



**Newsletter
Coordinator**



Dennis Plubell
Vice President for Education
North Pacific Union Conference

**Newsletter
Editors**

Berit von Pohle
Editor

Ed Boyatt
Editorial Advisor

Financial Policies—Board

Leadership, NAD Principals' Handbook (excerpt)

The principal should ensure that the local school board has policies that govern the financial practices of the school. Several examples are listed here:

- Capitalization Limit

- Spending Limits
- Agency/Trust Funds
- Rental Rates for Facility



Read more here:

<http://adventisteducation.org/principals-handbook/>

Board Financial Reports

Steve Fuchs, Business Manager, Walla Walla Valley Academy

Accurate Enrollment Predictions. A school's successful financial operation starts with an accurate forecast of expected student enrollment. Accurate budget preparation based on viable student numbers in the spring translates to fewer surprises after school starts in the fall. Revised budgets based on actual students are simplified or unnecessary if projections are on target. Be aware of:

- Five-year average from feeder schools, geographic areas, and returning students
- Students enrolled who were not on the radar screen

Track these unknown students who arrive for registration day or during the first week of school; use a shorter average of two years, as this sector can fluctuate year to year and is not as stable as feeder schools and returning student averages. (Our school experienced a time when this sector was as high as 17%. This is substantial; less than half of this is more typical.)

In an era of rising student populations, a school will likely do slightly better than forecast (Smile). During an era of falling student populations, the bell curve effect may put that school slightly below projections. (Frown) Therefore, it is wise to keep student enrollment at the head of the list in every financial report to the board.

Accurate Collections Figures. Next, it is important

to keep boards aware of actual tuition/fee payments. Observe parent payment trends and expect higher collections prior to payment deadlines, like registration and semester tests; expect lower returns after those deadlines. I prefer to express this data in terms of “percentage” vs. “days of receivables outstanding,” because a school may have the same collection percentage on two given months. However, in one month parents may be paying less and the school giving more in financial aid or may have paid out more in student earnings; vice versa is also true. The important figure to follow is parent payment. There is always an increase in collections after a big financial aid remittance from the conference, union, or local church, but this doesn't mean the parents consistently follow the financial plan each month.

Where Does Cash Stand? What do you have to work with? Cash flow should be explained carefully to board members. In the case of an academy with a minimum of four self-balancing funds, a large “Unexpended Plant Fund” cash balance could give the illusion that the school has money, but cash held in the “Unexpended Plant Fund” or cash held for “Trust and Agency” accounts is not available for day to day operations.

Working Capital. The working capital percentage is an indicator of how a school will meet financial obligations during hard times. The NAD has created formulas and the AASI software calculates this. The lower the percentage, the more the cash shortage will

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Using Financial Indicators

Mark Remboldt, Treasurer, North Pacific Union

A useful way to report core financial data clearly and concisely is to use a few financial indicators. Not only does it provide a snapshot of the school's financial position simply, it facilitates easy comparisons and

consistent data points between regular monthly and yearly reports. More data points may reveal financial trends. Following are some financial indicators that may be useful for schools in reporting to board members. ☺

Mark.Remboldt@nw.npuc.org

BALANCE SHEET RATIOS:

	<u>EXAMPLE</u>
1) Current Ratio = (Total Curr Assets/Total Curr Liabilities) Ability to repay debts due using available and accessible resources	7.83
2) Accounts Receivable = (AR+Loans Receivable/Op Fund Balances) Amount of credit extended by the school to students and other debtors	45.6%
3) Working Capital = (Curr Assets - Curr Liabilities/NAD Recomm %) Adequacy of available resources for viable operation	99.2%

OPERATING RATIOS:

4) Expenses Per Day = (Total Operating Exp/Number of Days in Time Period) Average dollar\$ amount for operations per day in a given year	6,940/day
5) Days of Cash = (Cash & Investments/Expense Per Day) Number of days of operations covered by available liquid assets	37 days
6) Percentage of Operating Expense = (Total Op Exp/Earned Op Inc) Shows over/under budget in percentage	97.4%
7) Percentage of Income to Budget = (Total Inc – Budg Inc/Budg Inc) Shows difference from budget in percentage	-1.8%

DEMAND RATIOS:

8) Personnel Expense = (Employee Wages & Benefits/Total Op Exp) Total cost for all employee wages & benefits compared to all expenses	51.3%
9) Scholarship Expense = (Scholarships & Financial Aid/Total Tuition & Fees Inc) Indicates level of financial aid needed to meet current tuition and fees	9.6%
10) Student Labor = (Campus Student Labor/Total Tuition & Fees Inc) Indicates level of tuition and fee income self-generated by the school	18.4%

Board Financial Reports (continued)

be felt. Putting away money for the future is prudent. Examples of areas that could benefit are:

- Vehicle replacement: transfer to another account monies dedicated for replacement/large repair
- Future large capital outlays for repair such as roof or HVAC system
- Temporarily Restricted funds, like donations, which carry over to be used in a future year
- June/July payroll: occurs with no tuition income

Use Layman's Terms on the Financial Statement.

Although this is more difficult with a "canned" accounting program, try to present figures for categories that board members understand. They may not have a grasp of all that "Instructional" or "Student Services" departments encompass, but they do understand categories like Financial Aid, Utilities, Salaries and Benefits, Maintenance and Repair, Grounds, and so on. ☺

fuchst@wwva.org

The Financial Report: Keep It Simple

Dennis Plubell, Vice President for Education, North Pacific Union

Nearly 25 years ago a friend and long-time Adventist school leader (David Penner) penned an article for the *Journal of Adventist Education*, on the topic of this month's newsletter. Despite the passage of time, it is still on target! The premise is that the goal of a financial report to school board members must facilitate understanding that will support good fiscal decisions. Our students need quality instruction, which is built in part on a foundation of adequate funding and sound financial management, both priorities for all school boards.

Too often, the financial report to the board meetings seems to drag on interminably. This happens when too many pages filled with too many numbers overwhelm. Also, we instinctively know finances are vital to school programming, so we dwell too long on

the details reported rather than on how they should inform good operational decisions. Then, add the fact that many board members feel unprepared to digest figures, let alone dialogue about them, and we are all too willing to trust that the other board members get it and we'll just vote when they finally get to the motion to accept the report "subject to audit."

So, how do we keep it simple? We need to prepare and present accurate financial reports. Accounting software-generated reports are important for those who can delve into the details. But, a highlight page that answers the following ten questions will work wonders at giving everyone confidence that they know the school's operation is solvent. Giving the answers to these questions is the first step. Next, show the members where these answers are found in the actual statements and balance sheet. ☺

Dennis.Plubell@nw.npuc.org

MONTHLY STATEMENT: *February, 20XX*

	<u>Current</u>	<u>Diff</u>
1. <u>How many students are currently enrolled?</u>	156	
Enrollment Last Month	157	-1
Enrollment Last Year	152	4
2. <u>How much cash did we receive?</u>	\$110,604	
How much were we expecting?	\$106,175	\$4,429
3. <u>How much did parents pay?</u>	\$61,733	
How much were we expecting?	\$60,045	\$1,688
4. <u>How much did students earn (on academy campus)?</u>	\$17,282	
Last month how much did they earn?	\$16,794	-\$1,512
5. <u>How much did we spend?</u>	\$108,827	
How much were we planning to spend?	\$105,900	\$2,927
6. <u>How much do we owe to others?</u>	\$96,572	
How much did we owe last month?	\$91,554	\$5,018
7. <u>How much do others owe us?</u>	\$136,471	
How much did they owe last month	\$139,683	\$3,212
8. <u>How much is in the bank (checking, savings, etc.)?</u>	\$28,117	
How much did we have last month?	\$22,260	\$5,857
9. <u>How old are our debts to vendors?</u>	29 days	
How old were they last month?	33 days	4 days
10. <u>How are we doing financially? (gain/loss to date)</u>	\$24,528	
What were we expecting?	\$16,550	\$7,978

Change your focus from making money to serving more people makes the money come in.

-Robert Kiyosaki