNING COMMISSION

Central Christian College of Kansas

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INTRODUCTION

The following report is in response to a June 28, 2021 request asking Central Christian College of Kansas (CCCK) to provide materials to be used by an HLC Financial Panel. The primary concern is associated with an institutional composite score "Below the Zone." In the fall of 2020, the College had reported to the Commission a preliminary score of 0.74. With the audit now complete data confirms a CFI of 0.8 (0.76)[1].

The following supporting documents accompany this response:

- Commission Requested
  - Audited Financials [2020, 2019, 2018]
  - Three-Year Budget: Proposed is related to FY2022, Current is the Preliminary FY2021 Pre-Audited Data, Previous Years reflect post-audit data
  - Board and Finance Committee Meeting Minutes
  - Audit Management Letter [2020, 2019, 2018]
  - Interim Financial Statement [Please see *Financials 2021 - Draft*]
  - Enrollment Trends
  - Strategic Enrollment Management Plan [SEMP]
  - Individual Component Ratios [*CFI Dashboard Data]*
- Response Related: References to these documents are footnoted in the report.
  - HLC Financial Data Worksheet
  - CCCK-Forecasting Model FY2020
  - Admissions Comparison Report
  - Q2-Q3 OPM Review
  - Monthly Summary Report
  - Comp4cast Model
  - CapinCrouse Financial Health Analysis
  - Dashboards
  - Strategic Plan

IMPACTORS

In March of 2020, Central Christian College of Kansas (CCCK) hosted a Focused Visit (virtual), which primarily concentrated on financial concerns stemming from Composite Financial Index (CFI) scores in FY2018. The result of that visit indicated:

> "The College has been tasked to work to improve its financial health, implement strategies that will steadily approve [*sic*] the CFI – initial goal of consistently scoring above 1.0 with plans to improve to 1.5, and to undertake planning around enrollment, tuition, and operations such that financial solvency and long-term sustainability is evident.
>
> CCCK is undertaking a series of organizational and operational changes in order to position the College for financial solvency and long-term sustainability. Many of these efforts have been initiated by the new campus leadership team over the past two years. Results have just begun to be realized. After review of the documents provided by the institution and interviews of both

[1] FinancialDataWorksheets_FRM

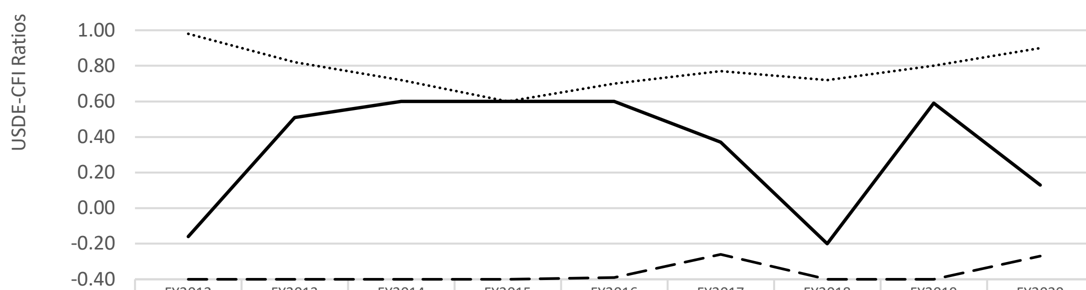
College leadership and the Board, the team concludes that monitoring, in the form of an embedded report in the institution's 2023-2024 comprehensive evaluation, is appropriate."

During that visit, the College was able to celebrate the fact that the FY2019 audit resulted in a CFI of 1.00, a milestone in recent College history, and a testament to the efforts made over the last number of years to address the CFI. Unfortunately, the Higher Learning Commission had adjusted its monitoring requirements in response to COVID-19, so the news, while internally celebrated, went largely unnoticed in light of greater societal concerns.

Another significant action, recognized during the 2020 Verification Visit, was the College's choice to replace its current auditors in favor of CapinCrouse LLP. This firm was largely chosen due to their extensive experience in higher education. Serving over 100 institutions, twenty-two of which are under the guidance of the Higher Learning Commission, it was determined that CapinCrouse could provide the depth of experience and insight to aid the College as it seeks to establish increasing levels of financial sustainability, with corresponding CFI scores. This first year of working with CapinCrouse has already provided new and effective insights into the operations of the College.

A significant aspect of that new relationship was the realization of needed adjustments that were required to ensure the integrity of the College's financials, a fact highlighted in the 2020 Verification Follow-up Report. These adjustments were essential to properly reflect net assets from prior years and reconcile adjustments to the endowment[2]. This constructive restatement was the outcome of intensive research into endowment records and solidifying efforts to ensure internal reconciliations were in alignment with audit results. Partially explained by these adjustments, a review of the discrete ratios (Figure 01) demonstrates that the College continued to realize gains in the Primary Reserve and Equity Ratios.

Figure 01: Discrete ratio calculations utilizing the USDE computations.



	FY2012 CFI = .40	FY2013 CFI = .90	FY2014 CFI = .90	FY2015 CFI = .80	FY2016 CFI = .90	FY2017 CFI = .90	FY2018 CFI = .10	FY2019 CFI = 1.1	FY2020 CFI = .80
Primary Reserve	-0.40	-0.40	-0.40	-0.40	-0.39	-0.26	-0.40	-0.40	-0.27
Equity	0.98	0.82	0.72	0.60	0.70	0.77	0.72	0.80	0.90
Net Income	-0.16	0.51	0.60	0.60	0.60	0.37	-0.20	0.59	0.13

However, due in part to COVID-19, which led to the suspension of residential classes and the suspension of the activities at the College owned daycare facility, the Net Income Ratio took a significant downturn

[2] The prior period adjustment (PPA) was made to fiscal year 2019, decreasing net assets with donor restrictions by $326,842 for irregularities in audited statement going back a number of years. The PPA also increased net assets without donor restrictions in fiscal year 2019 by $49,985 as a result of less investment income allocated to endowments due to the decrease in endowment net assets.

in FY2020. WhileFY2020 demonstrated steady improvements in the other two ratios, these advances were simply not enough to balance the decline in the Net Income Ratio that occurred in FY2020.

These losses, partially explained by the effects of COVID-19, resulted in a negative change in Unrestricted Net Assets. While the College was able to reduce some operational costs, our commitment to maintain employment and coursework through the spring outpaced resources in the final quarter of FY2020.

In FY2020, a substantial loss was experienced in relation to the College's business ventures. Historically, these strategic efforts have been a positive (and proftiable) element of the College's overall plan to improve the CFI. Specifically, the daycare facility has provided annual net revenues of approximately $300,000 to operations over the last four years (Table 01). However, a suspension of operations in response to COVID caused the daycare to post a net loss of $51,255, representing an approximated $275,000 loss to overall operations, compared to FY2019. While resources like the Payroll Protection Program allowed for the College to assist the employees of the daycare, the College was not able to make-up for the losses experienced in FY2020. As HEERF funds are evaluated, there may be some avenues for recuperation of those losses in FY2021 & FY2022.

Table 01

Daycare Revenue Expense Comparison

	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue	$1,163,580.00	$1,272,371.00	$1,396,101.00	$1,363,197.00	$1,148,268.00
Expenses	$861,348.00	$973,098.00	$1,014,439.00	$1,135,857.00	$1,199,523.00
Results	$302,232.00	$299,273.00	$381,662.00	$227,340.00	$(51,255.00)

*$302.627 average results FY2016-FY2019

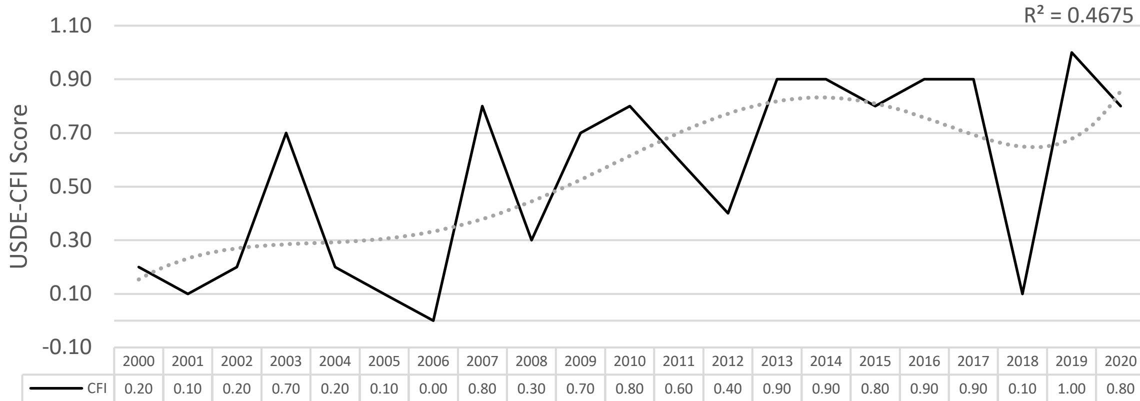
COMPOSITE FINANCIAL ANALYSIS

A historical overview of the data demonstrates that from 2000[3] to 2012 CFI scores were fairly erratic, with pronounced peaks and troughs. From 2013 on, other than an outlier in 2018[4], greater stability and stronger scores are evident (Figure 02).This trend suggests continual improvement and attests to the College's commitment to address its financial stability.

[3] The year 2000 is used as a reference point as that is the year Central Christian College of Kansas was first recognized as a four-year institution.

[4] The 2018 CFI was the result of a negative Net Income Ratio. A significant number of write-offs, associated with the online program, were realized that year ($1.45M), which had a significant negative effect on the Change in Unrestricted Net Assets.

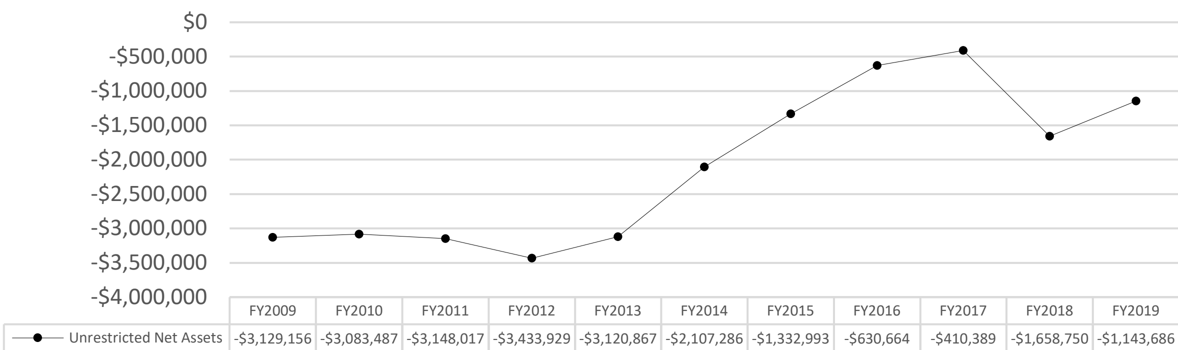
Figure 02: Historical CFI Scores using USDE computations[5]



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CFI	0.20	0.10	0.20	0.70	0.20	0.10	0.00	0.80	0.30	0.70	0.80	0.60	0.40	0.90	0.90	0.80	0.90	0.90	0.10	1.00	0.80

Of particular note is the progress made with the Primary Reserve Ratio, which has remained fairly stagnant for some time, masking the substantial gains that have been made related to the data points informing that ratio. A review of the data, presented in Figure 03, illustrates the $2.5M journey just to get that ratio to move beyond the minimum score achievable (-.40).

Figure 03: Unrestricted Net Assets from Fiscal Year 2009 through Fiscal Year 2020.

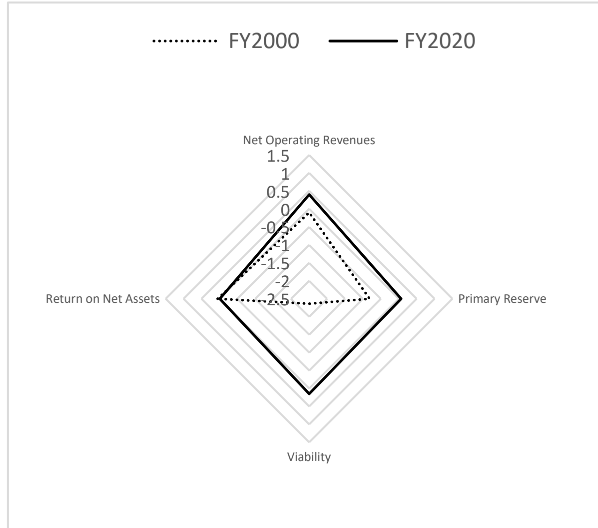


	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Unrestricted Net Assets	-$3,129,156	-$3,083,487	-$3,148,017	-$3,433,929	-$3,120,867	-$2,107,286	-$1,332,993	-$630,664	-$410,389	-$1,658,750	-$1,143,686

This evidence, including consistent improvements in the Equity Ratio, provide compelling evidence of the College's intentional and stable commitment to address its calculated sustainability.

[5] CFI calculated on current auditor standards – some figures may differ from historically reported ratios

When viewed from a Risk Assessment perspective, the College is demonstrating growth and improvement. The Graphic Financial Profile[6] provides a visual illustration of the College's progress since becoming a four-year institution. While discrete scores still remain below desired levels, the expanding nature of the values illustrate deliberate and purposeful growth, and while continued growth is clearly indicated, the College's determination and strategic efforts are having an effect.

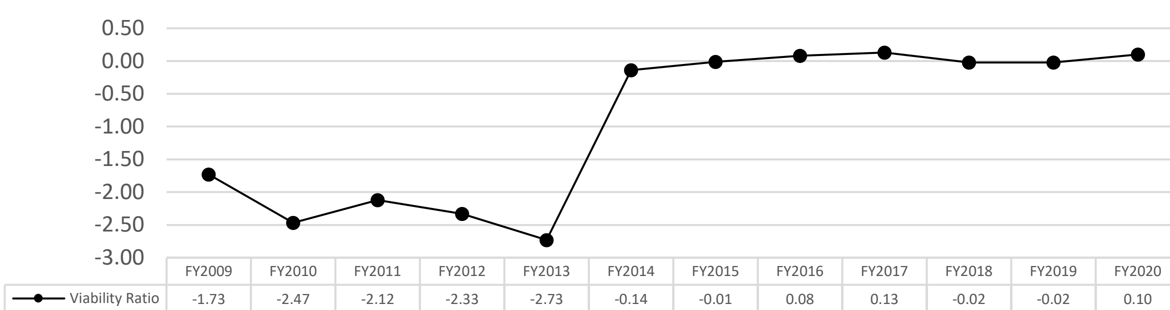


While not calculated as part of the Commission's review of financial stability, the Viability Ratio can provide clarity concerning the ability of the College to utilize expendable net assets to cover the current level of debt. The development of which is clearly indicated on the Graphic Financial Profile.

This ratio partially provides insight to the overall management of debt by the College, which has often been identified as a core culprit of a lagging CFI. In the case of CCCK, this improvement provides insight into how debt management is allowing for a reciprocal balance between addressing debt and providing for operational surplus.

The goal is to maintain a 1:1 ratio (or greater), which would provide greater operating flexibility. Historically, the College seemed to have grown accustomed to higher levels of disparity. Longitudinal data, reaching as far back as FY2000 demonstrates that this ratio was as low as -3.51 (FY2003). The improvement in the Viability Ratio (Figure 03) is a good sign, especially in light of correlating improvements in the Primary Reserve Ratio. Currently the ratio is just above the Watch Level identified by the College (Desired Benchmark >= 1.25; Watch Level >.45.

Figure 03: Viability Ratio Fiscal Year for 2009 through Fiscal Year 2020.



	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Viability Ratio	-1.73	-2.47	-2.12	-2.33	-2.73	-0.14	-0.01	0.08	0.13	-0.02	-0.02	0.10

Again, the College recognizes the need for growth. The intent of this report is not meant to deemphasize the fact that further development is needed. The College is acutely aware of its obligations, both to the

[6] Strategic Financial Analysis for Higher Education, 7th ed., KPMG, Prager, Sealy & Co., LLC, and Attain

Commission and our own constituency. A review of internal dashboarding clearly indicates a comprehensive approach to tracking and analyzing aspects of the CFI[7]

Using this data, the College, in alignment with guidance from the Board of Trustees, continually assess possibilities to positively affect the CFI. Currently, significant attention is on:

- Annual generation of operational surplus by expanding the gap between revenue and expenses, with a short-term focus on carry over liabilities
- Continued growth toward a positive Unrestricted Net Assets figure
- Strategic management of debt in favor of operational funds
- Increased strategic efforts concerning the interplay between enrollment data and net tuition data

In the next section, the College summarizes some of the specific strategies currently being pursued.

STRATEGIES

- **Trends Related to Revenue and Expenses:** Historically, the margins between revenue and expenses have been very narrow. This was an essential target of the budgetary modifications initiated in FY2019, the effect of which has helped address the Net Income Ratio. Issues arising out of COVID-19 weakened the effect of these initiatives in FY2020, but the College remains focused on maintaining its commitment to instituting these corrections. A few distinct foci include:
    - **Business Ventures**: With the implementation of the CCCK Foundation, greater focus was invested on evaluating the revenue potential of the Single Member LLC's operated by the Foundation. Some of these ventures were sold or closed due to decreasing margins. One was sold specifically to address the CFI, though it remained a positive revenue generator for the College (discussed in detail later).
    - **New Enrollment**: A revised Strategic Enrollment Management Plan (SEMP) was developed with specific attention on stabilizing enrollment revenue, (i.e.: tuition, fees, and auxiliary revenue) and respond to the demographic shifts in the market. Additionally, the College is furthering levels its relationships with external resources such as NRCCUA and Christian Connector, as well as participation in the NACCAP Leadership Development for Enrollment Professionals (https://www.naccap.org/page/LDEP).

      Online recruitment strategies are discussed as a part of weekly team meetings with the College's OPM, as well as bi-annual meetings between the OPM and the Leadership Team of the College. These meetings allow the two teams to review lead generation, application volume, and enrollment trends. Marketing strategies are discussed and evaluated to determine strategic approaches.[8]

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[7] CFI Dashboard Data
[8] Biannual OPM Review

An Admissions Comparison Report[9] (Weekly Admissions Report), related to the residential program, is reviewed by the Leadership Team weekly and by the Board monthly. This report provides year-to-year averages with target calculations embedded in the report, as well as projections. The report allows the College to become aware of fluctuations in enrollment and respond to them accordingly, which could include adjustments in the budget.

Following the outbreak of COVID in the spring of 2020, the College did realize a slight increase in enrollment in the fall of 2020 (4.5%). However, this increase was largely balanced out with a corresponding decrease in online enrollment. Residential projections for fall of 2021 suggest an incoming class comparable with the fall of 2020, as illustrated in the Admissions Comparison Report.

Online enrollment has recently begun realizing some slight gains and in the spring of 2021 CCCK launched its first graduate cohort with 18 students, eight more than originally projected. A second cohort is scheduled to begin in November of 2021.

- Retention: Also included in the SEMP, are specific initiatives to increase/stabilize retention and persistence. IPED's data suggests a trend of increasing retention (Table 02), which brings CCCK into better alignment with other independent institutions in the state of Kansas [IPEDS Data Feedback Report]. In light of COVID, the Office of Institutional Effectiveness provided retention projections to help in planning. Currently, that rate is projected to be 57%. This number is in keeping with trends, and suggests that retention initiatives continue to be effective.

Table 02

Retention Figures

	Overall (IPEDS)	Residential		Online
		Freshman	Transfer	
2018	41%	40%	50%	61%
2019	61%	60%	71%	53%
2020	64%	59%	67%	70%

- Residential Budget Management: In 2019 and 2020, as recognized by the Focused Visit Team, the College aggressively instituted a series of corrective actions to balance residential budgetary expenses. This has been a positive endeavor, helping the College close the gap between revenue and expenses.

  While the presence of COVID-19 related expenses and funding have created a number of outliers in operations and data trends, intentional tracking has assisted the College in maintaining a strong grasp on its operational resources. Though the College did experience a dip in the Net Income Ratio (FY2020), financial reports suggest that the College has endured the season of crises with little negative effect on resource allocation. Through the use of the Paycheck Protection Program, the College maintained

[9] Weekly Admissions Report

employment levels through-out the crises, ensuring consistency in operations and student care. Additional funding through the CARES/HEERF are helping to ensure that COVID-19 related expenses do not unduly hinder the College's ability to maintain student services and pursue its mission.

- **Long-Term Planning to Strategically Support Positive Operational Margins:** This is best illustrated through the following strategies
  - **Endowment Management:** With the establishment of the Foundation, the College has been able to investigate the makeup of the endowment to ensure that all gifts have been appropriately classified. This *deep dive* has identified possible modifications increasing the number of unrestricted and board-designated funds. While not new revenue, by reclassifying these funds in FY2020, the College has positively affected the figures associated with the Primary Reserve Ratio due to its relation to Unrestricted Net Assets.
  - **Debt Management:** From 2014-2017 debt was leveraged to positively affect the CFI and allow for investment into other assets and revenue generating enterprises. Over time, the debt burden began to outweigh the benefits, especially with decreasing enrollment trends. With a Debt Burden Ratio over 7% (the median target ratio), the College is striking a balance between the positive aspects of debt (borrowing on the equity, which does decrease the Viability Ratio) and the reality of cash flow related to debt service, which partially explains why there is not an aggressive effort to pay down debt. The short-term goal is to move the Debt Burden Ration between 5-7% and maintain an Interest Burden just below 3%. The sale of the Daycare Facility in FY2021 (discussed in greater detail later) has assisted this goal and provided an opportunity for the College to renegotiate a significant portion of its debt to ensure greater attention to principle reduction, representing a shift from interest only management indicative of the recent past.
  - **Board Communication:** In partnership with the President and the CFO, the Board has supported measures to ensure that the Board has an accurate understanding of the financial status of the institution, with particular interest in cash flow and cash management. This has allowed the Board to navigate beyond the enigmatic nature of fund balances to gain a clearer perspective of the cash position of the College. This is evidenced through monthly meetings between the Board's Finance Team, which is comprised of CCCK Board Members (including the Chair), Foundation Board Chair, Foundation Executive Director, CFO, and the President. The CFO Monthly Summary Report[10], provides data points such as Bank Balances, Accounts Receivable, Collections, Accounts Payable, Cash Flow, and other summary statements.
  - **Addressing Liabilities:** Currently, the primary target for improving the Equity Ratio is through a focus on paying down short-term liabilities, which includes accounts payable and accrued expenses. While this would not change the Modified Net Assets (equity), it would positively affect the denominator (Modified Assets), by decreasing Modified Assets and therefore produce a higher Equity Ratio. As can be seen in Table 03, this short-term

[10] Monthly Summary Report

strategic initiative has produced significant advances. The FY2021 will illustrate the effectiveness of this work, once it is complete.

Table 03

Average Accounts Payable Balance, by Quarter

	2019-2020	2020-2021	% Change – Year over Year
Q1	$1,286,232	$810,160	37% Decrease
Q2	$1,315,637	$846,242	36% Decrease
Q3	$1,324,574	$607,623	54% Decrease
Q4	$934,339	$687,682	26% Decrease

- **Informed Tracking & Planning:** To assist in tracking and planning, the College leverages a forecasting tool[11]. This instrument provides the ability to compare the last audited fiscal year, current year budgeted and projected, and forecasting for five years out. The models included in this tool allow the College to test scenarios in alignment with strategic initiatives, enrollment, and pricing. A tool that became very useful during COVID when evaluating financial probabilities. It also allows comparisons between current budget and projections. The current administration worked with, and continues to work with, the developer of the tool to ensure that calculations and assumptions are properly interpreted. This tool, used in conjunction with the budget (accrual & cash) and other regular reports, empowers the College leadership to make informed financial assessments.[12]

- **Strategic Planning & Key Performance Indicators:** CFI related goals have been included in the Strategic Plan, further amplifying the need to focus strategic attention and initiatives in alignment with the outcomes identified with the College (Strategic Plan 2021-2025 (Updated draft 2/8/2021) (fliphtml5.com).

RECENT ACTIONS

Launched in 2013, the development of related business ventures was an intentional strategy to assist the College by creating additional revenue generation. While the presence of these business entities have been helpful to cash flow, they have not made significant modifications in the CFI, other than helping to stabilize the data points related to the calculations. Over the last two years the College has divested itself from those ventures that were not proving profitable or beneficial to the operations of the College.

While the Daycare has represented a profitable venture, the Board sought to understand if there was a better way to leverage the asset so that it could have a greater effect of CFI. After careful consultation with the CCCK Foundation Board and the College's auditors (CapinCrouse), the Board determined that the sale of the Daycare would provide the College the opportunity to affect the CFI with greater expediency than what was being realized at that time. In response, the College was able to negotiate a sale that sought to reduce the debt burden, continue to generate annual revenue, and provide the College with

[11] COMP4Cast: comprehensive forecasting tool designed specifically for private higher education institutions, COMP4cast creates five-year financial statements that include CFI and DOE ratios, along with statements of cash flows, activities and position.
[12] CCCK-Forecasting Model FY2021

unrestricted assets that could have an immediate effect on the CFI. This sale occurred in FY2021 and will be included in that audit.

In selling the Daycare, which occurred in FY2021, the College was able to reduce its debt by $1M, affectively lowering its Debt Burden Ratio and Interest Ratio, which will have a positive effect on the Viability Ratio[13] [14]. In addition the College received $2M in cash proceeds, providing the College with additional unrestricted net assets, which will be realized in the FY2021 audit.

According to analysis provided by CapinCrouse[15], which was used by the Board during the deliberation process, the sale of the Daycare is projected to have a significant effect on the CFI in FY2021 (projected to be >2.0). The dramatic increase will stabilize in the years following at 1.5 or above. These projections are affirmed by the College's own projection models.[16]

This stabilization will be dependent on the College's management of resources, enrollment trends, and ensuring that the $2M in proceeds remains well capitalized and sheltered. Therefore, added to the ongoing strategies that have so positively affected the Primary Reserve and Equity Ratios to date, the College is now leveraging the investment of the $2M in such a way that it provides an annual return to assist in cash flow, while also protecting the corpus to further stabilize and improve the CFI. A this time, in accordance with counsel, $1.5M has already been invested in Guidestream Financial (https://www.guidestreamfinancial.com), with the remaining funds being held at People's Bank and Trust to be invested in accordance with Board directives, to be determined by October 2021.

CONCLUSION

While the .80 CFI in FY2020 warrants examination by the Commission, evidence demonstrates that the College is not just cognizant of the factors influencing its CFI score (financial viability), but it is actively engaged in strategies that have demonstrated results and had a positive effect on the operational viability of the College. Historically, the College has demonstrated a tenacious ability to manage its resources, ensuring the survival of its mission, while at the same time seeking greater and greater levels of fiscal strength and dexterity. Trends clearly validate that improvement is occurring.

The underlying strategies and tactics that have been employed by the College over the last seven years demonstrates a clear, consistent, and concerted effort on the part of the College to achieve financial solvency and long-term sustainability. The data trends attest to the efficacy of past enhancements and suggest continued progression in the future.

Central Christian College of Kansas is scheduled for a Comprehensive Evaluation in 2023-2024. Evidence suggests that the College is on track to provide further significant developments attesting to its continued progress. An analysis provided through CapinCrouse projects that the College should attain a CFI >2.0 in FY2021, followed by a CFI >= to 1.5 in the immediate years following.

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[13] Tracked by the College, as calculated by *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks* (Seventh Edition), by KPMG LLP; Prager, Sealy & Co., LLC; Attain LLC (KPMG-CFI).
[14] Some of this effect may not be fully realized until FY2022, as the $1M reduction in loans occurred at the end of the current fiscal year (2021).
[15] CapinCrouse Financial Health Analysis
[16] CCCK-Forecasting Model FY2021

In the meantime the College will continue to work its plan and looks forward the Comprehensive Evaluation in 2023-2024, in which the College may provide an ongoing positive narrative, supported by further data evidencing continued development and expansion of the College's financial indicators.