



rpK GROUP | MGT

Higher Education System Transformation Toolkit

Financial Analysis for Academic Units: An Exemplar for Higher Education

A consistent, data-informed approach for understanding revenue and expense by academic unit at one institution – and for combining findings across a system.



How to Use This Resource

Learn how to build a financial analysis at one institution, then how a system combines those findings into portfolio decisions.



1 Learn about a financial analysis *(Slides 3–4)*

See what a financial analysis is, how leaders use it, and the key terms used throughout.



2 Learn how the financial analysis is built *(Slides 5–8)*

Understand the assumptions and limitations. See how the in-scope dollars are defined at a single institution and turned into an academic unit-level lens through five sequential steps.



3 See sample approaches to a financial analysis *(Slides 9–20)*

Review an example for one institution — sample revenue, expense, and margin measures for each of its academic units.



4 Combine findings across institutions *(Slides 21–22)*

Once the approach works at one institution, and assumptions and limitations are acknowledged, apply the same rules at every institution so unit results are comparable and system-wide patterns become visible.



5 Drive system-level portfolio and operating decisions *(Slides 23–24)*

Use the combined results to guide reinvestment, surface operating-efficiency opportunities, program trajectory, cross-institution collaboration, and portfolio optimization.

What is a Financial Analysis?

AN INTERNAL LENS ON HOW ACADEMIC UNITS EARN AND SPEND

01 What is it?



A financial analysis approach that attributes unrestricted operating revenue and expense to the academic units that generate and consume them — producing a common lens for every academic unit.

03 How is a financial analysis conducted?



Multiple years of unrestricted financial, enrollment, and credit-hour data are aggregated into one set of in-analysis dollars, separated into direct and indirect activity, and assigned to academic units using agreed methodologies.

02 What does it reveal?



It may show which units subsidize others, how much overhead each carries, and where capacity exists to reinvest — without reducing academic decisions to a single financial score.

04 How are the results used?



Results inform program investment and sunset decisions, pricing and aid strategy, internal efficiencies related to courses, faculty, and programs, shared-service opportunities, and a repeatable annual review across every institution in the system.

Key Terms Used in This Resource

Definitions for readers outside institutional finance — the analysis only holds together when every institution uses these terms the same way.

Unrestricted operating funds

Revenue and expense the institution may spend at its own discretion. Restricted gifts and grants, auxiliary enterprises, and non-operating activity are excluded from the analysis.

Trial balance

The institution’s complete list of trial account balances for the year — the authoritative financial source every result reconciles back to.

Cost center

The finance unit a dollar is recorded against: an academic unit or administrative office.

Direct vs. indirect

Direct activity occurs inside an academic unit. Indirect is institutional overhead — IT, facilities, HR, library — allocated out on a driver (i.e. student credit hours).

SCH — student credit hours

Credit hours delivered by an academic unit in a term or year. The most common driver for attributing tuition and allocating overhead.

FTE — full-time equivalent

A workload measure. Student FTE converts enrollment to full-time equivalents; faculty and staff FTE does the same for personnel. The two are not interchangeable.

Direct margin vs. net margin

Direct margin is direct revenue less direct expense, before overhead. Net margin adds indirect revenue and subtracts allocated indirect expense from direct margin.

Contra-revenue

Scholarships, waivers, and institutional discounts, recorded as a reduction of gross tuition rather than as an expense.

Consistency matters: These terms appear throughout the rest of this resource. Where an institution defines one of them differently — a different chart-of-accounts structure, a different treatment of shared cost centers, or a different student FTE convention — that difference must be documented and standardized before results are compared across institutions.

Assumptions: What Must Hold True

EACH ASSUMPTION CARRIES A RISK IF IT DOES NOT HOLD – AND A CONTROL THAT MANAGES IT

01 Data ties to authoritative sources.



FOUNDATIONAL

Risk: If in-scope revenue and expense do not reconcile to the trial balance or audited financials, every unit result is wrong by the same unexplained amount.

Control: Reconcile before any unit result is published.

03 Allocation drivers are assumptions, not causal proof.



METHODOLOGICAL

Risk: The driver decides the outcome – credit hours, headcount, FTE, and direct expense each shift cost between units, and most scale with size.

Control: Publish every driver with its rationale and sensitivity-test alternatives.

02 Direct dollars are assigned before overhead is allocated.



METHODOLOGICAL

Risk: Allocating dollars that the source data already identifies to a unit blurs what the unit generates and spends.

Control: Apply one documented rule set for direct versus indirect, unchanged year over year.

04 Definitions standardized before institutions are compared.



INTERPRETIVE

Risk: Charts of accounts, cost-center structures, institution definitions, shared services, and data quality differ by institution.

Control: Standardize scope, exclusions, and drivers before combining results.

Limitations: What the Analysis Cannot Tell You

USE THE ANALYSIS AS A DECISION LENS, NOT A STANDALONE PROFITABILITY TEST

01 Use it to frame reinvestment and efficiency.



INTERPRETIVE

Results show where capacity exists to reinvest, which units carry subsidy, and where purchased services, space, and administrative cost can be reviewed — with mission context attached to every read.

03 Net margin can move with nothing changing inside a unit.



METHODOLOGICAL

A growing institutional overhead pool raises every unit's allocated cost even when its own revenue, enrollment, and direct expense are flat. Read allocated cost and direct margin separately before drawing conclusions.

02 Do not use it to rank or score academic units.



INTERPRETIVE

There is no single profitability threshold. A negative net margin may reflect allocated overhead or an intentional mission commitment rather than unit performance and says nothing about quality or student outcomes.

04 Financial results are one input among several.



INTERPRETIVE

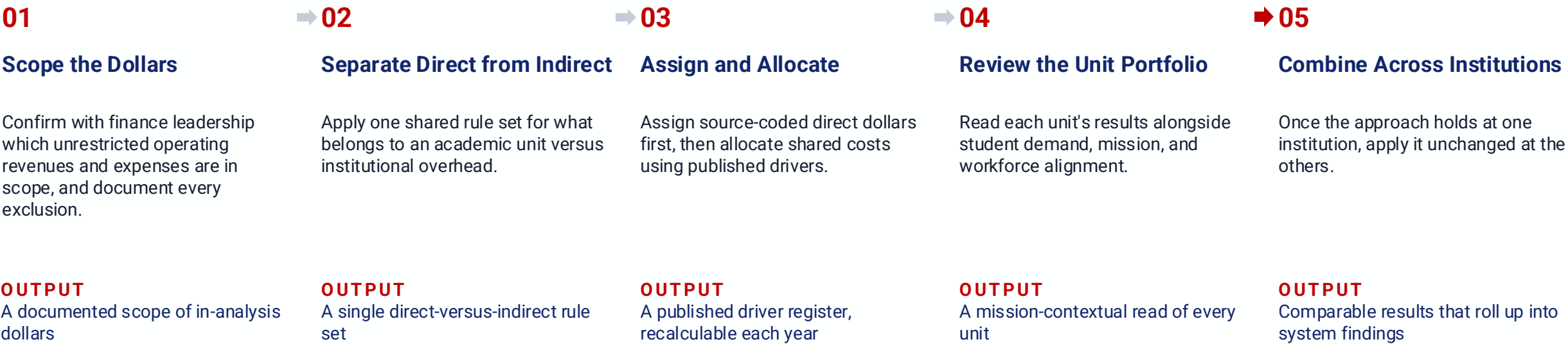
Read margin alongside student demand, mission, quality, workforce alignment, student outcomes, and local context. The analysis informs judgment; it does not replace it.

How to Deploy This Approach

This resource shows how to build a transparent financial analysis at a single institution first, then extend the same rules a cross a portfolio of institutions.

AT ONE INSTITUTION – BUILD AND RUN IT LOCALLY

ACROSS THE SYSTEM



PLAN FOR THE ALIGNMENT EFFORT

Steps 1–4 are analytical; step 5 is organizational. Systems should anticipate considerable effort bringing institutions onto common financial operating practices, chart-of-accounts structures, and reporting before results can be combined – that alignment work, not the calculation, is typically the longest part of the timeline.

Financial Analysis: Approach into Practice

SCOPE THE DOLLARS, RUN FIVE SEQUENTIAL STEPS, THEN COMBINE FINDINGS

DATA REQUIREMENTS

Financial Data: Multiple years of unrestricted revenue and expense detail from the trial balance or equivalent financial data, split by fund, cost center, labor, and operating activity.

Enrollment & Credit Hours: Student credit hours, majors, and headcount by level, and academic unit.

Personnel Data: Faculty and staff FTE by academic cost center, plus the allocation drivers used to distribute indirect cost.

- 1 Scope the Dollars**
Confirm which unrestricted revenues and expenses are in scope; exclude restricted, auxiliary, and non-operating activity.
- 2 Separate Direct from Indirect**
Treat activity occurring within an academic school or department as direct; everything else becomes institutional overhead.
- 3 Assign and Allocate**
Assign source-coded direct dollars first; allocate shared or institutional costs using published drivers.
- 4 Review the Unit Portfolio**
Understand each academic unit's financial analysis against student demand, mission, and workforce alignment to frame institutional decisions.
- 5 Combine Across Institutions**
Apply the same rules at each institution to align outputs, then roll results up to inform system decisions.

Sample Financial Analysis Approach & Output: Institution Level

See how revenues and expenses at the academic unit level can inform academic priorities and institutional investment decisions.

Objectives and Guiding Principles for Financial Analysis

What a consistent financial analysis accomplishes at every institution – and the principles that govern how results are produced, communicated, and used.



Data-informed

Show the revenue each academic unit generates and the direct and indirect cost it consumes, so margin is visible rather than assumed – then blend it with demand, quality, and mission context.



Transparent

Publish the scope, drivers, and results so deans, faculty, and staff can see how each unit's margin was derived – and replicate or challenge it before anything is decided.



Student-centered

Anchor every portfolio trade-off to student access, success, and the quality of learning and support.



Consistent & comparable

Apply the same scope, drivers, and reconciled data across every unit and institution so margins can be trusted, tracked over time, and compared fairly.

The Approach Should Cover Four Financial Components

Use the same definitions before comparing units or institutions. The sequence is deliberate: assign direct dollars first, then allocate indirect activity with documented drivers.



Direct Revenue

ILLUSTRATIVE COMPONENTS

- Gross tuition
- Course & lab fees
- Distance education fees
- Scholarships & discounts
- As applicable, appropriations & other miscellaneous revenue



Direct Expense

ILLUSTRATIVE COMPONENTS

- All salaries & benefits
- Academic unit operating expense
- Academic administration
- Faculty & course development



Indirect Revenue

ILLUSTRATIVE COMPONENTS

- As applicable, appropriations & other miscellaneous revenue
- Unrestricted contributions
- Student health & recreation fees
- Athletics fees
- Other institutional revenue



Indirect Expense

ILLUSTRATIVE UNITS

- Information Technology
- Finance & Budget
- Human Resources
- Facilities
- Library
- Student Affairs
- Institutional Support

FOR SYSTEMS – These components only combine across institutions if each is structured the same way everywhere. Expect a patient, collaborative effort to align how direct and indirect revenues and expenses are defined before system-level comparisons hold.

Example: Allocating Indirect Expenses to Academic Units

Illustrative: an indirect pool of \$54.4M, with each administrative unit's pool allocated to academic units on a single, transparent driver.



Facilities

\$12.8M pool | 24% of the total | Driver: student credit hours — space use tracks instructional volume



Information Technology

\$8.6M pool | 16% of the total | Driver: faculty and staff FTE — support scales with people



Student Affairs

\$7.4M pool | 14% of the total | Driver: student headcount and majors — service is delivered per student



Institutional Support

\$21.6M pool | 40% of the total | Driver: share of total direct expense — supports the enterprise proportionally



Library

\$4.0M pool | 7% of the total | Driver: student credit hours — worked through end to end on the next slide

Reconciliation: The five pools sum to the illustrative \$54.4M indirect pool — nothing is left undistributed and nothing is counted twice. Shares are rounded to whole percentages and may not total 100%. Each pool uses a single, transparent driver rather than a blended formula, trading some precision for a method others can follow and audit. Driver selection is an assumption, not causal proof; drivers are sensitivity-tested during validation. Because four of the five drivers scale with size, larger academic units absorb most of the overhead.

Example: Distributing One Administrative Unit's Cost

Illustrative pool and credit-hour shares: library indirect expense flows to academic units on a single driver.

LIBRARY — \$4.0M

The total annual library expense to distribute across academic units.

4

academic units share the \$4.0M pool

Distributed on each unit's share of SCH

- 1 Start with the \$4.0M library expense pool for the year
- 2 Choose one driver: student credit hours delivered by each academic unit
- 3 Distribute the pool on each unit's SCH share — College of Arts & Sciences: 60.0% of SCH, \$2.4M
- 4 School of Allied Health: 27.7% of SCH, \$1.1M
- 5 College of Business: 9.7% of SCH, \$0.4M
- 6 School of Engineering: 2.6% of SCH, \$0.1M
- 7 Every dollar lands in an academic unit; repeat the same method for each administrative unit

Core Measures and Diagnostic Metrics

Illustrative: define a smaller metric set so results are comparable, explainable, and decision-useful.



Direct Revenue

Gross tuition + fees less aid/discounts | Revenue by unit | Five-year trend



Direct Expense

Labor + operating cost inside academic units | Cost per SCH | Labor share



Direct Margin

Direct revenue less direct expense | Contribution before overhead | Five-year trend



Allocated Indirect Expense

Support-cost pools assigned using published drivers | Driver sensitivity | Reconciliation



Net Margin

Direct margin + indirect revenue less allocated indirect expense | Net margin by unit | Five-year trend



Net Tuition per SCH

Gross tuition less aid/discounts divided by SCH | By level and unit



Unit Scale

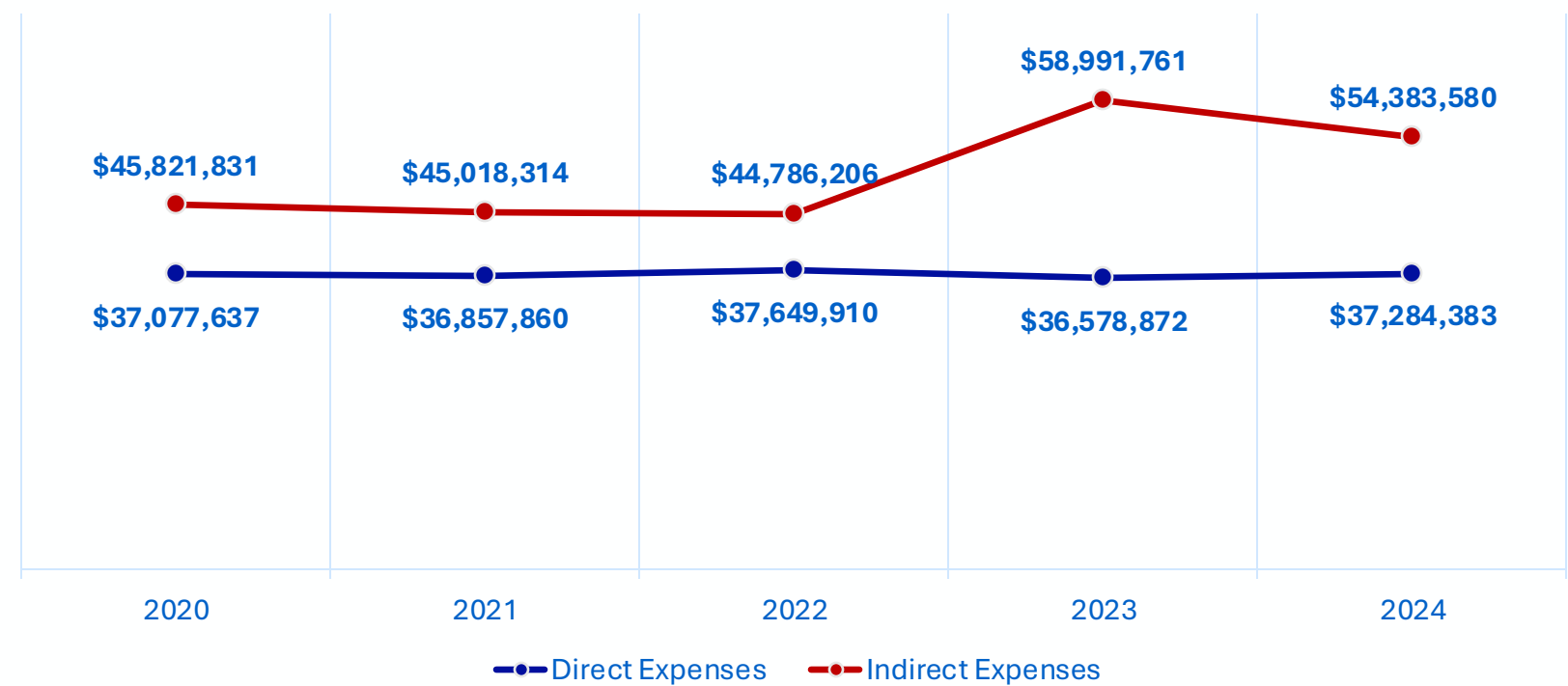
SCH, majors, sections, and faculty FTE | Five-year demand trend



Subsidy Position

Units generating contribution or requiring support | Mission context required

Direct Expenses Remained Flat During the Years of Analysis While Indirect Expenses Increased



1.5×

Indirect expense per \$1 of direct expense in FY2024, up from 1.2× in FY2020

+\$8.6M

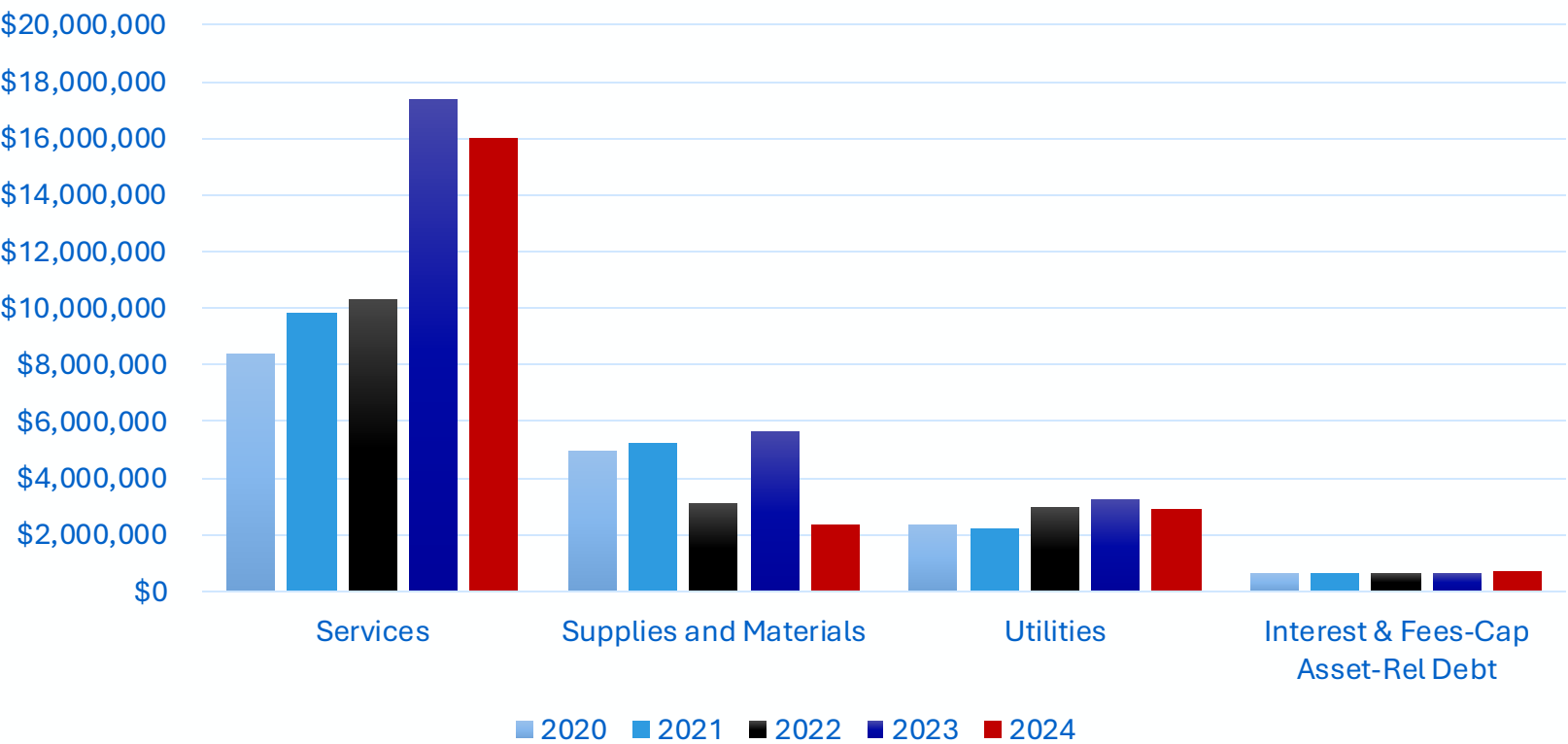
More indirect expense in FY2024 than FY2020, while direct expense stayed flat

59%

Of total expense was indirect in FY2024, up from 55% in FY2020

Why it matters: Indirect cost is allocated to academic units, so a growing pool raises every unit’s allocated overhead even when nothing changes inside the unit. The next slides isolate what drove the growth and distribute the FY2024 pool of \$54.4M across the four academic units.

Growth in Purchased Services Drove the Increase in Indirect Operating Expenses



+92%

Growth in purchased services, FY2020 to FY2024 — from \$8.4M to \$16.0M

+\$7.7M

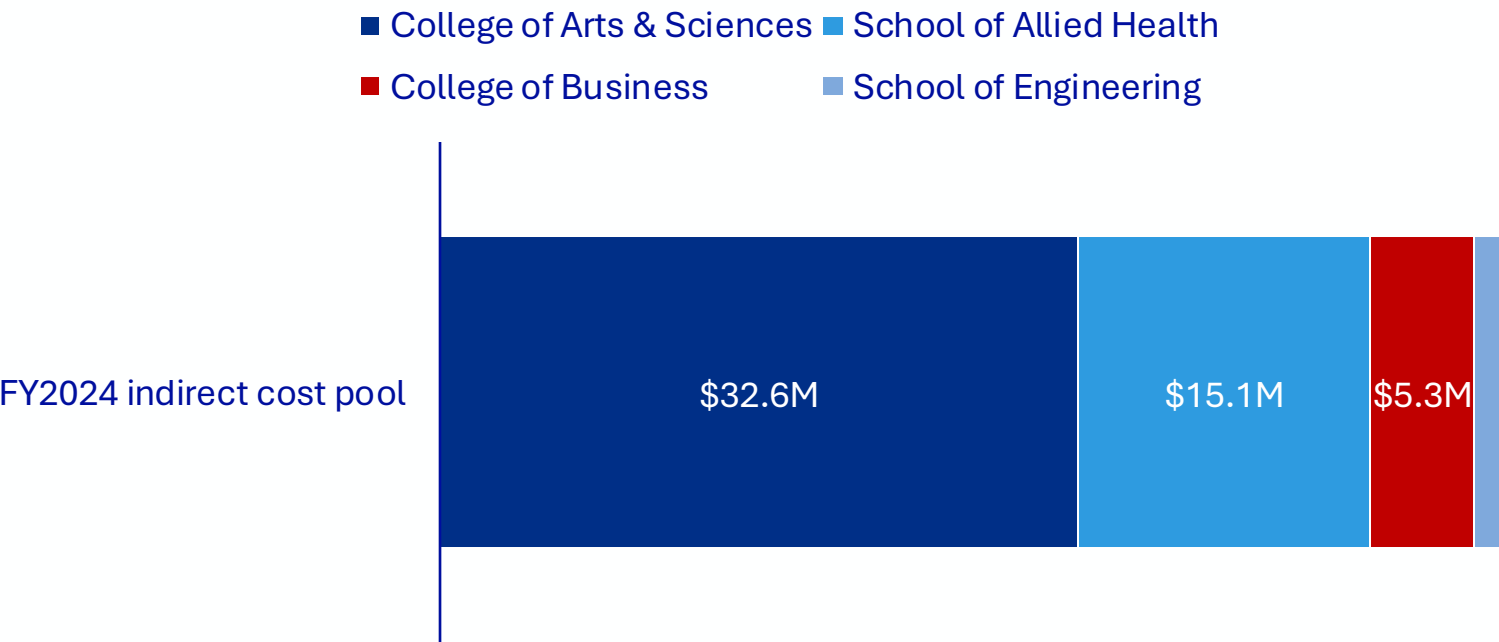
Of the rise in indirect operating expense comes from purchased services alone

73%

Of indirect operating expense was purchased services in FY2024, up from 51% in FY2020

Why it matters: Purchased services are contracted spend rather than fixed plant, making them the most reviewable part of the indirect pool — and every dollar reduced there lowers the overhead allocated to each academic unit. Supplies, utilities, and debt service stayed comparatively flat.

Under a Single Credit-Hour Driver, the \$54.4M Pool Follows Each Unit's Share of Credit Hours



\$405

Indirect cost per student credit hour under this single-driver scenario

60.0%

Of credit hours delivered by the College of Arts & Sciences — and 60.0% of the pool

\$54.4M

Illustrative pool fully distributed; every dollar lands in an academic unit

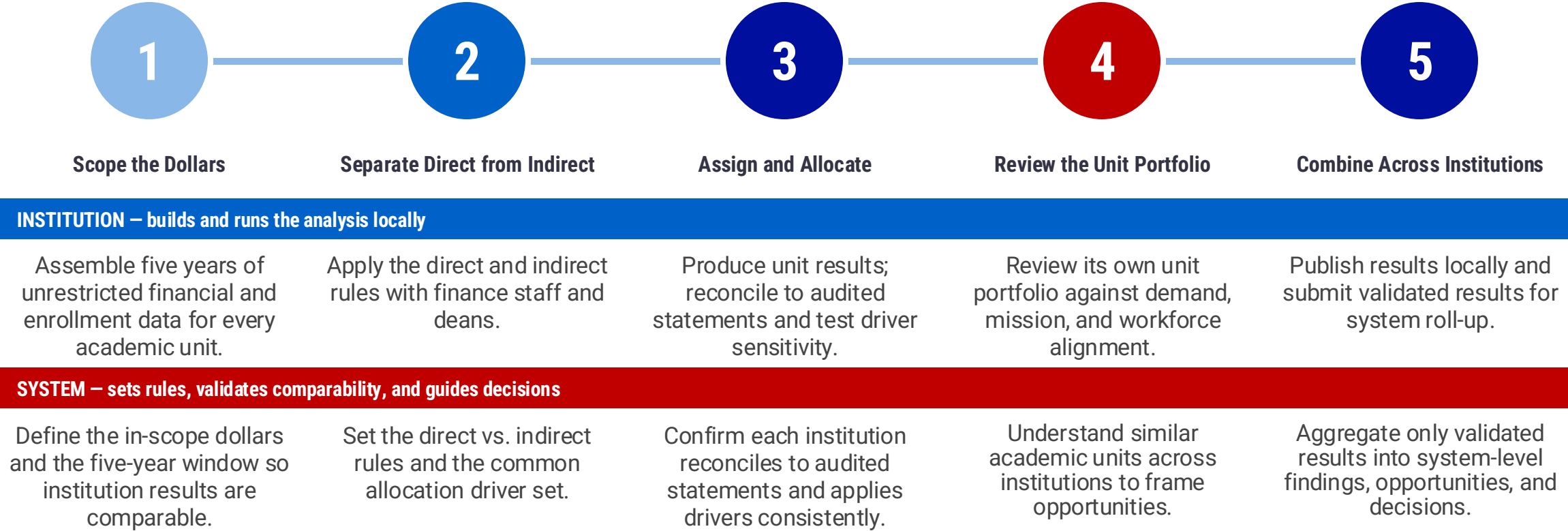
Why it matters: The driver decides the outcome. This view simplifies the method to one credit-hour driver; the approach shown earlier assigns each administrative pool its own driver. Under a single driver, each unit's allocated overhead moves only with its share of teaching volume. Pairing allocated cost with each unit's direct expense and attributed revenue produces the unit-level result.

Sample Financial Analysis Approach: System Level

See how to leverage institution level findings at the system level.

Implementation Roadmap: Institution to System

Who does what at each of the five steps – the institution builds and runs the analysis locally, while the system sets the rules, validates comparability, and frames portfolio and operating decisions.



Ongoing: Institutions review their own unit results; the system refreshes cross-institution comparisons only after definitions, mappings, drivers, and reconciliations are validated.

System-Level Findings & Opportunities

Validated system-wide results turn into findings the system can act on – and the opportunities that follow from them.

WHAT THE ANALYSIS SHOWS – FINDINGS

Similar units, different economics

Once scope, mappings, and drivers are standardized, the system can compare the same academic program across institutions – and explain why the economics differ.

Where subsidy actually flows

The analysis exposes which academic units are cross-subsidized and by how much, so leaders can judge whether that subsidy is intentional and mission-aligned.



WHAT THE SYSTEM CAN DO – OPPORTUNITIES

Duplication and redesign

Duplicated, small-scale, or high-cost offerings can be consolidated, delivered jointly, redesigned, or deliberately differentiated with mission context.

Operating efficiency

Indirect-cost trends and driver sensitivity point to shared services, purchased services, space, and administrative cost opportunities.

Comparability check: Findings are only as comparable as the definitions behind them. The system aggregates results into cross-institution findings only after scope, direct and indirect rules, allocation drivers, and reconciliations to audited statements are validated at every institution. Where a definition still differs, the finding is reported at the institution level and not rolled up.

Operating Optimization Across the System

Recommendation: Use the financial analysis as one input — never the only input — to inform academic portfolio and operating decisions.

Review academic-unit economics, demand, mission, quality, and operating cost together — then choose a deliberate intervention.

THE CONSIDERATION MENU

Program redesign

Shared delivery

Consolidation

Pricing & aid changes

Shared services

Targeted operating efficiency

WHERE TO START — THE SCREEN

Small enrollment · high cost per credit hour · duplicated across institutions. Units meeting all three form the shortlist; mission, access, and workforce trade-offs are made explicit before any decision is taken.

Guardrail: Margin is one input, not the decision. Mission, quality, access, and workforce need are co-equal criteria, and allocation drivers are assumptions tested for sensitivity rather than causal proof. Savings from reduced duplication and overhead should be reinvested in high-demand programs, advising, instruction, and student support — the analysis informs judgment, it does not replace it.

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from mission to market

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