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FEATURE

Prudent Administration in the Finances of SDA Education Institutions: An Application of "A FAIR WILL" Concept

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ABSTRACT – This paper deals with the importance of prudent administration in handling the Lord's financial resources. It specifically deals with how administrators envision and perform the utilization of money. Utilization of money in SDA educational institutions may or may not become a blessing to many people. It becomes a blessing when money is administered prudently to achieve the mission of the institution. However, it does not become a blessing when money is administered by feeling. Feeling with no definite standard of judgment at all is detrimental to the continued existence of the institution.

This article seeks to answer the question: "What standard of judgment should administrators use to administer the Lord's financial resources prudently?" The author offers a standard of judgment for administrators for prudent administration. He calls it "A FAIR WILL" standard of judgment. The letter A stands for Administration (qualification); F is for Fund balance (adequacy); A represents Assets (quality), I is for Income (level of self-sufficiency), R is for Risk (minimum degree); WI stands for Working Investment (adequacy); L is for Liquidity (adequacy), and the second L represents Long-term self-sustaining funds (income-generating capacity). Together these letters represent the vision that administrators should develop and achieve in prudent administration of SDA institutions. The author invites administrators and those concerned with the development of this vision to teach "prudence in financial affairs," not just by talking, but by doing it. After all, a sound financial administration does teach.

Everything humans do should be done together with the Lord. As King Solomon said, "*A simple man believes anything, but a prudent man gives thought to his steps*" (Proverbs 14:15). Prudence in administration is imperative in Seventh-day Adventist (SDA) institutions, especially educational ones. It is clear that a “financially sound administration does teach.” An educational institution which is not able to live up to this expectation teaches the various courses, but does not reflect what it is teaching. Delay in the payment of workers’ salaries, inability to provide necessary facilities for the students, loss of money due to inadequate internal control, improper cash management, or other problems may happen at an institution which does not live up to this expectation. Such a situation is not just a shame to fellow men, but most of all to the Lord. “We are God’s stewards, entrusted by Him with time and opportunities, abilities and possessions, and the blessings of the earth and its resources. We are responsible to Him for their proper use” (General Conference of Seventh-day Adventists Ministerial Association, 1999, p. 268).

SDA educational institutions should be willing to adopt this concept in their day-to-day financial affairs. The willingness to implement the concept effectively is a biblical commitment that every Seventh-day Adventist should carry out. Solomon notes that it is necessary to “commit to the Lord whatever you do, and your plans will succeed” (Proverb 16:3). Commitment is futile if not laid in the hands of the Lord. Setting the vision for the financial affairs of an educational institution is an important task. Vision is fundamentally the expectation of what the institutional finances will become (Effron & Santos, 1999, p. 14). Figure 1 describes the process of heading towards a “financially sound SDA educational institution.” The strategy to arrive at that destination is the implementation of “A FAIR WILL.”

Ideal Vision > Mission Statement in financial prudence > A FAIR WILL standard of judgment > commitment (Proverbs 16: 3) > financially sound SDA Institution

Figure 1. Simple financial planning – from ideal vision to financial soundness.

Method of Measurement

The yardsticks in Table 1 are based on a general observation of the financial ratio of SDA educational institutions within the Southern Asia-Pacific Division (SSD) and logical interpretation of the yardstick as a standard of judgment. Most of them remain rules of thumb until higher organizations put them into guidelines for SDA institutions to follow. For example, Fund Balance Adequacy Ratio (FBAR) must be at least 50%, with a minimum Fund Balance in Days of Income of one year because adequate funds cannot be built in less than a year, and without this the institution will be at risk. Following this yardstick, asset utilization in terms of turnover will be determined at a minimum ratio of 0.5 to 1. A self-sufficiency rate of 100%, plus a certain cap, is generally seen to be reasonable as minimum earned income. The cap is normally dependent on the country's current consumer price index. Working Capital and Liquidity of 100% is logically based on the principle of "living within one's means." It is not advisable to plan commitments larger than resources.

How is a financially sound SDA institution achieved? As suggested, besides committing to the Lord whatever we do for the institution (Proverbs 16:3), administrators need A FAIR WILL standard of judgment to administer the finances of SDA educational institutions.

Table 1. **Determinants of Financial Soundness in A FAIR WILL**

	Element	**Weight (%)**	**Scale Value**	**Suggested Yardstick**
A	Administration	10	1 - 5	Perception on the performance of an administration
F	Fund Balance	15	1 - 5	FBAR of >50% with a minimum Fund Balance in Days of Income of 1 (one) year
A	Asset	10	1 - 5	Asset turn over of 0.7 to 1 (70%), with a minimum of 0.5 to 1 (50%)
I	Earned Income	15	1 - 5	Self-sufficiency rate of 100% plus the yearly CPI growth rate in % Earned Income over Expenses, at minimum
R	Risk	10	1 - 5	Perception on risk assessment of all asset classifications
WI	Working Investment	15	1 - 5	100% compliance rate
L	Liquidity	15	1 - 5	100% compliance rate
	Long-term Self-sustaining	10	1 - 5	Other Income % of least 50%
	Total	**100**		

Who is involved in the achievement of the vision of a financially sound SDA institution? In the first element, Administration, it is clear that only prudent Christ-like administrators, who have the courage to confront manipulative practices in the institution, should lead to achieve the vision of a financially sound SDA institution together with Christ.

When should the vision of a financially sound SDA institution be achieved? The vision of a “financially sound SDA institution” should be achieved *now*. SDA educational institutions cannot afford to delay the task any longer. The Lord’s institutions cannot continue to tolerate situations where delay in the payment of workers’ salaries, inability to provide necessary facilities for students, loss of money due to inadequate internal control, or improper cash management prevail.

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Element 1: Administration

The first element of A FAIR WILL is the educational institution’s administration and its quality. When we discuss the qualifications of an SDA administrator in an educational institution, the first question that comes to our mind is, “who is adequately equipped for the job?” Many times our SDA higher organizations are confronted with the unavailability of qualified, Christ-like stewards to administer the finances of the institution. These must be prudent, Christ-like administrators, who have the courage to confront manipulative practices in the institution. The administrators, supported by faculty and staff, lead to achieve the vision of a financially sound SDA institution together with Christ. They will work based on two important principles: shared decision making and internal control.

Shared Decision Making

Herzberg (in Robbins, 1998), in his two-factor theory on motivation, affirms that hygiene factors are associated with aspects of a person’s work setting. Current theorists maintain, for example, that teacher participation in decision making not only facilitates decision implementation, but leads teachers to feel respected and empowered. Getting teachers involved in a shared decision-making process, raising their self-esteem and feeling of empowerment, is a hygiene factor, such as Herzberg talks about. This involvement does not necessarily motivate a worker to feel satisfied on the job, but its absence will cause dissatisfaction. If shared decision making is practiced by SDA educational institutions, the administration, without realizing it, is providing an opportunity to train and develop workers in financial matters. SDA higher organizations, such as the General Conference, Division, Unions, and Conferences, need to plan training and development centers in conjunction with educational institutions under their auspices, taking into consideration the kind and number of people to be brought together in the development process.

Internal Control-Based Administration

Internal control might not be essential to the quality of administration, but it provides guidance as to how SDA educational institutions should safeguard the Lord's resources. Internal control may be administrative or financial. In this article, we are mostly concerned with financial internal control, which consists of (1) protecting assets, (2) protecting against improper asset disbursement, (3) protecting against the incurrence of improper liabilities, and (4) assuring the accuracy and dependability of all financial information.

Unless specifically trained in business, a worker handling the finances of an educational institution may not be able to exercise internal financial control. Sometimes an institution assigns an accountant or worker with an accounting background to handle recording and keeping cash at the same time. The internal control principle indicates the need to segregate recording from keeping cash. The General Conference is very particular about this. The *Working Policy* states that "the employment of honest, sincere Christian men and women is the best security that can be obtained in the safeguarding of funds. Only those shall be chosen for positions of trust and responsibility involving the handling of moneys and investments who give evidence of a genuine Christian experience, and whose training or qualifications fit them for responsibilities of this kind" (General Conference of Seventh-day Adventists, 2003, Article 40 05, Sec. 1).

Element 2: Fund Balance

The second element of A FAIR WILL is fund balance and its adequacy to service routine and non-recurring operation of the educational institution. In discussing the adequacy of a fund balance, the important principle to know is "living within means." The wise man saves for the future, but the foolish man spends whatever he gets. "In the house of the wise are stores of choice food and oil, but a foolish man devours all he has" (Proverbs 21:20). SDA educational institutions should follow the same attitude. This is especially true with a fund balance built through appropriations from higher organizations. Fund balance built through sustainable growth income (remaining earned income after deducting operating expenditures) must not be squandered unwisely.

Two important yardsticks need to be strictly observed by an educational institution: first, "Fund Balance Adequacy Ratio" or FBAR, and second, prudent administration of restrictions.

Fund Balance Adequacy Ratio (FBAR)

How much fund balance is appropriate for an educational institution? Three factors affect the appropriate amount of fund balance: (1) the basic function of the fund balance; (2) characteristics of how it originated, whether through appropriations or sustainable growth income accumulation; and (3) the pattern of the size of fund balances outstanding in days of earned income and assets turnover. Since this is not regulated by the General Conference or any higher organization, it is difficult to determine.

1. The Basic Function of Fund Balance: This factor is the most difficult to quantify. How much must an institution maintain in order to absorb risk and deficit? And besides, deficit can be easily offset with the appropriation received from a higher organization.
2. The Characteristics of Origination: Many educational institutions are fairly dependent on SDA funds and do not strive to achieve self-sufficiency. Those grown with sustainable growth funds may be easily determined.
3. FBAR is derived by the following formula:

$$\frac{\text{Fund Balance}}{\text{Total Asset}} = \text{Fund Balance in Days of Earned Income x Asset turnover}$$

(Notes: Fund Balance in Days of Income = Fund Balance: Earned Income x 360 days, and Asset Turnover = Total Earned Income: Total Assets)

4. If the General Conference regulates FBAR, SDA educational institutions may be forced to observe the yardstick.

Observation of a few SDA educational institutions within the SSD suggests that all institutions demonstrate adequacy at a ratio of more than 50%.

Fund Balance Restriction

In the context of safeguarding SDA institutions, allocated funds that must be held in Conferences and Missions, institutions, and other organizations shall be made only under the direction of controlling committees or board (General Conference of Seventh-day Adventists 2003, Article 40 05 Sec.5). A restricted amount of fund balance should not be outstanding for more than one year, otherwise it would turn into an unnecessary long-term commitment.

Element 3: Assets

The third element of A FAIR WILL is assets and their ability to generate routine and non-recurring earned income for the educational institution. The important principle to be observed is the efficient utilization of assets. God gave our first parents the responsibility of subduing the earth, governing the animal kingdom, and caring for the Garden of Eden (General Conference of Seventh-day Adventists Ministerial Association, 1988, p. 270). This is clearly stated in Genesis 1:27-28.

- SDA educational institutions may use at least two measurements to determine asset quality, whether financial, fixed, or other assets. Asset quality is not yet regulated by SDA higher organizations. From the financial management point of view, assets may be measured by means of the following ratios: Net Earned Income, after all expenditures, over Total Assets (as a Percentage).
- Asset Utilization (Asset Turnover) = Total Earned Income over Total Assets (in multiple).

Element 4: Income

The fourth element of A FAIR WILL is the total earned income and its level of self-sufficiency. Here the important principle involved is found in the Parable of the Talents (Matthew 25:14-28). Persons and institutions have been given a certain number of talents or assets to grow. However, capacity to generate income varies from one institution to another, depending on the resources they have and the creativity of the administrators. An institution can always develop this capacity. As with Fund Balance and Assets, the Income element puts SDA educational institutions into two groups: *self-sufficient* and *appropriation-dependent* institutions.

The General Conference has duly regulated self-sufficiency in its *Working Policy*:

> The goal of total financial self-support shall be continually kept before all entities in all divisions, emphasizing the importance of steady growth and pointing out that they cannot expect to depend permanently on increasing appropriations from the division and the General Conference, but that the organizations should be able to release to the division in ever-increasing amounts the funds they themselves needed in the earlier stages of their development. Each local/union mission which has not yet attained self-support shall, in cooperation with its union/division committee, establish a plan and a specific date for achieving financial self-support. An annual review shall be made by the division officers and a report submitted to the General Conference (General Conference of Seventh-day Adventists, 2003, Article T 0510).

A further article reads:

> An organization is considered to be self-supporting when it has sufficient earned operating income (not including donations and appropriations) to cover its operating expense (including the difference between the appropriations paid to lower organizations and appropriations received from the higher organization if the amount paid to lower organizations is more than what is received from the higher organization). The formula for calculating the self-support percentage is:

$$\frac{\text{Earned Operating Income (not including donations and appropriations)}}{\text{Operating Expenses (including operating appropriations paid in excess of appropriations received)}} \times 100$$

(General Conference of Seventh-day Adventist, 2003, Article T 0512)

Stemming from the above formula, self-sufficiency in an SDA educational institution may be measured in the same way.

Other income that is earned from institutional income-generating projects seems to be a better yardstick. This is expressed by the percentage of the other income to total earned income. Observations within six educational institutions (for the purpose of this study, this institutions surveyed are referred to as College/Universities A, B, C, D, E, & F) in the Southern Asia-Pacific Division (SSD) indicate that College F has the highest at 40.4%, followed by College E at 20.2%. Other institutions seem to indicate a lesser degree of self-sufficiency.

Element 5: Risk

Risk is the most difficult element to appraise. Some SDA educational institutions can afford to pay expenses for risk protection, but many more cannot. However, there are certain ways institutions can appraise their risk if they operate by prudent administration principles. Many times the handling of risk management falls under the obligation of financial administrators. Niehaus (1999) gives at least three ways of minimizing risk: loss prevention (routine maintenance); loss of financing (a fund to absorb loss, insurance, hedging for financial assets, and other contractual risk transfer); and diversification of assets (p. 13). Table 2 provides information and ability to bear the cost. SDA administrators should understand the strategies they can adopt in order to minimize the impact of risk on the institution’s financial resources.

Table 2. **Risk Coverage for SDA Educational Institutions**

Type of Asset/Liabilities	**In/Off B.S. ***	**Risk Coverage**
Cash (foreign currency)	In	Fluctuation of exchange rate
Receivable (non-higher organization	In	Bad debt expenses
Financial Asset (mostly securities)	In	Opportunity loss due to reduced interest rate and price decline (stock/bond)
Fixed Assets	In	Loss and damage
Liability		
Current Liability (Trust Fund)	In	Loss as a result of imprudent investment
Contingent	Off	Party default
Human Resources		
Life of Executive	Off	Death and accident
Workers' Compensation	Off	Death and accident
Employers' Liability	Off	Tort liability suits by employees

*B.S. = Balance Sheet

Element 6: Working Investment

The sixth element of A FAIR WILL is working investment and its adequacy to service routine and nonrecurring operations of the educational institution. In discussing the adequacy of a networking investment, the important principle, like the one in Fund Balance, is "living within one's means." Solomon's proverb, "In the house of the wise are stores of choice food and oil, but a foolish man devours all he has" (Proverbs 21:20), applies the same way for networking investment. Networking investment lies on the concept when preparing cash flow statement. Van Horne (1998) emphasizes that networking investment should be equal to current assets without cash, less current liabilities without short-term borrowing (p. 733).

General Conference *Working Policy* defines working capital as "the amount of current assets above the total current liabilities." It is computed according to the formula shown below.

(Current Assets - Current Liabilities): {(20% or 15% x Annual

Operating Expenses) + Allocated Fund

(General Conference of Seventh-day Adventists, 2003, Article T15 05).

The amount of operating expenses, in terms of a certain percentage, has to be maintained. Percentages for colleges and academies are prescribed as 20 percent and 15 percent, respectively, of the total operating expenses of the complete fiscal year (General Conference of Seventh-day Adventists, 2003, Article T 15 05, Sec. 2 H and I).

University C has the highest level of compliance with this regulation, at 96.3%. It is followed by College F and University B at 78.5% and 62.9%, respectively. Unfortunately, University A and College E do not seem to perform well at levels of 51.3% and 42.2%, respectively, which are below the standard of "living within means."

Element 7: Liquidity

The seventh element of A FAIR WILL is liquidity and its adequacy, which has exactly the same objective as that of working capital. The important principle to consider, like the one in Fund Balance, is "living within means." Auditors normally prepare both in one statement called Statement of Working Capital and Liquidity, as part of the audit report. Liquidity is normally computed using the formula shown below.

(Cash + Investment (less than 1 year) + Receivable from higher organization) : (Total Current Liabilities + Allocated Funds)

Of the SSD colleges, University B has the best compliance level of 111.6%. Other institutions do not seem to demonstrate adequate liquidity as they are mostly below 100%, with University A posing the lowest level of 32.2%.

Table 3. **Data of Financial Indicators of Selected SDA Educational Institutions in the Southern Asia-Pacific Division**

Description **Reported as of**	**University A** **12/31/00**	**University B** **6/30/98**	**University C** **6/30/00**	**University D*** **11/30/00**	**College E** **12/31/00**	**College F** **12/31/00**
FBAR (%)	74.8	91.6	83.0	63.7	78.2	71.9
Asset Turn Over (x)	0.6	0.6	0.4	1.0	1.0	0.6
FB in Days of Income (days)	422.0	199.0	130.0	367.0	274.0	206.0
Other/Total of Income (%)	14.0	11.2	6.9	14.7	20.2	40.4
Compliance Level (%):						
Working Capital	51.3	62.9	96.3	-8.8	42.2	78.5
Liquidity	32.2	111.6	73.2	42.4	66.7	48.0

Source: Financial statements (computed from papers submitted by Administrative Finance class)
* Annualized based on an 11-month period (January - November)

Element 8: Long-Term Self-Sustaining Funds

The last element of A FAIR WILL is long-term sustaining funds. A long-term sustaining fund normally takes the form of either *an endowment fund* or *income-generating project.* We will discuss them one by one.

Endowment Fund

For a nonprofit institution an endowment fund is "a perpetual fund, whose investment income is usually utilized to supplement operating revenues of an institution" (Henke, 1989, p. 232). It may take the form of pure endowment, term endowment, and/or quasi-endowment. Henke said that term endowment funds differ from pure endowment funds in that all or part of the principal may be used after a stated period of time. While quasi-endowment funds include resources that the governing board of an institution, rather than an outside donor, has designated to be retained and/or invested. To be healthy and stable, an institution needs to meet its current operating budget without exerting one hundred percent of its energy. Therefore, return on investment of the endowment fund will be automatically added to the institution's earned income. The more prudently the finances are administered, the greater the return.

The endowment fund system in SDA educational institutions within the SSD has not been seriously developed. If ever there is an endowment fund in the institution's balance sheet, it is amount of total assets. In the United States, for example, SDA educational institutions are conscious of endowment funds. Andrews University reached a total of US$16.3 million as of end of year 2000. In 2001-2002 alone, it contributed over US$4.7 million in scholarships. In the same year, more than 731 students received financial assistance from named endowed scholarships. Faculty support, research, lectureship, community service activities, library materials, or other specialized equipment are also possible areas that can be supported through endowments (Faehner, 2002, pp. 4-9).

Income-Generating Projects

The essence of a long-term sustaining fund is to generate other income to supplement operating revenues of an institution. Unlike an endowment fund where the institution meets its current operating budget without exerting one hundred percent of its energy, an income-generating project forces the institution to exert its energy. Income-generating projects may include a simple food store, a book store, cattle raising, farming, industries, and many others. These projects should take into account the institution's activity and target market (internal and public) needs for the products and services. The feasibility is explored and a decision to invest in the project is made. Figure 2 describes the envisioning process of this income-generating project (Kotler, 1996, p. 21).

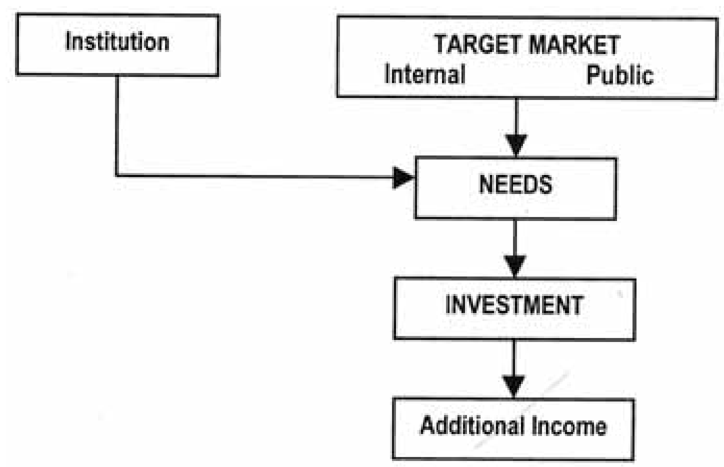

Figure 2. The simple process of an income-generating project for additional income.

Summary

This article discussed how SDA educational institutions answer the question: "*What standard of judgment should administrators use to administer the Lord's financial resources prudently?*" A FAIR WILL is an appropriate standard of judgment on prudent administration. It deals with the vision that administrators should develop and achieve in SDA institutions. There seems to be a strong need for administrators and those concerned with the development of this vision to teach "prudence in financial affairs," not just by talking, but by doing. After all, a financially sound administration does teach. Based on the importance of the principles of A FAIR WILL and observation of some SDA educational institutions within SSD, the following are the recommendations of the study:

1. A FAIR WILL may become a way for SDA educational institutions to envision and implement prudence in financial administration.
2. A Financial Administrator Professional Standard Committee should be established to regulate qualifications of SDA administrators, to ensure implementation of financial prudence in educational institutions.
3. Higher organizations, such as Unions, are advised to start working on the inventory of qualified financial administrators. This will include training and developing them in the organization's educational institutions.
4. Higher organizations, such as Divisions, are advised to evaluate and identify SDA educational institutions with financial problems or institutions which do not practice prudent administration of their finances.
5. To help build up a strong program for long-term self-sustaining funds or projects of SDA educational institutions, the Division is advised to actively embark on consultancy as to income-generating projects in schools under their supervision.

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