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## FINANCIAL PLANNING FOR CATHOLIC SECONDARY SCHOOLS: ESSENTIAL BUT NOT DETERMINATIVE

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*Financial planning is one of the essential ingredients in successful Catholic secondary schools. Along with effective budgeting, solid financial management, financial reporting, and an effective teaching/learning program and environment, financial planning is key to the long-term viability of Catholic secondary schools. However, with increased emphasis on the need for financial planning, some Catholic-school administrators and board members have allowed financial planning to determine the future direction of the Catholic secondary school. This article argues that this is an inappropriate course of action. Rather, long-range financial planning is one element in the comprehensive Catholic-school planning model. Indeed, this model should be mission driven, and any financial plan should be based upon the school's strategic long-range plan. This article details an eight-step, comprehensive planning model which has proven to be effective for Catholic secondary schools.*

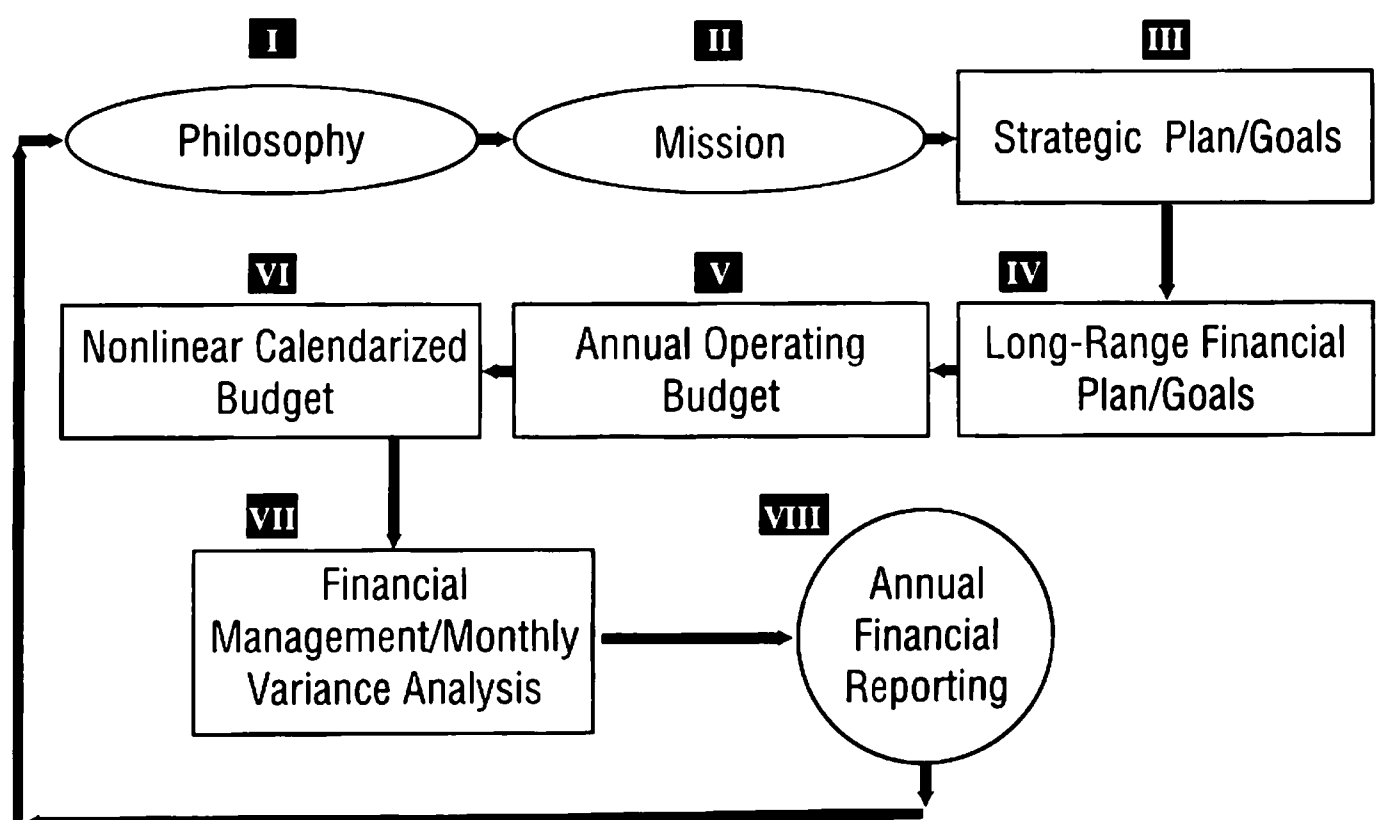
Since the mid-1970s Catholic-school leaders in the United States have called for financial planning to stabilize and ensure the futures of Catholic schools. Toward this end, in 1978 the National Catholic Educational Association (NCEA) established NCEA Financial Consulting Services to assist with financial planning, financial management, and resource development. In 1984 financial planning efforts were enhanced in light of the publication of *Effective Catholic Schools: An Exploration*. Bryk, Holland, Lee, and Carriedo (1984) concluded their research by noting that, "The story of Catholic schools is a story of much goodness, but also of some tensions and two deep-seated problems...finance and governance" (p. 101). Again, financial planning was encouraged with emphasis on board involvement in the process. The Bryk et al. research showed that schools with effective boards were more financially viable and had brighter financial futures than those without boards.

Financial planning may be defined as the projection of financial operating results in order to maximize profit or to attain particular financial goals. Financial planning is undertaken at a personal level to insure that individuals have adequate funds for retirement or for the education of their children. At a corporate level, financial planning is used extensively to maximize profit and to improve stockholder returns.

As the first finance consultant for NCEA and one who has devoted the last 25 years to providing consultation to Catholic schools, I contend that financial planning as a stand-alone process is inappropriate for Catholic secondary schools. When financial planning is taken to an extreme or used in isolation, the financial goals often impede more legitimate and desirable outcomes with regard to the teaching/learning process. Occasionally financial planning has been blatantly counterproductive to the mission of Catholic education.

Financial planning should, more appropriately, be viewed as one of the tools in the *Principal's Toolbox* (Harrington & Colenzinski, 1975). It should be used in conjunction with others in order to ensure that the philosophy and mission of the school are carried out. Financial planning is only one component of the comprehensive planning model for Catholic schools. This is not to suggest that financial planning should not be carried out, but rather that effective financial planning needs to follow a very clear sequence of events. Figure 1 shows the ideal flow of financial planning for the Catholic secondary school.

**Figure 1: Catholic-School Planning Model**



This model presumes that all planning will be mission-driven and based upon both the philosophy and mission of the school. Moreover, this model presumes that mission-driven strategic goals rather than financial plans will guide the school into the future. Financial plans are based upon and reflective of the strategic goals. Annual operating budgets are based upon the long-range financial plans, and financial management and reporting are then carried out in light of these plans.

The following paragraphs highlight specific considerations regarding each element of the Catholic-school planning model.

## **PHILOSOPHY**

The Catholic-school philosophy speaks of what the school is called to be and is grounded in the fundamental teaching ministry of the Catholic Church. The philosophical underpinnings of the Catholic school require that it exist to integrate elements of faith in the learning process. Additionally, the Catholic school exists to:

- Proclaim the Gospel message
- Build community
- Provide opportunities for service
- Provide opportunities for worship (United States Catholic Conference, 1973).

Under Canon 803, the Ordinary of each diocese has responsibility for designating a school as Catholic and ensuring that these philosophical underpinnings are adhered to. Strategic and financial planning should be well-rooted in the school's philosophy and mission (Canon Law Society of Great Britain and Ireland, 1983).

## **MISSION**

According to Kotler and Fox (1995), every successful educational institution starts with and maintains a clear mission. The Catholic-school mission speaks of what the school is called to do and whom it is to serve. Specifically, the Catholic-school mission statement should provide answers to the following questions:

- Why does the school exist?
- Whom does the school serve?
- What kind of an academic program is offered?
- What values are held as critical to the ongoing work of the school?

As pointed out in the *Catholic School Management Letter* (1995), "Above

all, mission statements should be brief, to the point and compelling" (p. 3).

In applying clarity of philosophy and mission to the Catholic-school planning model, perhaps the German word *aufgratstaktik* best captures both the spirit and the intent. Loosely translated, *aufgratstaktik* means "mission-driven strategies." Successful strategic and financial planning in the Catholic school is mission-driven.

## STRATEGIC PLAN AND GOALS

The *Catholic School Management Letter* (1996) proclaimed strategic planning and management to be increasingly critical to the long-term viability and success of the Catholic school as we approach the third millennium.

Kotler and Fox (1995) define strategic planning as, "The process of developing and maintaining a strategic fit between the institution's goals and capabilities and its changing marketing opportunities. It relies on developing a clear institutional mission, supporting goals and objectives, a sound strategy and appropriate implementation" (p. 95).

Strategic planning should provide general direction for the school in various areas of school life. It is recommended that strategic goals be developed for at least the following areas:

- Ownership/governance
- Administration
- Catholic identity
- Enrollment
- Staffing
- Curriculum
- Plant and facilities
- Finances
- Institutional advancement
- School-community relationship

The most effective strategic planning models appear to be those which are highly participative and collaborative. Effective strategic planning assumes the involvement of board members, administrators, faculty and staff, parents, and other key constituencies. The outcomes of an effective strategic planning process should include:

- Review of major resources available
- Analysis of present and future school environments
- Establishment of strategic goals
- Establishment of strategies and action plans to support the strategic goals and objectives
- Consultation to ensure that key constituencies are in agreement with the strategic directions set by the plan

The strategic plan sets the stage for financial planning with regard to both income and expenses.

## **LONG-RANGE FINANCIAL PLANNING**

According to the National Association of Independent Schools (1987), long-range financial planning generally covers a period of five years. The Association argues that a three-year planning period may be too short to be effective while ten-year planning is in many instances unrealistic.

The five-year financial plan should be based on and reflective of the school's strategic plan—its goals and objectives. This long-range financial plan should be a numeric depiction of projects and priorities, set forth in whole dollars. The chart of accounts used for the long-range financial plan should be identical to that used for annual operating budgets.

Long-range financial planning should be carried out by the school's business office in close collaboration with the finance and planning committees of the school board. It is the responsibility of the business office to gather appropriate historical information and to ensure that this information is compiled so as to facilitate the development of assumptions. The board's finance committee will finalize the assumptions which underpin the financial plan. In addition, the finance committee will work in close collaboration with the school administration and business office to set forth financial priorities in light of the school's strategic plan. It is further recommended that the long-range financial plan be established as a "revolving financial plan." That is, each year as the books are closed and financial results known, the long-range financial plan should be evaluated and refined and an additional year added so that the plan continues to project five years into the future. The responsibility of the board's planning committee is to ensure that the school administration and board's finance committee consistently prepare financial plans and priorities in light of the school's mission and strategic long-range plan. Long-range financial planning is an ongoing process, with plans evaluated, refined, and updated annually.

The key to successful long-range financial planning is to develop clear assumptions and apply them to each category of income and expense. Detailed assumptions should be developed with regard to cost increases, planned expenditures, compensation growth, tuition rates, tuition income, financial aid, institutional advancement income, etc.

## **ANNUAL OPERATING BUDGET**

Simini (1978) stated that, "Budgeting is the key to financial control. In other areas, the process might be called model building. Both terms connote the same objective, the simulation of operating results, given certain conditions" (p. 103).

In the Catholic school, budgeting is indeed the key to financial control. Proper budgeting requires care, thought, adequate information, and appropriate participation. As noted above, the annual operating budget should be based upon the school's revolving long-range financial plan. The preparation of the annual operating budget should follow a clearly defined process and timeline. A sample budget development process is shown below.

### **Secondary School Proposed Budget Development Process**

November-January	<p>Prior year financial information reviewed by business manager, principal, and finance committee.</p> <p>Audit report (if available) reviewed by business manager, principal, and finance committee.</p> <p>Long-range financial plan reviewed and updated.</p> <p>Preliminary assumptions developed by board with staff input:</p> <ul style="list-style-type: none"> <li>• Enrollment assumptions</li> <li>• Salary growth assumptions</li> <li>• Preliminary tuition assumptions</li> <li>• Capital improvement assumptions</li> <li>• Other assumptions</li> </ul> <p>Principal distributes departmental budget request forms with accompanying explanations (prepared by business manager).</p>
January	<p>Departmental budget request forms returned to principal for inclusion in budget development process.</p>
February	<p>Principal and staff prepare preliminary operating budget based on assumptions developed above. (Detailed, line-by-line income and expenditure budget to be presented to finance committee in February.)</p>
March	<p>Principal and finance committee review preliminary draft budget and modify assumptions as necessary:</p> <ul style="list-style-type: none"> <li>• Contingencies developed</li> <li>• Tuition assumptions finalized</li> <li>• Salary and benefit assumptions finalized</li> </ul>
April	<p>Budget presented by principal to board for approval. Contracts for professional staff prepared and signed by principal.</p>

June	Books closed for fiscal year. Audit dates set for summer.
July	Begin new fiscal year. Calendarize budget and develop cash flow.

The budget development process calls for expenditure assumptions to be developed before income assumptions. This process ensures faithfulness to the school's strategic long-range plan and facilitates brainstorming and creative thinking by administrators and board members with regard to income generation.

As noted above, the chart of accounts used for the annual operating budget should be identical to that used in the financial planning process. However, it is likely that the long-range financial plan will use summary categories, whereas the annual operating budget will be prepared in detail. Of course, the detailed budget should consistently follow the summary categories shown in the long-range financial plan.

The following budget hints might be considered for both financial planning and budgeting:

1. Budget figures should be realistic, based on the best available information.
2. Contingency accounts should be established and used to meet unanticipated expenses.
3. Realistic allowances should be made for annual increases in the general cost of living.
4. Each budgeted item should have supporting documentation (annotation) to justify or clarify the planned income or expense.
5. Funded depreciation accounts should be used to ensure that capital expenditures for building upkeep are shared evenly by all families. Failure to use funded depreciation accounts often results in the cost of major repairs and capital improvements being borne by one group of families who happen to be involved with the school when the improvement needs to be made (National Catholic Educational Association, 1984).

## NONLINEAR CALENDARIZED BUDGET

Financial management is facilitated through effective budget monitoring and control systems. Without such systems, administrators and board members can be caught off guard as expenses escalate or revenues are not received as projected. Monitoring the annual operating budget and cash flow is a key responsibility of the school's business office.

As stated in a *Catholic School Management Letter* (1997), cash flow may be defined as the continuing change in cash position due to the generation of income or expense. "Cash positions in the Catholic school change daily as



tuition and fees are received and contractual obligations are met and expenses paid. In fact, the cash position of a Catholic school is affected by literally hundreds of transactions each month" (p. 1).

In order to monitor and manage changes in cash flow, the nonlinear calendarized budget is recommended. The nonlinear calendarized budget is a financial depiction of income and expense priorities of the school for a given year with each category of income and expense spread over the 12 months of the school year, based on anticipated actual receipt or expenditure. The nonlinear calendarized budget should present a realistic month-to-month projection of cash to be received and cash to be expended. The nonlinear calendarized budget is the basis for development of monthly cash flow projections.

School boards should formulate policies requiring school administrators to monitor and control cash flow monthly through the use of nonlinear calendarized budgets and monthly variance analysis. When used effectively, calendarized budgets and cash flow projections dramatically improve the overall financial management of the Catholic school. Unfortunately, only a small percentage of Catholic secondary schools use nonlinear calendarized budgets.

## **FINANCIAL MANAGEMENT AND MONTHLY VARIANCE ANALYSIS**

Effective financial management requires the use of standard monthly budget analysis forms. A sample recommended monthly budget analysis form is shown in Figure 2.

In order to carry out these financial management responsibilities using a nonlinear calendarized budget, the following responsibilities are noted for owners, board members, administrators, and staff.

### **RESPONSIBILITIES OF OWNERS (DIOCESES, PARISHES, OR RELIGIOUS INSTITUTES)**

1. Require and ratify policies calling for specific budget development timelines and budget approval.
2. Require and ratify policies calling for nonlinear calendarized budgets with monthly cash flow and variance analysis.
3. Participate in the budget development process with the school administration and board committees.
4. Review the calendarized budget in detail and approve both cash flow projections and any financial support provided by the owner.
5. Periodically review the variance analysis statements.
6. Require and ratify policies calling for annual external financial reviews or audits.

**Figure 2: Monthly Budget Analysis**

	NOVEMBER			YEAR TO DATE			Full Year Budget	Balance Remaining
	Budget	Actual	Variance	Budget	Actual	Variance		
<b>TUITION</b>								
Parishioners	23,507	8,015	(15,492)	117,535	116,547	(988)	176,300	59,753
Nonparishioners	4,547	4,052	(495)	22,735	20,848	(1,887)	34,100	13,252
Non-Catholics	5,187	2,480	(2,707)	25,935	17,490	(8,445)	38,900	21,410
Kindergarten	5,227	2,147	(3,080)	26,135	15,417	(10,718)	39,200	23,783
Prior year tuition	0	150	150	0	12,446	12,446	0	(12,446)
Tuition assistance adjust	(1,900)	1,900	(9,500)	0	9,500	(14,425)	(14,425)	
<b>Total</b>	<b>36,568</b>	<b>16,844</b>	<b>(19,724)</b>	<b>182,840</b>	<b>182,748</b>	<b>(92)</b>	<b>274,075</b>	<b>91,327</b>
<b>FEES</b>								
Registration	0		0	1,000	3,533	2,533	1,000	(2,533)
Other	0	15	15	0	15	15	0	(15)
<b>Total</b>	<b>0</b>	<b>15</b>	<b>15</b>	<b>1,000</b>	<b>3,548</b>	<b>2,548</b>	<b>1,000</b>	<b>(2,548)</b>
<b>SUBSIDY FROM PARISH</b>								
From ordinary income	5,000	5,000	0	10,000	26,500	16,500	45,000	18,500
Rosary Bingo	0		0	0	0	0	0	0
Assess Parishes of N-P	0		0	1,750	0	(1,750)	3,500	3,500
<b>Total</b>	<b>5,000</b>	<b>5,000</b>	<b>0</b>	<b>11,750</b>	<b>26,500</b>	<b>14,750</b>	<b>48,500</b>	<b>22,000</b>
<b>GRANTS/FOUNDATIONS</b>								
HOPES	0		0	300	438	138	300	(138)
Catholic School Support	0		0	3,050	2,465	(585)	3,050	585
Scholarships	0		0	0	500	500	0	(500)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,350</b>	<b>3,403</b>	<b>53</b>	<b>3,350</b>	<b>(53)</b>
<b>SPECIAL PROGRAMS</b>								
Preschool	3,333	1,060	(2,273)	16,665	6,630	(10,035)	25,000	18,370
After school	900	853	(47)	2,700	3,729	1,029	9,000	5,271
<b>Total</b>	<b>4,233</b>	<b>1,913</b>	<b>(2,320)</b>	<b>19,365</b>	<b>10,359</b>	<b>(9,006)</b>	<b>34,000</b>	<b>23,641</b>
<b>DEVELOPMENT INCOME</b>	<b>12,000</b>	<b>290</b>	<b>(11,710)</b>	<b>80,500</b>	<b>42,492</b>	<b>(38,008)</b>	<b>200,000</b>	<b>157,508</b>
<b>ALL OTHER INCOME</b>								
Cafeteria/milk	400		(400)	1,200	2,240	1,040	4,000	1,760
Other sources	150	74	(76)	450	319	(131)	1,500	1,181
<b>Total</b>	<b>550</b>	<b>74</b>	<b>(476)</b>	<b>1,650</b>	<b>2,559</b>	<b>909</b>	<b>5,500</b>	<b>2,941</b>
<b>TOTAL SCHOOL INCOME</b>	<b>58,351</b>	<b>24,136</b>	<b>(34,215)</b>	<b>300,455</b>	<b>271,609</b>	<b>(28,846)</b>	<b>566,425</b>	<b>294,816</b>
<b>CALENDARIZED CASH FLOW</b>								
Opening cash	157,136	192,298		93,160	93,160			
Total income	58,351	24,136	(34,215)	300,455	271,607	(28,848)		
Total expenses	47,575	42,919	4,656	225,703	191,253	34,450		
Variance Fav (Unfav)	10,776	(18,784)	(29,560)	74,752	80,354	5,602		
Cumulative cash flow	167,912	173,514		167,912	173,514			

## **RESPONSIBILITIES OF SCHOOL BOARD**

1. Formulate or approve policies with regard to the budget development process and timeline.
2. Formulate or approve policies requiring the preparation and use of non-linear calendarized budgets and cash flow projections.
3. At the end of each month, have the finance committee review the monthly variance analysis statement, accounts receivable, and accounts payable with the school administration and individuals responsible for bookkeeping functions.
4. In light of the monthly variance analysis, recommend policy refinements designed to improve cash flow performance and/or the investment of available funds. Pay particular attention to tuition delinquencies and consider the use of professional services.

## **RESPONSIBILITIES OF ADMINISTRATION (PRESIDENTS, PRINCIPALS, BUSINESS MANAGERS)**

1. Follow established policies for the budget development process.
  - a. Ensure compliance with the budget development timeline.
  - b. Work with the school board finance committee to develop assumptions to guide the budget development process.
2. Use spreadsheet software to create a nonlinear calendarized budget or provide input to the accountant or professional consultant with regard to the preparation of the calendarized budget.
3. Review the calendarized budget in detail before submitting to the board for approval.
4. Establish and maintain a purchase order system.
5. Approve all invoices before payment, noting appropriate categories.
6. Make spending adjustments to maintain positive cash flow each month.
7. Review and analyze the monthly variance analysis statements.
8. Review tuition accounts receivable and follow up on collections.
9. Prepare or review a detail of accounts payable in order to supplement the monthly variance analysis.

## **RESPONSIBILITIES OF BOOKKEEPER**

1. Provide input to the business manager or accountant with regard to preparation of the calendarized budget based on historical data.
2. Review the calendarized budget in detail, suggesting adjustments based on unique characteristics of the school and the generation or distribution of cash.
3. Maintain the checking account, cash receipts, and cash disbursements journals accurately.

4. At the end of each month, close the books of original entry and reconcile the checking accounts.
5. Provide monthly cash receipt and cash disbursement information for monthly variance analysis report.
6. Detail accounts payable and accounts receivable and attach to the variance analysis report.
7. Retain a copy of the monthly variance analysis statement with the appropriate notation to assist in refinement of the calendarized budget for the upcoming year.

Accountants and auditors often speak of the “separation of responsibilities” for control purposes. Indeed, good financial management in the Catholic secondary school is the responsibility of many individuals at the ownership, governance, administrative, and staff levels.

## ANNUAL FINANCIAL REPORTING

Financial reports present a picture of the school at a particular point in time or for a particular period of time. Statement No. 117 of the Financial Accounting Standards Board (1993), dealing with financial statements of not-for-profit organizations, requires the following statements:

- Statement of financial position (formerly called balance sheet)
- Statement of activities (formerly called statement of income and expenses)
- Statement of cash flows

Although not always required for Catholic secondary schools, it is recommended that these statements be produced annually. Additionally, an external audit or review should be conducted by an experienced, certified public accountant each year, and each school should produce an annual report for its stakeholders. A *Catholic School Management Letter* (1998) calls for the publication and distribution of annual reports for all Catholic schools which provide:

- Message from the owner
- Message from the board chairperson
- Message from the school administration
- Recognition of individuals who contribute to the success of the school
- Recognition of particular achievements
- Annual financial report
- Recognition of institutional advancement activities
- List of annual fund and endowment contributors
- Recognition of volunteers
- Summary of academic highlights

Just as the publicly held corporation uses the annual report to communicate its end-of-year profit picture to its shareholders, a Catholic school's annual report communicates the human as well as the financial story to its stakeholders.

As we approach the third millennium, Catholic schools must continue to plan for the future and to be accountable. Above all, administrators and board members must be careful to maintain and enhance the mission of the Catholic school while planning effectively for the integration of elements of faith with the learning process. Financial planning, financial management, and financial reporting are key components—although not necessarily the determinative components—in ensuring the continuing mission of the Catholic school.

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