Schoolcraft 'Delighted' At Working Capital Fund

(EDITOR'S NOTE: The following letter, written by Schoolcraft College President, Dr. Eric J. Bradner, is in response to continued coverage of the college's finances by this newspaper. It contains the fullest discussion so far submitted about the college's fiscal situation, as well as an explanation of the need for operating capital to make up for irregular flows of revenue to the college.)

EDITOR:

This letter is occasioned by the appearance in THE OBSERVER of November 8, an article entitled: "Schoolcraft Amazed Up Pops $211,703."

I would like in the lines below to provide your readers with a more complete picture of the subject matter of the story than the article itself provided.

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SCHOOLCRAFT College, like all other public community colleges, is governed by certain stringent rules and regulations in the handling of its finances and keeping of its records and accounts.

The Board of Trustees employs an independent firm of certified public accountants to audit the records.

Since the college receives revenue from both state and federal sources, its books are at all times subject to additional audit from these sources. The college is required to publish annually the report of its auditors, so that the books are a matter of public record. In addition, your newspaper has been furnished and has published a copy of the audit.

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I TAKE NO issue with your article as to the fact of the $211,703 disclosed by the audit report for the year which ended June 30, 1967, nor do I contest the fact that this figure surprised us.

I may add, that in addition to surprising us, it also delighted us. We had anticipated some improvement of our financial situation, but had no idea we would fare so well.

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LET ME THEN approach the subject matter of the article by defining a term and clarifying a statement made in the first paragraph of the article and repeated later:

The $211,703 referred to is defined in the audit as "Fund Equity." It represents the amount by which income exceeds expense.

The $211,703 is not part of the contingency fund of any budget ever used by this college, as I will explain more fully later.

The $211,703 simply stated, is "working capital." It is money that every business, if you will, needs to maintain its operations on an even keel from one year to the next.

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LET ME GO back five years into the history of the college to provide some perspective on the college's "Fund Equity." In every case I will use figures for the general fund from the audit report of the applicable year. (The college as you know, opened its doors in August 1964, but it had been levying taxes and spending tax dollars for several years prior to the 1964-65 accounting year.)

The audit report for the year which ended June 30, 1963, showed a Fund Equity of $119,715. This was the accumulated excess of revenue over expenditures up to that point in the college's history.

During the year which ended June 30, 1964, as the college approached its opening date, expenditures exceeded revenues by nearly $60,000. The audit for that year showed a "Fund Equity" of $70,000, a drop of nearly $50,000.

Then the college opened, and in the year that ended June 30, 1965, the college for the first time received funds from two other primary sources than local taxes: state aid for its students, and tuition and fees from its students. During that year, expenditures again exceeded revenues by some $41,000. The "Fund Equity" of the college--its working capital, if you please--shrunk to slightly under $30,000.

In the year that ended June 30, 1966--the second year of the college--expenditures exceeded revenues, this time by about $16,000 and the "Fund Equity" dropped to $10,157.

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NOW, I HAVE stated that the "Fund Equity" is "working capital" and not part of the contingency fund of any budget. The working capital is, as we have said, the excess of revenue over expenses, and is accounted with the General Fund, which is used for year-to-year operation of the college.

Obviously, if expenses exceed revenues, the additional money must come from somewhere. Under the best circumstances, it comes from the so-called "working capital," the accumulated "Fund Equity."

As the audit reports plainly show over the years, the college's operating revenue is derived from three sources: local taxes, tuition and fees of students, and state aid.

The budget represents an estimate composed in advance of each operating year, of how much money will come in and how much can be spent. Hopefully, the money will come in, and hopefully, we will be able to live within our means.

Nowhere does any budget include as anticipated revenue, the "Fund Equity" of the college. Nowhere is this money included in the budgeted contingency fund of any budget.

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BEFORE RETURNING to a full explanation of the "surprise" we enjoyed a few weeks ago, let me go a bit deeper into the matter of revenue.

Schoolcraft College, as all public community colleges in Michigan, receives its income sporadically.

While expenses are incurred throughout the year, and are heaviest during the eight months between September and April, income is derived in fits and starts.

In order to pay bills, meet payrolls and other operating costs, the college in the fall of 1966 sold $140,000 in tax anticipation notes to get the cash necessary to meet its financial obligations until money which was due and coming to it finally arrived.

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THERE WAS NO other source of funds in the fall of 1966 to provide this cash so vitally needed to keep the college operating, pay the instructors and staff, and to satisfy the claims of creditors.

You will recall, that the college's "working capital"--its "Fund Equity"--was down to $10,157.

Unforeseen at the time the budget for the 1966-67 year was prepared in the spring of 1966 were several circumstances which were to materially affect the college's operation and financial picture during the year.

Foremost of these, as we discovered late in the college year, was that more students than had been anticipated enrolled in the college. The fall term enrollment was about as expected. Winter term enrollment was higher than expected and enrollment in the eight-week spring term exceeded all expectations.

By last mid-May, then, we were aware that from this source alone revenue would exceed projections made 12 months previously. What we did not know, and had no way of knowing, was by how much.

The business office on the basis of best information available to it, estimated this increase to be about $80,000 and so informed the Trustees before the present budget was adopted.

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HOWEVER, THE college's cash position late in the year was such that a halt was ordered on all spending in mid-May, 1967. As a result, we completed the year, as the audit disclosed, having underspent our budget by $10,000.

When the audit was completed, early this fall, we learned for the first time the exact nature of our enrollment windfall: 206 more full-time equated students than we had anticipated. This meant additional income of about $119,000--$68,000 in state aid, and $51,000 in tuition and fees.

The audit also disclosed that we had missed our estimate--made a year previous--of our reimbursement for technical-vocational programs by $24,000. In past years comparisons of our estimates with actual settlements have varied from minus $10,000 to plus $3,600.

We also finished the year with $11,000 in inventories, which become part of the "Fund Equity" figure.

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THUS WAS OUR surprise: Our Fund Equity had increased in one year from $10,157 to $218,528. This after a four year period in which the Fund Equity had dropped from $119,715 to $10,157.

Yes, we were surprised. And happy.

There is no disputing the fact that we ended the year with a far more robust working capital account than we had at any time since 1963.

There is also no disputing the fact that the Fund Equity figure is largely a "paper" figure and does not represent actual dollars in hand, free, clear and available for immediate use.

The facts, as disclosed by the audit, were that as of June 30, 1967--the date of the so-called "amazing" Fund Equity--the college had cash in the bank of $48,446, and owed $116,000 to vendors and for salaries and other costs. On that same date, there was owed and payable to the college $275,000 in uncollected accounts, including unpaid taxes.

All of this information is available in the 1967 year audit report.

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IT IS ALSO important to keep in mind a chronology of the financial life of the college.

Budgets are structured well in advance of the year to which they are to take effect and are based in largest measure on best guess estimates of how many students will enroll, and how much the tax base will grow, if at all, on the income side, and what unforseen costs might or could develop on the expense side. Foresight is based on experience and probabilities and is subject to a score of variables.

Thus the college found itself as the present year began on July 1, 1967, of now knowing exactly what its actual financial position was on one hand, but of being painfully aware on the other hand that there was far too little cash in the bank or on the horizon to meet both immediate cash needs and longer range expenses if it were to operate the college during the year on a balanced budget.

Confronted with this dilemma, college officials proposed, and the Trustees concurred in, two independent steps.

One was to sell $250,000 in tax anticipation notes to provide operating cash until local property taxes began coming in after Jan. 1. The second was to increase tuition to provide additional revenue to balance the budget. This tuition increase is not to become effective until after January 1, when the winter semester begins.

Contrary to reports printed in your newspaper, the 1967-68 year operating budget was, at the request of the trustees, cut back at the same time tuition was increased, to make up an obvious budget deficit.

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IN CONCLUSION, I would point out that Schoolcraft College has grown at a fantastic rate, exceeding perhaps the hopes of its friends and shattering the doubts of its few detractors. This growth is the fruit of a strengthening partnership between the college's dedication to excellence in education and the people who are using the facilities and resources of the college at an ever increasing rate.

Sound financial management is part and parcel of growth and continued dedication to excellence. This obligates the college to live within its means, and to do so realistically with cash in hand to meet its obligations and to maintain as far as is possible a steady course through solvency, as befits a healthy and growing institution.

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President

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