Understanding the Essentials of School Finance: What Trustees Need to Know

NYSAIS Trustee Governance Workshop 2017
Monday September 18, 2017
Abraham Joshua Heschel School
Understanding the Essentials of School Finance: What Trustees Need to Know

- Running a mission-based business
- Financial sustainability
- Dashboards and key metrics
Running a mission-based business

- Mission - Educate and develop the social, emotional and intellectual capacity of our children
- Assets - Student, teachers, and parents; facilities
- Profitability/Viability – Enrollment trends, successful admissions cycle, successful exmissions

Financial sustainability

Dashboards and key metrics
Understanding the Essentials of School Finance: What Trustees Need to Know

• Running a mission-based business
  • Publicly listed companies – quarterly and annual performance targets
  • Private companies – Long-term performance results, manage intra-period volatility
  • Independent schools – “Hybrid” between the two. Balance of short-term and long term results and performance targets

• Financial sustainability

• Dashboards and key metrics
Running a mission-based business

Financial sustainability

  Short-term challenges
  - Volatility of enrollment
  - Variability of tuition net revenue
  - Determining appropriate tuition levels
  - Fundraising goals and "funding the gap"

  Long-term goals
  - Generate cash reserves
  - Fund Capital or PPRRSM (Provision for Plant Replacement, Renewal and Special Maintenance) expenditures
  - Reinvest in teachers, curriculum, facilities

Dashboards and key metrics
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• Running a mission-based business

• Financial sustainability

• Dashboards and key metrics
  • Summary of critical data points of the organization (year on year comparisons, month-to-month changes, actual versus goal or projected)
  • Benchmarking against peers, industry standards, best practices
  • Does not minimize importance of review, familiarity, and frequency (monthly or quarterly) of standard financial reports:
    • Statement of revenues and expenses (P&L)
    • Balance sheet
    • Cash flow summary / modified reconciliation of cashflows
    • Annual audited financials
    • 990 tax filing
Running a mission-based business

Financial sustainability

Dashboards and key metrics

Key industry metrics

- NAIS PPRRSM Guidelines: The appropriate reserve balance each year as determined by NAIS is to be 3% of total plant replacement cost plus additional funds for “catch-up” costs to retire the deferred maintenance backlogs.
- Independent School Management (ISM) PPRRSM Guidelines: 3% - 5% of the annual operating budget. The 5% range is encouraged for schools with minimal to no endowments.
- Independent School Management (ISM) Cash Reserves/Liquidity Guidelines: 20% of annual operating budget.
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- Dashboards and key metrics
  - Key internal/direct metrics
    - Operating Revenue Sources (%)
    - Operating Expense Sources (%)
    - DSCR (Debt Service Covenant Ratio)
    - DTNW (Debt to Tangible Net Worth)
    - Revenue per student
    - Expense per student
    - Financial Aid as a % of Gross (or Net) Tuition
    - Endowment/cash reserve contribution % (Yale Endowment model or other formula)
    - Student attrition (by grade, division, overall)
    - Student retention
    - Admission yield rate (% of accepted students who matriculate)
    - Enrollment as a % of inquiries/applicants/interviews
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- Running a mission-based business
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- Dashboards and key metrics
  - Variability of dashboard depending on reporting period
    - Beginning of school year
    - Actual Enrollment versus Projected/Budgeted Enrollment
    - Beginning of Year versus End of Year Enrollment
    - Budget versus Projected / Preliminary Tuition Budget
    - Admissions Season
    - Month-to-Month and YoY comparison of number of:
      - Inquiries
      - Applicants
      - Offers
      - Acceptances
    - End of School Year Results versus Budget
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- Examples of Financial Reports and Dashboards:
  - Revenue and Expense Allocations ( $ and % Pie Charts)
  - Monthly and YTD Cash Flow Summary
  - Summary of Investments and Cash Accounts
  - Balance Sheet
  - Audited Statement of Financial Position
  - Audited Statement of Activities
  - Audited Statement of Cash Flows
  - Audited Schedule of Functional Expenses
QUESTIONS?
HAVE A GREAT SCHOOL YEAR
2017-2018!