SAES
Southwestern Association of Episcopal Schools

LONG-RANGE FINANCIAL PLANNING

What does a school have to do to reach financial sustainability?

This is not intended to be an exhaustive list of items to fulfill to attain financial sustainability. Rather, it is intended to guide a school in establishing key components of financial sustainability.

Best practices in financial management:

1. School books should be separate and stand-alone from the sponsor's books (if applicable).
2. Person doing the books, regardless of their paid status, should be competent.
3. Financial dealings between school and sponsoring organization (if applicable) should be transparent.
4. Monthly bank statements should be reconciled immediately.
5. All checks should have two signatures over an established amount.
6. Head should approval payment to any vendor over an established amount.
7. Vendor File should include all invoices and check stubs.
8. Cash should be registered as soon as it arrives.
9. Pay payroll taxes.
10. Books should be audited or reviewed every year by an independent CPA.
11. A comprehensive register of physical assets should be prepared and maintained.
12. Avoid any conflicts- of-interest including those with trustees.
13. Accounting files should be backed up at least weekly.
14. Avoid dummy (fictitious vendors).
15. Compare monthly operating results to budget no later than 45 days after the end of the month; significant variances should be explained.
16. Pursue anything that doesn't seem right until you can establish its basis and dealt with it.
17. The school takes seriously its risk management: adequacy of insurance coverages, plan for safety and security (crisis response plan, hazard mitigation).
18. If the school carries long-term debt, it has a schedule of debt management.
19. The school has a clear picture of its solvency.
20. The school maintains a financial dashboard based on history and trends.

Measuring financial sustainability

1. Work to establish cash reserves that are 120 days of your annual budget.
   a. Outline how the school will go about establishing this amount. There are only two sources of income for any school, tuition and donors.
   b. Divide costs by number of students to determine tuition, then decide what role donors will play.
   c. Charge enough so you don't fail to deliver what you say you're delivering.
   d. Keep all payroll taxes current.

2. Assume the Annual Fund will not be used to pay off a shortfall in tuition. Rather it will be dedicated for student and/or teacher enhancements.
    a. ISM = Hard income (tuition and fees) should account for 101-105% of your costs
    b. SAES= Hard income (tuition and fees) should account for **at least** 85-90% of your costs

3. Invest time and strategic thinking in Board recruitment, development, and orientation of people who can deliver on a strategic plan.
    a. Select more than one Board member who is qualified to serve as a Finance Chair.
    b. Remember that Board members may not be knowledgeable about schools.
    c. Beware the Board that trades governance for operational management.

4. Develop a Master Facilities and Site Plan
    a. Do not continue to defer maintenance on the existing physical plant.
    b. Be certain the quality of the facility can deliver on the mission.
    c. Plan for flexible learning spaces in curriculum-driven facilities that are "green" and have all load-bearing walls on the outside.
    d. Address promptly facility and grounds maintenance needs, and make every effort to create an attractive, beautifully maintained, clean and safe environment.

5. Assure a Development Office Management Plan so that consistently cultivates your donor pool through a donor cultivation cycle.
    a. Inspire giving more especially when costs are covered.
    b. Align the heart of the donor with the mission of the school.
    c. Collect and use data to be sure you are knowledgeable in meeting with each donor.
    d. Know what the donor is capable of giving.

6. Maintain a culture of executive leadership that knows and addresses good teaching, eliminates bad teaching, and fosters a healthy faculty culture.
    a. Invest at least 2% of the total budget in faculty development.
    b. Benchmark faculty salaries and benefits with schools of comparable size, location, and cost of living, and establish faculty salaries that are competitive. Faculty salaries should be at least 85% to 90% of local ISD faculty salaries, unless those salaries are unusually low.
    c. Invest a significant amount of attention and funding to educate faculty regarding the importance and mechanics of current best educational practices, such as differentiating instruction and technology use/integration, and offer an enriched and up-to-date curriculum that clearly defines content, skills, and assessment strategies to substantiate the school's instructional program. Academic leaders recognize the necessity of addressing the vastly diverse aptitudes, abilities, and learning styles of current students.
    d. Ensure that the size of the administrative staff is adequate to effectively address the daily operational needs and normal demands of its constituents.
    e. Read balance sheets and income statements every month and ask questions about what doesn't make sense.
    f. Understand Operating Cost (total expense less depreciation) and Days of Cash (cash plus unrestricted investments plus pledges divided by operating cost)

7. Establish a pro-active marketing plan, and ensure that there is a school-wide (faculty, staff, Board) understanding of the importance and complexities of both internal and external enrollment management.
    a. Don't ignore the power of internal marketing (e.g. students and parents present and past).

   b. Maintain on-going and meaningful communication with current parents to reaffirm their choice to enroll their children in the school, and also include admission guidelines that are in line with the school's mission.

8. Evaluate technological resources, planning for updates and obsolescence.
   a. Review regularly the school's website, for relevance and accuracy, and make sure that all information is kept current.
   b. Include faculty in considerations for future technology use before purchasing hardware or software so that technology will foster collaboration and rich learning environments.
   c. Ensure that school management software is robust, adequate, and flexible.

9. Commit to financial aid being at least 10%-12% of the total annual budget.
   a. Consider the needs of middle class families as part of a plan to maintain a diverse student body.
   b. Include the cost of any financial assistance given to faculty as part of the overall financial aid program.

10. Be certain that the financial planning includes multiple year projections.
    a. Do not use next year's money (pre-payments/deposits) to pay this year's expenses.
    b. Give the Head of School access to all financial information.
    c. Hire a independent, certified accounting firm on an annual basis to audit and review financial operation of the school.
    d. Create a strategic financial plan to accompany the school's strategic plan.

<u>Financial Dashboard</u>—gauges of financial health based on history and trends

a. *Enrollment*—tracked year by year by levels and by retention rate
b. *Cash*—(should be at least 120 days) cash plus unrestricted investments plus pledges received= ready funds; divide ready funds by operating costs= ready funds as proportion of operating cost; multiply by 365 days per year= days-of-cash OR another way to determine measure of liquidity: measure of liquidity = [(total unrestricted cash + unrestricted cash equivalents) ÷ total annual cash operating cost] x 365
c. *Current Ratio*—solvency= current assets divided by current liabilities (1.1 is typical)
d. *Debt*—long-term debt plus current portion of long-term debt less cash= net debt divided by enrollment = net debt per student (should be less than one year's tuition)
e. *Fundraising*—track contributions by dollars raised and % of participation (parents, grandparents, trustees, faculty)
f. *Total net assets*—total of what the school owns (physical plant and investments)
g. *Compensation*—faculty benefits and median faculty salary measured against local and regional public schools