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Maximizing the Role of the Finance Committee of the Board: An Essential Ingredient in Enhancing Catholic School Viability and Vitality



The Finance Committee of the Catholic School Board (which is sometimes referred to as Council) is one of the normative standing committees. Its effective functioning is key to long-term financial viability and vitality for any Catholic school. Unfortunately, all too often the roles of the Finance Committee are misunderstood. Sometimes the Finance Committee assumes the role of the Board itself, recommending or making decisions purely from a financial perspective, rather than consistent with the school's mission and strategic plan. In other instances, the Finance Committee is underutilized, only playing a role in the budget development and approval process while ignoring key responsibilities in long-range financial planning, budget monitoring, financial analysis and financial reporting. This issue of the *CSML* clarifies the appropriate roles of the Finance Committee of the Catholic School Board and identifies best practices in multiple areas.

The Finance Committee of the Board has primary responsibilities for long-range financial planning, budget development, financial management, financial monitoring, financial analysis and financial reporting. In addition, the Finance Committee has the responsibility to oversee, from a policy perspective, all business affairs of the school including capital improvements, food service, bookstore, transportation, outside contractors, insurance, rental agreements, auditing, investment oversight and the finances of ancillary organizations (booster clubs, endowment boards, alumni fundraising councils, etc.). Provided on page 2 is a detailed "Finance Committee Charge."

Normative Standing Committees of the Catholic School Board

- Executive
- Policy and Planning
- Mission Enhancement
- Finance
- Buildings and Grounds
- Nominating (Committee on Board Members)
- Development
 - Marketing
 - Communication
 - Enrollment

BOARD COMMITTEE CHARGE

FINANCE COMMITTEE

Purpose:

- To prepare, update, and monitor long-range financial plans for the school;
- To develop and propose to the full Board a budget for the next fiscal year with appropriate assumptions, and to monitor the current year budget;
- To oversee, from policy and planning perspectives, business operations of the school.

Responsibilities:

- To develop and regularly update a long-range financial plan with detailed written assumptions and best-case, probable-case, and worst-case scenarios;
- To monitor and report to the Board on the status of the current fiscal year budget (monthly, quarterly and annually) (actual versus projected);
- To formulate with the president or principal a proposed budget for the upcoming fiscal year with detailed written assumptions to support the school's mission and strategic plan goals and objectives;
- To recommend to the Board (and its Policy/Planning Committee) financial policy that ensures sound and consistent financial management, just salaries, fair tuition increases, financial assistance and payment plans;
- To oversee the school's endowment, including policies for endowment growth, management and distribution of proceeds;
- To provide key metrics (dashboard indicators) and to provide an annual analysis of school operations based upon defined metrics;
- To formulate with the school's administration (and the Policy/Planning Committee) policy concerning the business affairs and activities of the school, including such areas as bookstore, cafeteria, transportation, outside contractors, purchasing, insurance, rental agreements, contracts, and athletic gate receipts.
- To work with the school administration, development office and business office to ensure publication of a comprehensive annual report.

CHAIR:

MEMBERS:

DATE CHARGED:

Administrative Resource Person:

While the Finance Committee of the Board is chaired by a Board member with financial experience and expertise, the Committee may be made up of non-Board members who have an interest in and a commitment to the financial viability of the school. Individuals serving on the Finance Committee might include accountants, CPAs, chartered life underwriters, bankers, investment bankers, business leaders and/or attorneys with corporate and/or estate planning expertise.

Best practices call for the Finance Committee of the School Board to meet on a monthly basis to carry out the responsibilities delineated on pages 1 and 2. At the beginning of each year, the Finance Committee should be in a position to present to the full Board an update of the school's long-range financial plan with best-case, probable-case, and worst-case scenarios for a three to five-year period, and with detailed written assumptions to ensure that all Board members understand the basis for the projections. If a long-range financial plan has not been created, the drafting of such a plan should be a high priority for the Finance Committee, school administration and the Board itself.

The Finance Committee should also present to the Board at the beginning of each year a detailed budget development process and timeline. See *Catholic School Management Letter*, November 2008, Vol. XXX, No. 2, "The Catholic School Budget Development Process and Timeline." At each Board meeting, financial performance should be reviewed utilizing a standard variance analysis format. Such a format calls for actual financials to be contrasted with the budget and a variance shown both for the selected period (month or quarter) and on a year-to-date basis. The variance analysis format should also show the full budget and the balance remaining. For a sample variance analysis format please see *Catholic School Management Letter*, January 2009, Vol. XXX, No. 3, "Monitoring and Controlling Cash Flow," page 3.

Each fall, the Finance Committee should take the lead on presenting clear metrics or "dashboard indicators" to all members of the Board. Specific metrics should be provided in areas of enrollment, finance, staffing, development/institutional advancement, academic affairs, faith community affairs and student activities. A detailed and comprehensive list of dashboard indicators is included in *Catholic School Management Letter*, November 2013, Vol. XXXV, No. 2, "Dashboard Indicators for Monitoring the Effectiveness and Vitality of Catholic Schools: Utilizing Metrics to Drive Mission Success."

The Finance Committee is also responsible to ensure that all Board members have at least a rudimentary understanding of key bookkeeping and accounting principles. Definitions should be provided to Board members in at least the following areas on an annual basis:

- Accounting
- Accrual basis accounting
- Cash basis accounting
- Modified cash basis accounting
- Bookkeeping
- Budgeting
- Calendarized budget – linear
- Calendarized budget – non-linear
- Long-range financial plan
- Cash flow
- Cash management
- Compellations, reviews and audits as provided by external accounting firms
- Financial management
- Financial reporting
- Forensic accounting
- Generally accepted accounting principles (GAAP)

It is the responsibility of the Finance Committee of the Board to also ensure that all Board members understand how to read and interpret the school's financial reports. At the very least, Board members should understand whether the reports are presented on a cash, modified cash, or accrual basis of accounting. The role of depreciation should be clearly understood. Information on accounts payable and accounts receivable, including aged tuition delinquencies, should be presented to Board members on a regular basis at each Board meeting. From a very pragmatic perspective, it is also recommended that the Chair of the Finance Committee work closely with the Head of School, President, or Principal to ensure they also understand how to read and interpret financial reports. This is an often overlooked, and yet critically important, area for the Board's Finance Committee to work effectively in direct support of the school head. For additional information see *Catholic School Management Letter*, September 2007, Vol. XXIX, No. 1, "Accounting Services – An Overview."



MEET ...

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Richard J. Burke was Founder and President of Catholic School Management and has 41 years of experience as a consultant, board member and business manager providing workshops, seminars and direct consulting services to schools, parishes, religious communities, dioceses and school boards. He has served on the Adjunct Faculty of the Graduate School of Education at Boston College and taught at Thomas More College in Covington, Kentucky. He has served as a lecturer and instructor for the Institute for Catholic Educational Leadership (ICEL) at the University of San Francisco and holds memberships in the National Catholic Educational Association, as well as the National Association of Business Economists and the Hartford Association of Business Economists.

In an environment where Catholic schools are increasingly reliant upon tuition for the vast majority of funding, particular attention needs to be paid to key metrics related to tuition and tuition setting best practices.

These include:

- Tuition as a percent of cost per pupil (CPP);
- Number of families paying tuition in one or two payments annually as a percent of all families;
- Monthly aged delinquency with regard to tuition;
- End-of-year uncollectable tuition (both dollar amount and number of families).

The above information should be collected and reported annually and longitudinal analyses prepared so that Board members can clearly see trends from one year to the next.

In addition, increasing attention needs to be paid to the allocation of scholarships and tuition assistance in order to ensure that the school is not systematically excluding significant numbers of Catholic families from the Catholic school. In carrying out this responsibility, the Finance Committee should work closely with both the school administration and the Development or Institutional Advancement Committee of the Board to ensure that programs are in place to raise the needed money for both scholarships and need-based tuition assistance.

Note:

In parish-owned/sponsored schools, it is important to recognize that the Finance Committee of the Board is separate from the Finance Council of the Parish which is mandated in Canon Law. It is CSM's recommendation and, indeed, a best practice for both Committees to exist and carry out appropriate responsibilities. Conversely, CSM recommends that the Parish Finance Council not also act as the Finance Committee of the School Board or School Advisory Council (SAC). It is recommended that a representative of the Parish Finance Council sit on the Finance Committee of the School Board in order to ensure good communication and effective collaboration.

FOR THE CATHOLIC SCHOOL LEADER

To Do Today:

Ensure that procedures are in place for the collection and monitoring of key financial metrics.

For The Future:

Populate a robust Finance Committee able to prepare a long-range financial plan with best, likely and worst-case scenarios.



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