

Modeling Your Mission: Using Financial Tools to Drive Decision-making

The Association of Boarding Schools
Annual Conference

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Topics

- Engaging the Board in Discussions on Financial Sustainability
- Building Sustainable Models
- The Lessons Learned Along the Way
- The BB&N Independent School Price Index
- Closing Thoughts and Questions

BB&N's Journey

- Began in 2001
- Early Adopter of Modeling as a Means Toward Budgeting
- Accelerated by NAIS/NBOA Financial Sustainability Workshop in 2005
- Focus of Trustee Retreat in 2006
- Facilitated by Economic Downturn of 2008-09

Elements of a Sustainable Model

- Core Budget Drivers
 - Enrollment/Tuition
 - Financial Aid
 - Compensation
 - Financial Support (Annual Giving & Endowment Draw)
 - Facilities Investment
- Look Back and Look Ahead
- Creating Policy Targets
- Multiple Scenarios
 - Doomsday?

Trustees Role

- Fiduciary Responsibility
 - They are Ultimately Responsible
- Topical
 - Who is Not Talking About Financial Sustainability?
- Expertise
 - Most are Having Similar Conversations in Their Day Jobs

Engaged Board = Ownership

Who's In Charge Here Anyway?

- Who Inputs the Data?
- Who “Owns” the Model?
- Who Gets to Play with It?
- How Much Access is Too Much Access?
- The Parts vs. the Whole

Purpose of Financial Models

- A Budgeting Tool
- A Historical Repository
- A Planning Tool
- A Construction Management Tool
- Keeps All Data (Past & Present) in One Place
- Forces Current Decisions to be Placed in Long-Range Context

Full Fund Models or Operating Models (What's the Difference?)

- Operating Models Look at Current Operations and Adjust by Some Inflationary Factor
- Full Funds Models Mirror the Financial Statements
- Full Funds Models Get You to the Bottom Line (i.e.: Net Assets)

Full Fund Models or Operating Models (What's the Difference?)

- If You Are Considering Debt Financing or Have Other Outsiders Looking in, the Full Funds Model is the Way to Go
- If You Are Using it Only for Internal Purposes, an Operating Model Will Work Just Fine
- It's Really About How Much Time You Can Invest into the Model

Model Uses

- Used to Develop **Annual Budget**
- Used to Predict **Campaign Cash Flow**
- Used as a Starting Point for **Cost Study** of Tuitions vs. Cost at Various Grade Levels
- Used to Develop Our **Depreciation** Schedule

Other Uses

- It's Our **Archive** of Financial Information
- Frequently Used for “**What-If?**” Level Presentations
- It's a Trustee **Orientation** Tool

Home Grown or Off The Shelf

- How Special is Your Situation?
- How Much Time Do You Have?
- How Much Expertise Do You Have?

Time is Money

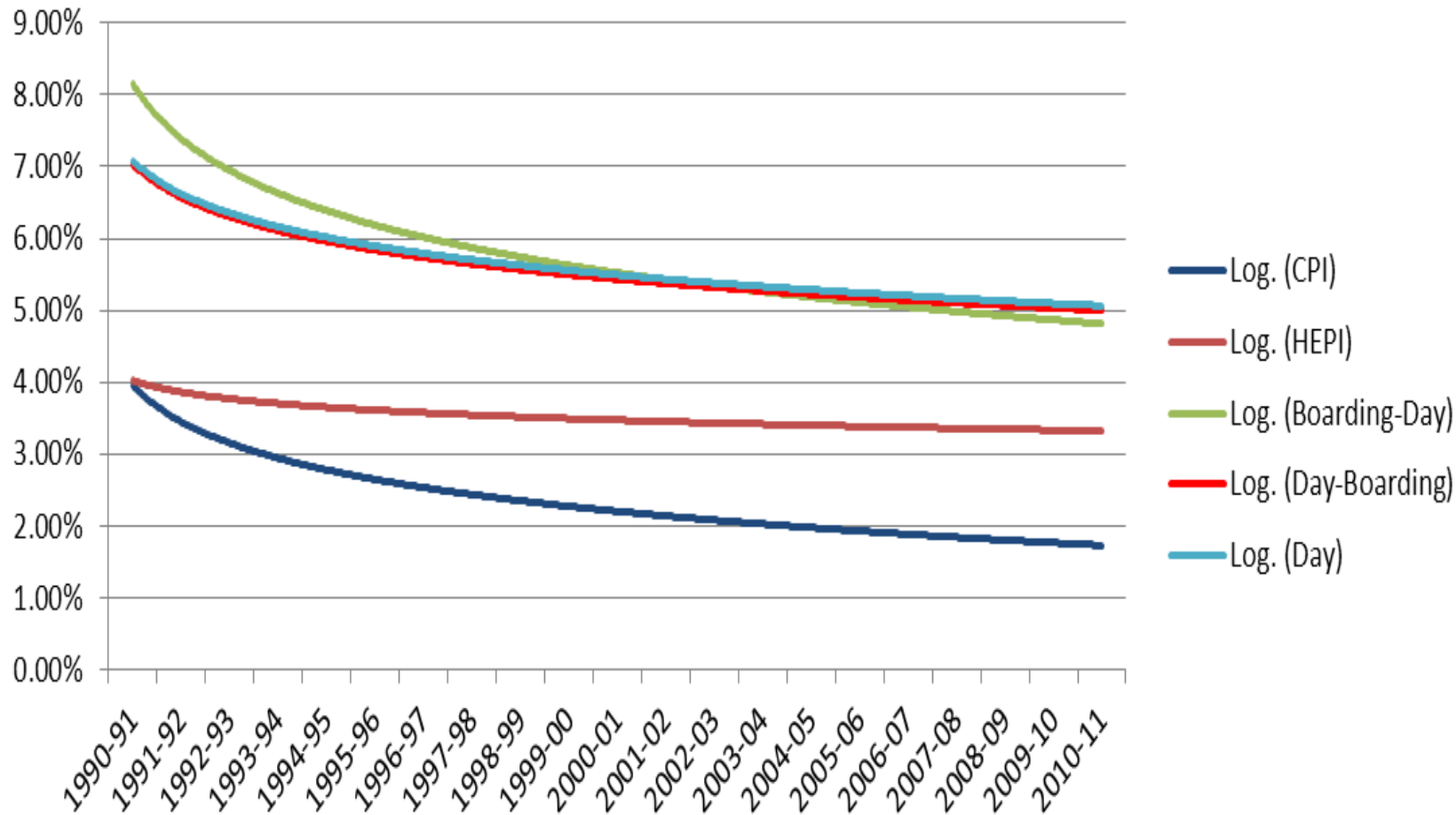
Five Years or Ten Years

- What's on the Planning Horizon?
- How Much Endowment Do you Have?
- Are you Considering Debt Financing?
- How Stable are Your School's Finances and Leadership?

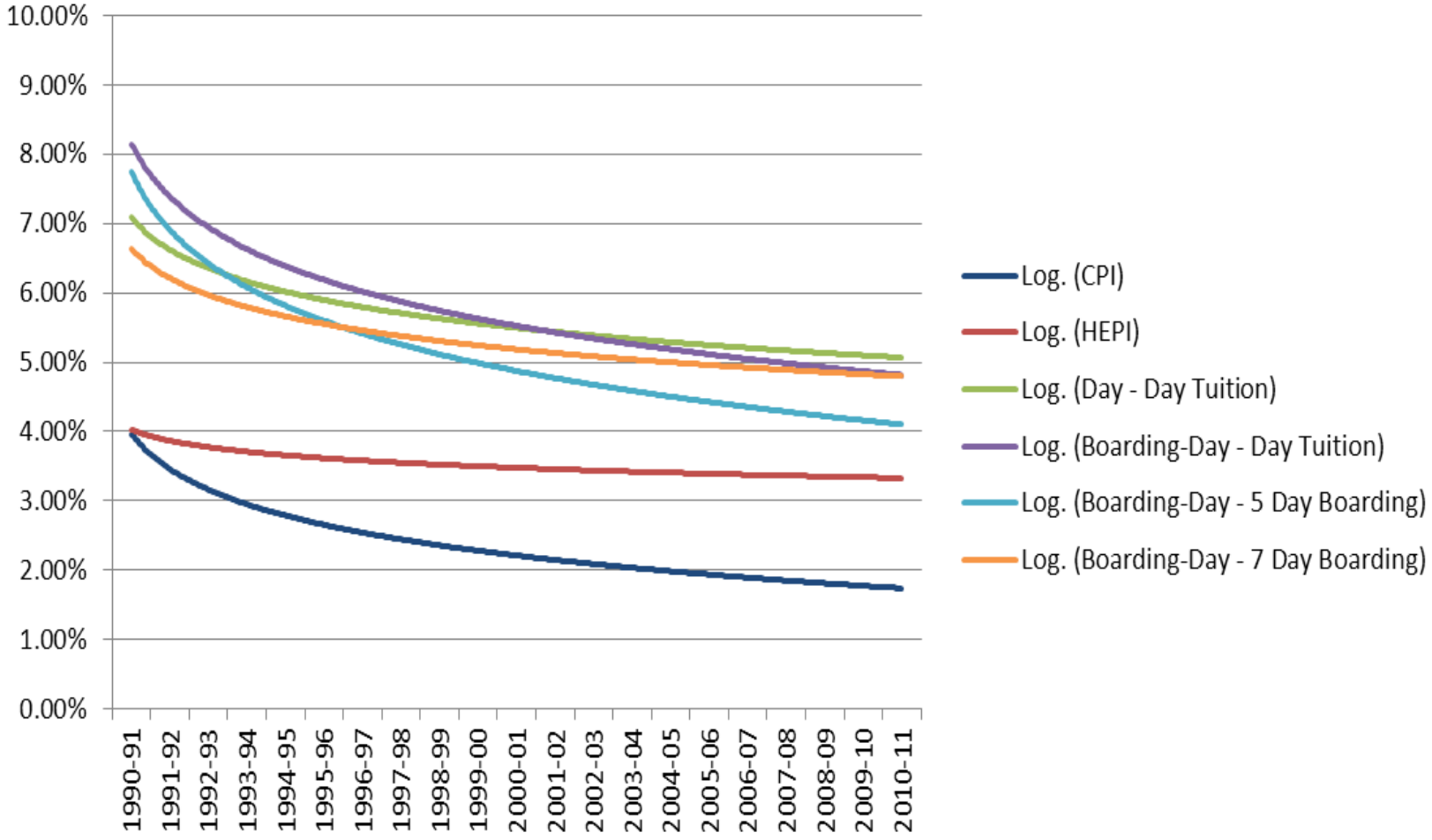


The BB&N Price Index

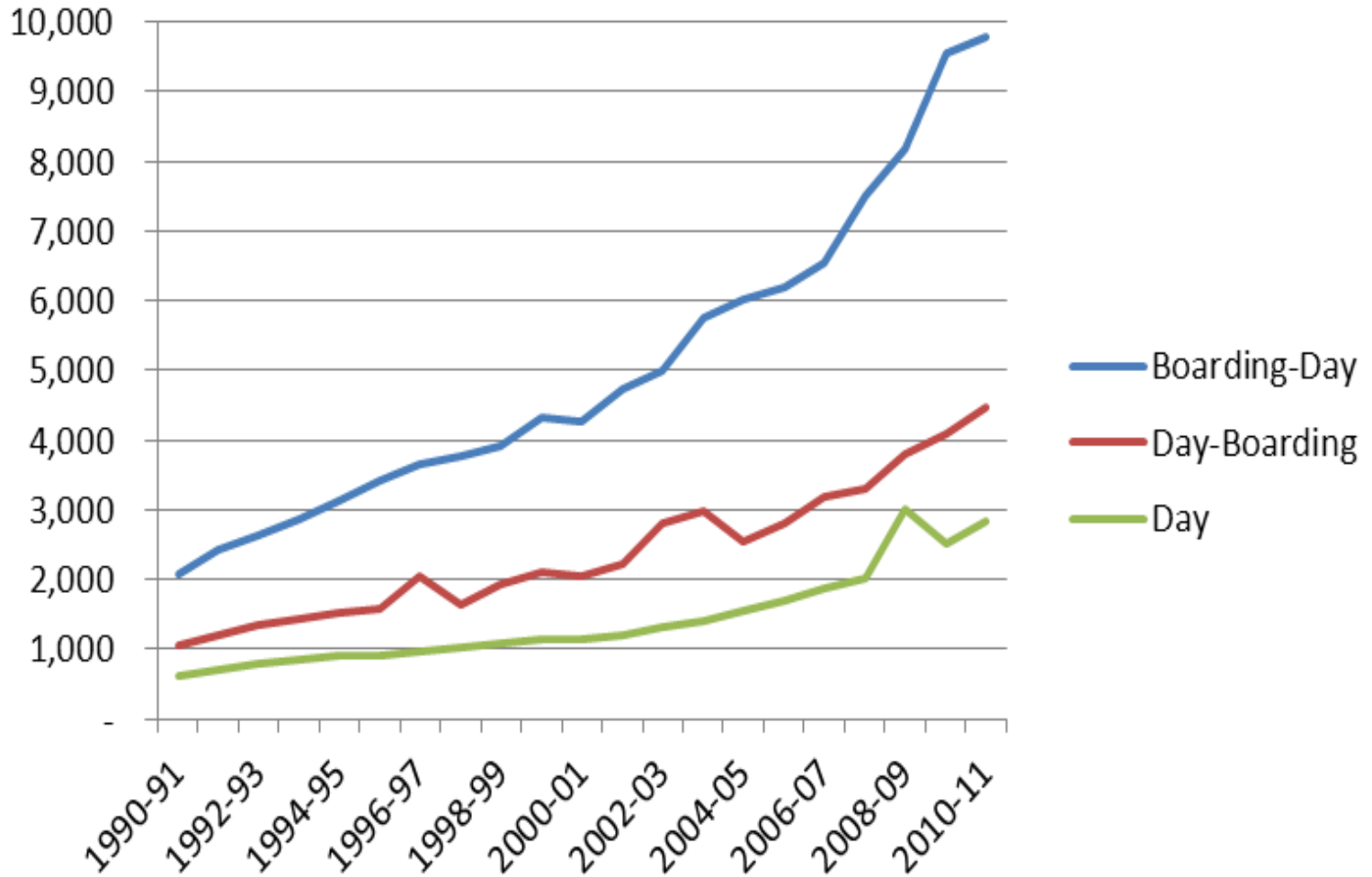
Day Tuition % Increases



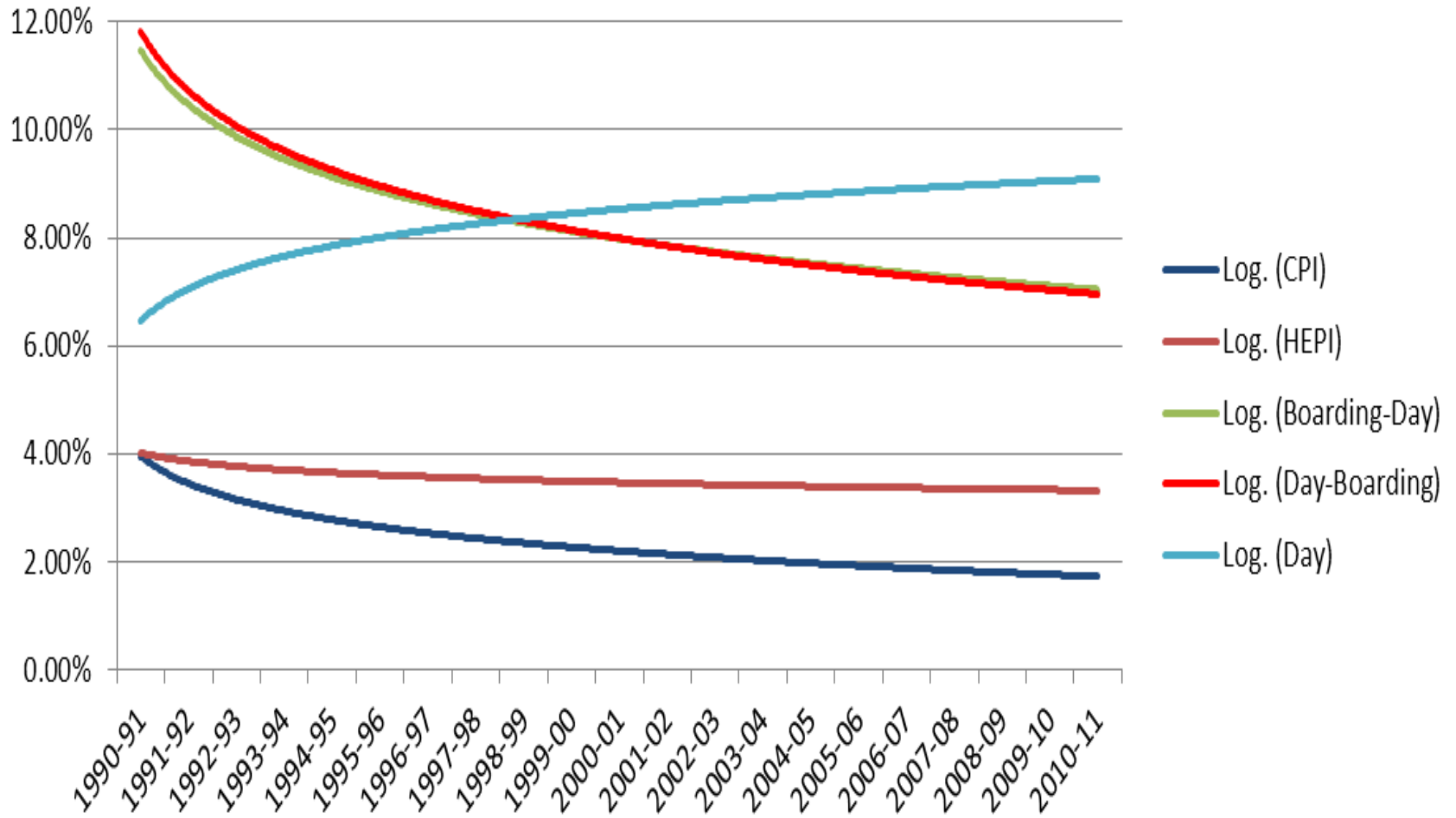
Tuition % Increase



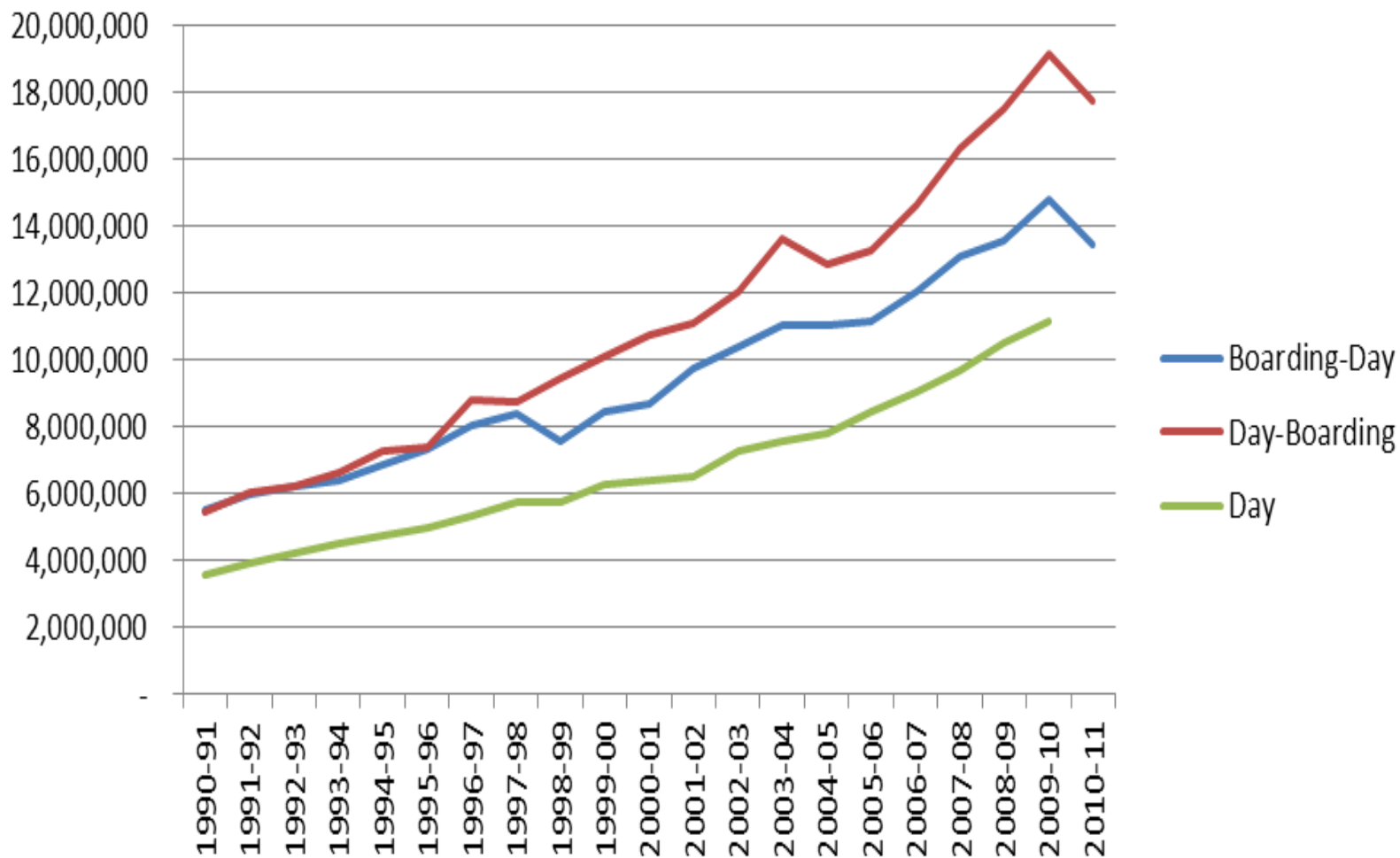
Financial Aid per Student Comparison



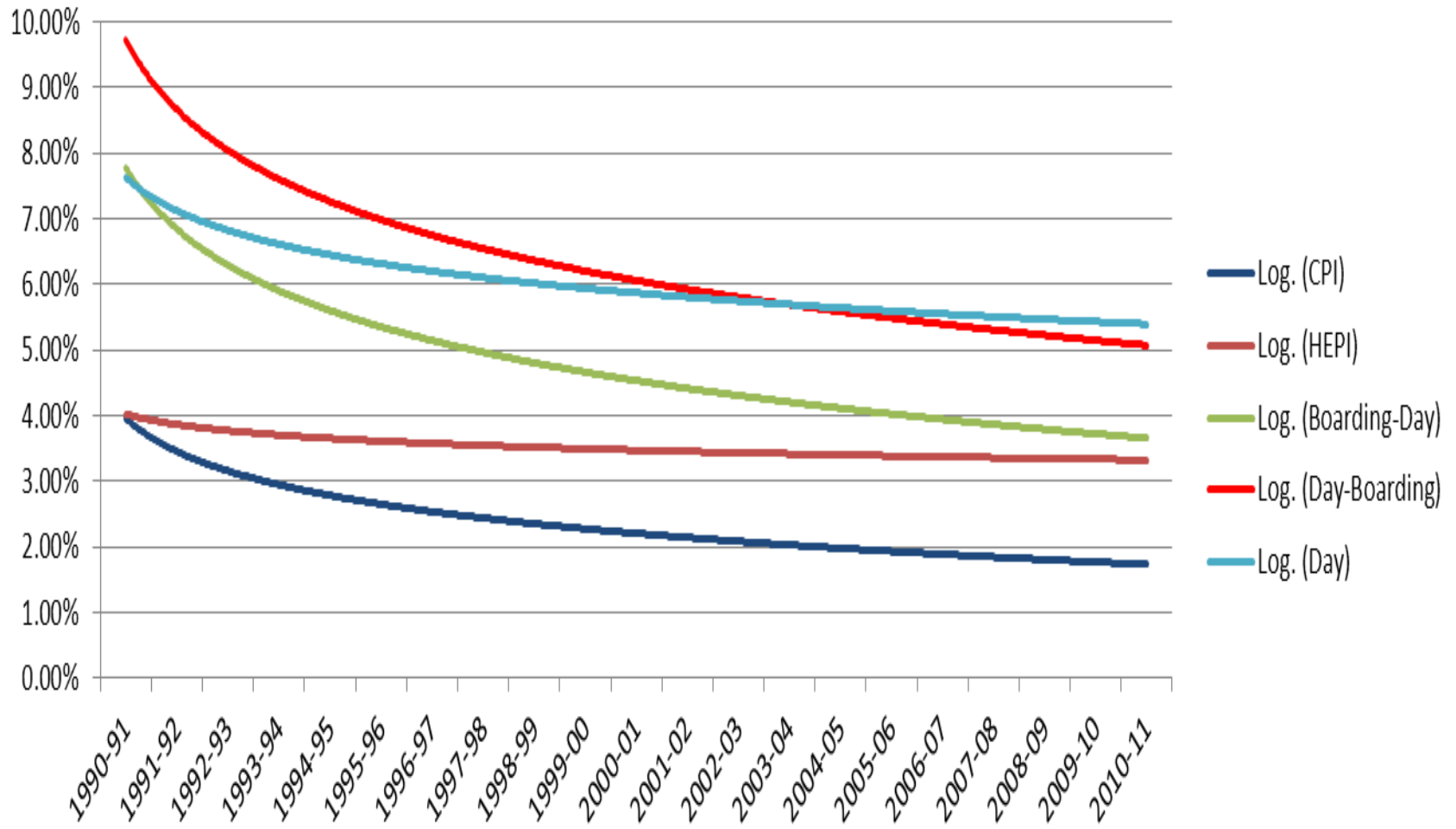
Financial Aid per Student % Increases



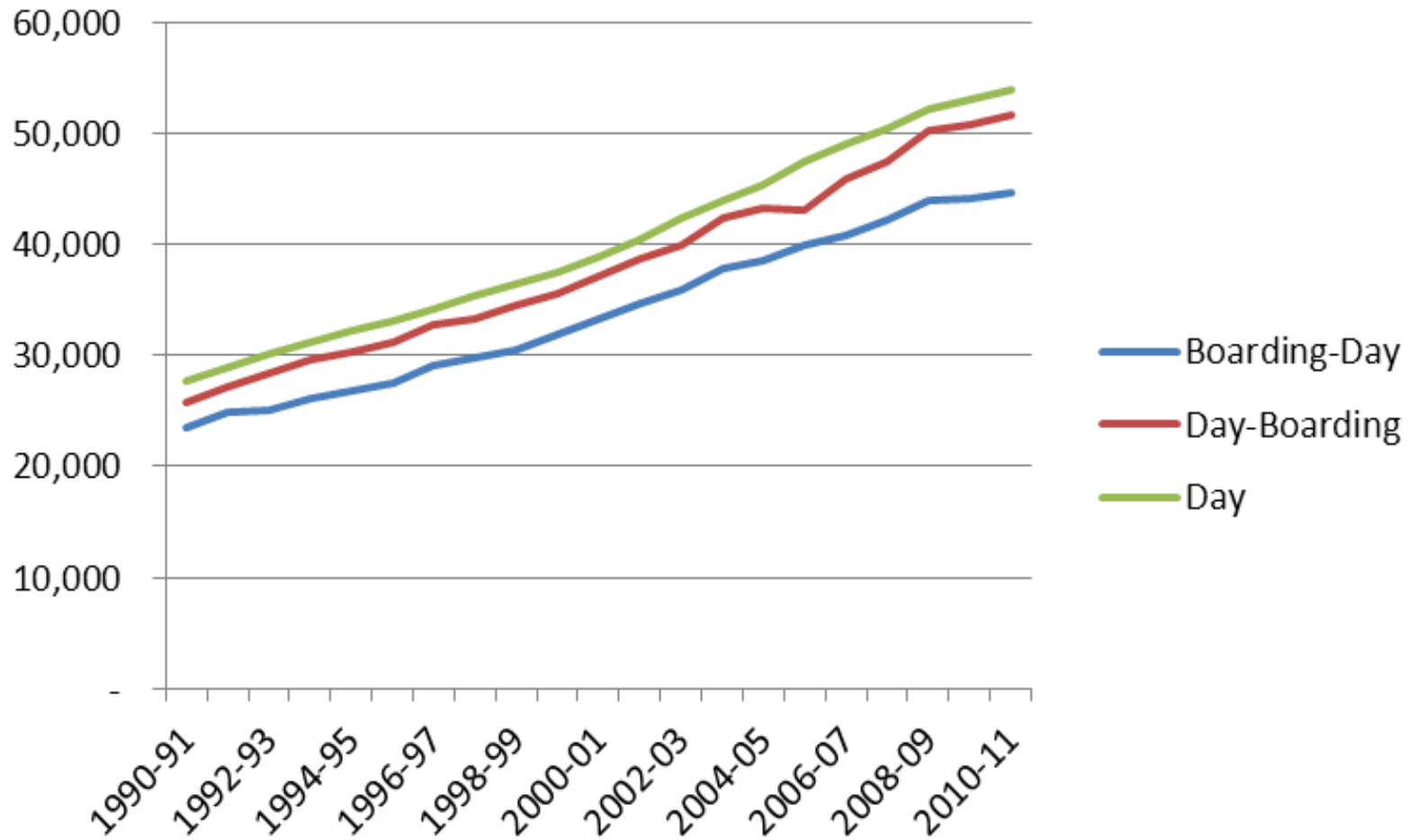
Mean Total Expense Comparison



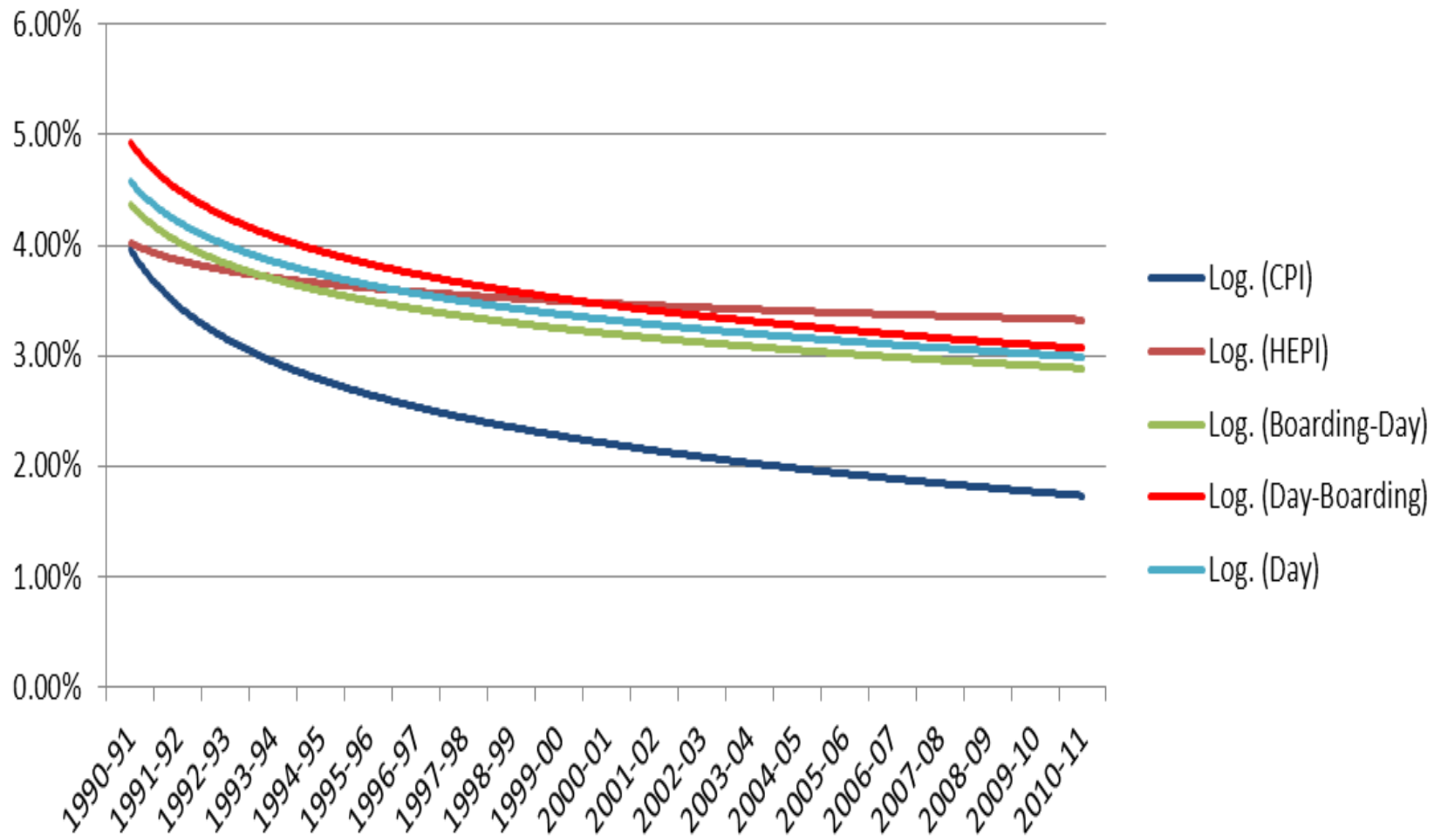
Mean Total Expenses % Increases



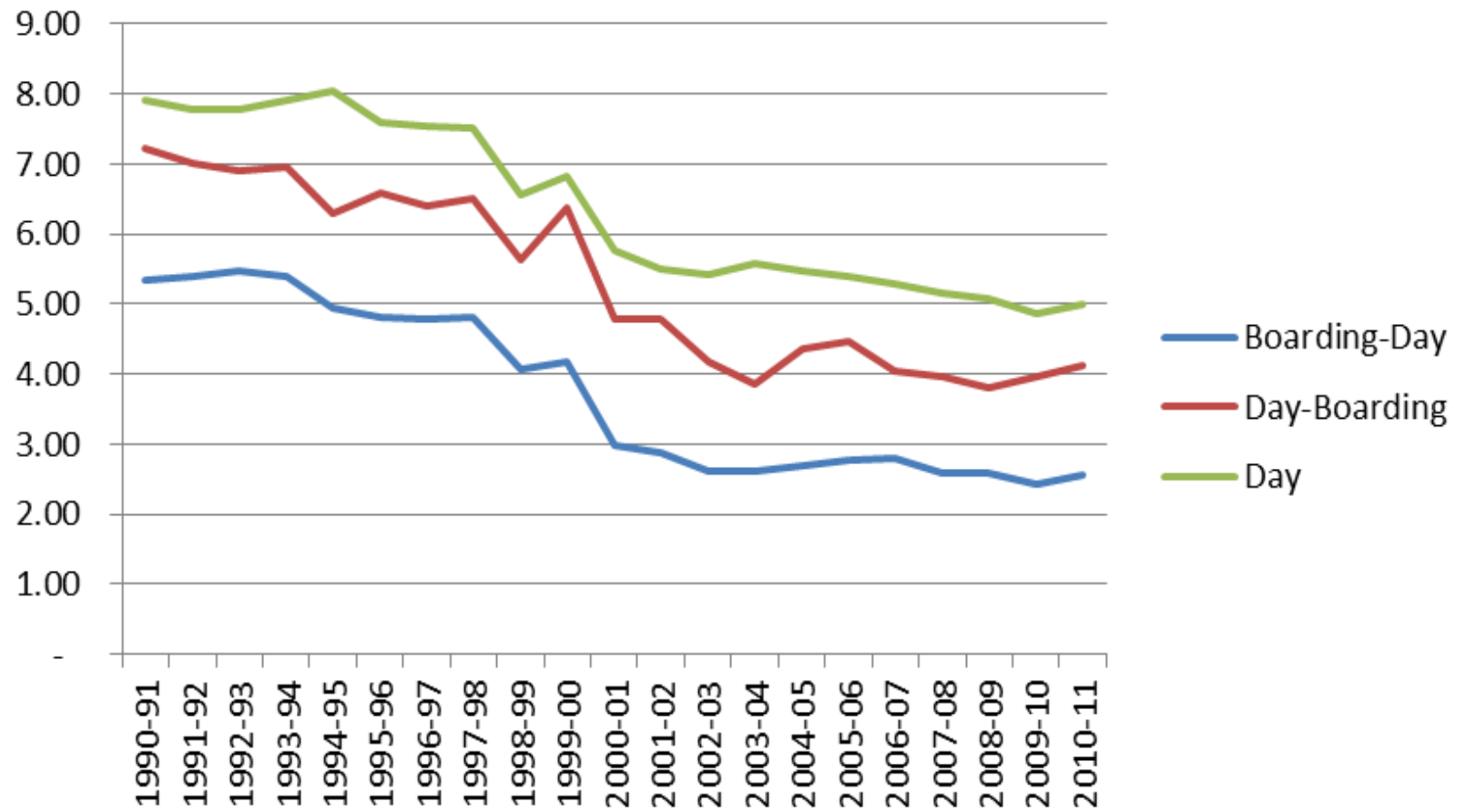
Mean Faculty Salary Comparison



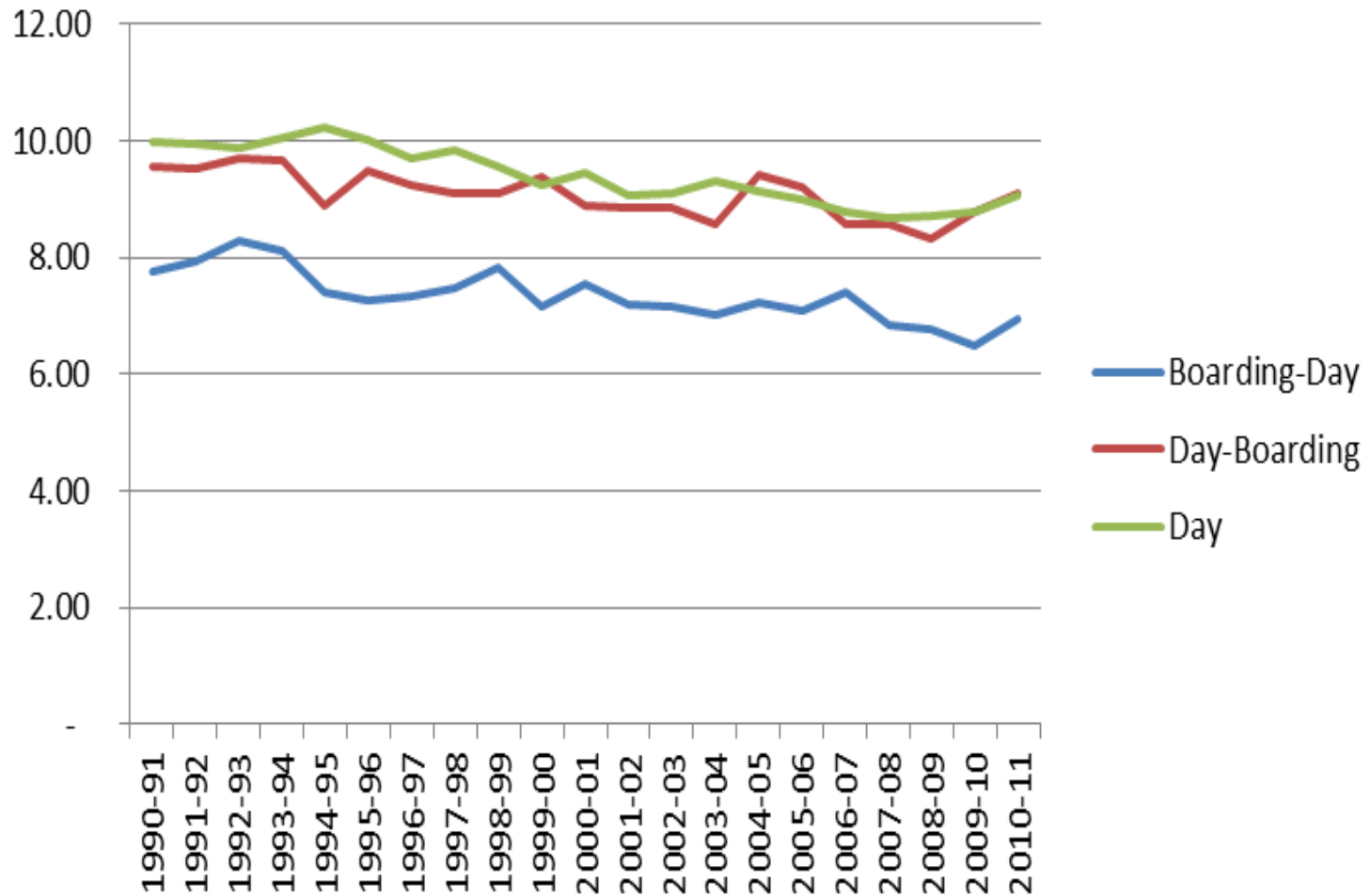
Mean Faculty Salary % Increases



Student per Total FTE Comparison



Student per Faculty FTE Comparison





TAB's Model

TABS Conference- Boston-
Case Study
The Academic Board School (TABS)

Founded in 1947, TABS is located in a bucolic campus setting in the rolling hills near Centertown, Indiana. TABS has 362 students serving Grades 9-12 in an aging, but well maintained campus consisting of 7 buildings on 35 acres. TABS boasts that its graduates attend some of the finest colleges in the Midwest and beyond. Indeed nearly 100% of the graduating class matriculates to a four year program each year.

Simon Cromwell has just taken over as the 11th Head of AAA. Simon comes to TABS at a time when the school is at a crossroads. Once considered the pre-imminent boarding school in the mid-west, the school's boarding enrollment has dropped by 30% in the past ten years. To supplement the lack of boarding students, TABS has increased its international presence and has added 40-50 international students, each year. Also, the school has increased its day student enrollment to about 1/3 of the total student body.

The school, until now has been financially solvent, if not wealthy. Tuition income, at 86% of total revenues has been strong, although the tuition is historically the highest in the region. Fundraising is strong. The school's annual fund contributes \$1.4 million to the operating budget each year. Nearly 80% of the school's families contribute to the annual fund. The Endowment, after a dip in 2008-09 has recovered to almost \$62 million. The school carries \$3.5 million million in long-term debt, associated with the construction of a replacement gymnasium in 2006. The school has a letter of credit relationship at 65bps with Goliath National Bank, which will "reset" in 2013.

At his first "official" Board meeting, Simon listened intently to three significant presentations by Board committees:

- 1) The Education Community reported on its findings that the average salaries of its faculty were 15-20% below those of the local public schools and dangerously close to salaries of religiously affiliated schools. The committee is recommending a five-year plan to bring TABS faculty salaries to the 75% percentile of local public schools
- 2) The Diversity Committee reports that an alarming trend in the community shows that the school's percentage of diverse students at 10% is significantly below the diversity of the community at 25%. The committee urges the Board to use aggressive financial aid funding to narrow the gap so that the school becomes more reflective of the community it serves. The committee recommends a tuition "discount" of 20% to be applied to financial aid
- 3) The Facilities and Real Estate Committee reports that the local Building department has, once again asked for a status report on how the school intends to bring its buildings into full-handicapped accessibility. The committee is asking for a \$6 million special funding allocation to bring all three buildings up to current code in the next 6-10 years

Although Simon has reviewed the school's operating statements that show a modest (-\$125k) deficit, he has the lingering feeling that not all of these needs can be met in order to be a sustainable financial picture.

Questions

- 1) What should be the school's first priority?
- 2) Can the school accomplish all three of these plans? How?
- 3) The school must show a slight cash-flow positive result each year to meet its debt covenants, solve this puzzle?

Closing Thoughts/Questions

- Schools Should Do Their Own Analysis to Determine what is Right
- Use of CPI or HEPI Does Not Capture the True Cost Escalation
- The BB&N Independent School Price Index Suggests CPI Plus 3.5% is the Reality
- Is this Sustainable?
- Educate Your Trustees!

For More Information

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