

## Going Back to School

Recently, CFC has been asked to provide financial modeling to a number of schools in the Archdiocese of St. Paul and Minneapolis. Although we have been working with schools for some time, this recent flurry of additional work has reminded us once again of the many lessons we have learned throughout the years in our work with schools.

In each financial consulting engagement, CFC emphasizes the need to concentrate on “key drivers”. These are the main financial items that ultimately will lead an organization to success or failure in its endeavors. Over the years, we have learned that the key drivers in most Catholic schools fall into three categories: (1) student enrollment and collected tuition, (2) personnel costs, and (3) outside revenue sources.

Collected tuition accounts for the majority of revenue in most schools. The exception to this would be certain inner city schools that specifically serve the poor and marginalized, and thus must rely on an extraordinary amount of consistent outside funding to ensure their continued operation. In situations where tuition is the key revenue driver, the number of students enrolled inevitably determines the total amount of tuition. Therefore, it is extremely important to keep close tabs on student numbers, both existing and projected for the future.

Catholic schools across the country are experiencing a downward trend in the market share of student enrollment. In a recent U.S. Department of Education

report, enrollment in Catholic schools declined over the 12-year period ending 2008 from 5.5% of all pre-K to 8<sup>th</sup> grade students to 4.35%. In addition, the share of private school pre-K to 8<sup>th</sup> grade enrollment comprised of Catholic school students declined from 42.9% to 37.1% during the same period.

Inaccurate enrollment projections can be devastating to any school’s bottom line. If budgets and class assignments have been set and employment agreements issued, attempting to adjust expenses to match a greatly diminished revenue stream can be a daunting task. This is why a good understanding of the changing student base at a school is an important factor in limiting unexpected negative surprises.

Personnel costs (salaries and benefits) typically account for between 75% and 85% of total costs for many schools. Therefore, any significant impact on the expense side of the ledger will likely require adjustments to this category. When one considers personnel costs, it is easy to think only of salary ranges and employer contributions to benefit plans. One significant, but often overlooked, aspect of personnel is staffing patterns. If a school chooses to have a low student/teacher ratio, staffing may need to increase, driving up per student costs. If a school feels that it is appropriate to increase that ratio, the resulting staffing pattern potentially may yield significant savings in personnel costs, lowering per student costs.

Finally, the variety and amount of available outside revenue sources is another key driver. In many

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schools, these revenue sources can have a significant impact. Among the most common sources are fundraising, endowment income, and significant individual gifts. We have noticed a trend over the years toward increasingly creative and interesting fundraising options. Bake sales and candy drives have been joined by elaborate dinner dances featuring silent and live auctions for any number of marvelous donated items. For those with a significant endowment, the endowment truly is the gift that keeps on giving. Undoubtedly, outside revenue sources figure prominently in the life of a school and can be extremely important.

Now more than ever, keeping key drivers uppermost in mind when planning the school budget pays recurring dividends as the years go by. For more information regarding this topic or other items related to school budgets, feel free to call or email CFC .

## CFC Welcomes Judy Logan

Judy Logan recently joined CFC as an Associate Financial Consultant. Judy will assist clients with financial planning and modeling as well as financial health issues. She has over 20 years of experience in the fields of accounting, tax and non-profits, working for a variety of firms including KPMG, Deluxe Corporation and St. Jude of the Lake Parish in Mahtomedi. Judy's particular industry interests are in the areas of financial reporting, internal financial controls and stewardship. Judy lives with her family in Stillwater, and enjoys camping, hiking and biking.

## Here's to Your (Fiscal) Health!

We have frequently used this newsletter to urge our parish and school leaders to examine their financial plans periodically (and create one if you don't have one) and to adjust them as necessary. This is but one more reminder to do so.

As we settle into autumn and anticipate that first snowfall, now is a good time to look at your budget and your financial plan. The summer months often lead to decreased attendance, possible lower Sunday giving, and the absence of school children running in the hallways. As the parish in general returns from summer vacations, and the doors to the school open again for the new year, this is the perfect time to look at your projections and determine if the key assumptions made during budget planning are still on target.

Is the offertory keeping up with the budget? Did the number of school children estimated in the budget actually show up for class? Have any unexpected problems with your physical plant popped up since the budget was approved? These and other questions are simple to ask, and they can help you determine if you need to consider making any budgetary adjustments heading into the second half of your fiscal year.

Monitoring financial activity on a regular basis and making necessary adjustments are two vital elements for ensuring good fiscal health, both now and into the future.

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