

# School Viability

## Required for Long-Term Impact

Steve Dill

It is surprising to many that one of the significant predictors of a school's long-term impact is an adequate amount of money in place as an unrestricted cash reserve. Independent School Management (ISM), a research and consulting firm serving independent schools of all stripes (secular, Protestant, Jewish, Quaker, Catholic), has periodically conducted research to determine factors that "correlated strongly with a private-independent school's ability to sustain excellence over time" (2014). In earlier versions of their research, unrestricted cash reserves were singled out as the most important factor. In later versions, among a list of 18 different success factors, the combination of unrestricted cash, amount of debt, and size of endowment was considered the most significant.

How can this be true? Are they missing something? Isn't the quality of the faculty more important than money in the bank? Don't schools rise and fall on the quality of their executive leadership? Isn't a clear commitment to the mission of the school significant? What about a clear, comprehensive, and compelling curriculum? Doesn't the Christian mentoring influence of faculty count more in the long run?

**If there is no financial solvency, at some point in the future there may be no school.**

As unintuitive as it may seem, those factors do *not* count as much as financial solvency, at least when we are concerned with *sustaining excellence over time*. Faculty, executive leadership, mission, and curriculum make a difference in a school—but if there is no financial solvency, at some point in the future there may be no school. Strong financial health—that is, *school viability*—makes it possible for leadership, Christian faculty, and wonderful curriculums to deliver excellence over time. School viability is foundational to all the other significant elements found in flourishing schools. Over the long haul, it may be the most important variable.

Wise school leaders and board members must realize that the primary audience the board should be focused on is the *next* generation: the children of current students. Boards must think about the long-term consequences of current viability challenges and make decisions with the understanding that they will impact future generations.


### What Makes Up School Viability?

The Flourishing Schools Framework identifies four key elements that contribute to school viability: financial resources, operating systems, advancement processes, and facilities. Each of these strands plays a significant role in long-term school viability. And while there have been a few schools that were blessed at birth with significant financial resources, facilities, and systems, the most common experience for Christian schools is that it takes many years to build each of the four elements.

### Financial Resources

Financial pressures plague schools large and small, church-sponsored and independent. Though details may differ, all schools face the challenge of apportioning limited resources among practically limitless worthy expenditures. Building adequate operating cash reserves will not be the most popular strategic initiative—particularly when compared with raising faculty salaries or maintaining a reasonable tuition structure—but ACSI recommends having, at minimum, 5% of the annual operating budget available as unrestricted cash reserves as an emergency fund when enrollment projections are not met, when the boiler fails, or when the roof leaks. (Other groups recommend a cash reserve in the range of 15%–20% of operating budget, perhaps with a portion of those funds restricted to physical plant reserves.) This figure does *not* include designated funds or endowment funds, since they should not be accessed for operating emergencies.



An illustration on the left side of the page shows a red brick school building with white windows and a door. In the foreground, there is a large, tall stack of US dollar bills, with the top bill being a \$100 bill. The stack is so high it goes out of the frame at the top.

Of course, the best debt load is no debt at all, but many schools have wisely taken on manageable debt to purchase land or build new buildings. “Manageable” is the key word here; in ACSI’s view, putting 10%–20% of the operating budget into debt retirement (principal and interest) is *not* manageable. Such a debt burden severely limits adequate funding for personnel and programs. ACSI recommends keeping debt service at or below 5% of the annual operating budget.

Endowments are wonderful to have, but very few Christian schools have significant endowment funds. Endowments can be built over time, and a planned giving program is a strong tool to build endowment funds. However, it takes very large sums of money to generate enough ongoing investment income to make a significant dent in a school’s operating budget. The school where I served for most of my career had no endowment fund for its first 37 years. Today, 30 years later, the school’s endowment exceeds \$5,000,000—but the earnings contribute only a bit more than 2% of annual operating costs.

### Operating Systems

This primarily refers to financial systems—including budgeting, reporting, and accounting—but also to risk management, tuition and financial aid processes, facility planning, and schoolwide strategic financial planning. There are basic levels and advanced levels in all of these functional areas.

For example, the budgeting process in a small formative school is likely to have a limited number of accounts with simple forecasting primarily based on student enrollment. While the larger school may be equally dependent upon meeting student enrollment targets, its budgeting process will likely begin in the fall, after actual enrollment is known and the current year budget is finalized. Decisions about

salaries, expenses, tuition and financial aid, enrollment, and facility plans are generally put in place by a December/January board meeting and communicated to parents in January or February, before families reenroll for the following year.

In a similar way, a small formative school will likely have a “review” of financial statements conducted by an independent auditor, and this meets basic external review requirements. However, the gold standard for external review for any nonprofit organization is a full annual audit—a requirement for schools seeking ACSI Exemplary Accreditation.

With regard to financial aid, formative schools are likely to allocate a small pot of funding for scholarships, usually given in the form of a discount to families who can’t pay full fare. Flourishing schools tend to have higher tuition rates (excellent education is expensive) but soften that blow with significant commitments to tuition assistance for families that can’t afford it. A general rule of thumb for financial stability is that financial aid and discounts (including employee discounts) should not exceed 20% of billable tuition income.

### Advancement

Advancement has become a more common term in referring to all processes that “advance” the mission of the school, which includes marketing, communication, enrollment management, annual and capital fund-raising, alumni relations, utilizing volunteers, and all aspects of public relations. Formative schools often think of fund-raising in terms of candy and gift wrap sales; flourishing advancement programs define fund-raising completely in the realm of voluntary gift support, giving targeted attention to the identification, cultivation, solicitation, and appreciation of major donors. In formative schools, a major gift may be defined as a \$500 or \$1,000 gift. Flourishing schools usually define major gifts in much larger amounts (from \$5,000 to \$25,000 to seven-figure gifts), often pledged over several years. Mature schools employ professionals who devote their full time to admissions or marketing or fund-raising. Thus, advancement processes are important for all levels of school maturity, but staffing and implementation will change as a school moves toward flourishing levels.

**Achieving viability benchmarks is rarely done quickly.**

### Facilities

Although school leaders hope that prospective families will be drawn to the mission, the faculty, and the quality programs offered by the school, it is true that “curb appeal” and excellent physical plant quality are significant factors in parental decision making about education. The primary driver in facility planning should always be providing optimum learning spaces for students. A number of flourishing Christian schools have developed strong STEM (Science, Technology, Engineering, and Mathematics) programs; this has often resulted in spacious and better equipped science

instructional areas and labs. Construction for new athletic facilities—a gym, fieldhouse, additional fields or a football stadium—can generate significant donor interest and will have impact on student enrollment. Refreshing and upgrading of current facilities can provide a significant bump in “curb appeal” for much lower costs than new construction. Capital campaigns are the most common method utilized by schools wanting to build new facilities; a successful capital campaign can enable schools to build without incurring long-term debt. Debt can be a good thing if used wisely to achieve needed facility improvements with manageable debt service. But schools that take on significant debt with plans to carry the debt service through increased enrollment are choosing a risky strategy that has backfired for many schools.

### Strengthening School Viability

The tool that will improve school viability over time is an ongoing strategic financial planning process. There are different models and approaches, but disciplined multiyear planning is the most realistic and effective way to move the needle in the right direction. There are other important ingredients: a board of directors that looks far into the future, capable staff members, and supportive parents and donors. Achieving viability benchmarks is rarely done quickly. Building cash

reserves, relying on tuition to fund operating costs, developing appropriate levels of financial aid, embarking on a capital campaign: each of these tasks requires three to five years of attention to make significant progress. Wise school leaders and boards commit to developing and updating multiyear strategic financial plans. These plans should utilize conservative enrollment projections; however, they should also lay out specific multiyear financial and operational goals.

Although the school may not achieve the projected targets as originally planned, the existence of the plan keeps leadership focused on specific goals. As the old axiom says, if you are failing to plan, you are planning to fail. A thoughtful multiyear strategic financial plan can engage donors and bring hope to difficult situations. At the end of the day, we know that ultimately it is God’s blessing and provision that enables us to reach these goals. “Commit to the Lord whatever you do, and he will establish your plans” (Proverbs 16:3).

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### References

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### The Flourishing School Continuum: Growing Stronger Version 1.0; July 2015

This model provides a high-level summary for school improvement. Few schools are likely to fit every category within a level: this is a continuum from a formative level of school characteristics to a flourishing level. Schools may meet Flourishing standards in some areas but operate at a Formative stage in others. All schools should strive to reach Effective or higher. The red line down the middle of the chart represents accreditation.

Domains	Elements	Formative Level	Maturing Level	Effective Level	Flourishing Level
Board Governance	Foundations	Undocumented mission, vision, values, or philosophy	Developing vision, mission, core values, and philosophy	Clear statements and full alignment of mission, vision, values, and philosophy	Clear statements and alignment; regular review and refinement
	Policies	Little or no written board policy; functioning on bylaws	Basic board policies in place	Clear and written board governance policy; consistent implementation	Board policies systematically reviewed and revised; policy guides key decisions
	Board Development	Board directly involved in management decisions; little review of board function, future planning, or board profiling	Board growing in its understanding of its proper role; some future planning in place; general board profile in place	Board has clear recruitment and nomination processes; some board PD; strategic plan and profile in place	Functioning strategic board that reflects board profile; ongoing board PD; annual board evaluation (of the board); ongoing planning processes
	Roles and HOS	No clear delineation of board and head of school (HOS) roles	Clear definition of board and HOS roles; clear HOS job description	Stable, positive board/HOS relationship; clear HOS evaluation process	Ongoing board/HOS communication and positive relationship; comprehensive and systematic HOS evaluation process
Executive Leadership	Framework	Limited expertise in the Christian School Leadership Framework (CSLF)	Qualified/credentialed HOS; utilizing the CSLF to build the school and governance culture	HOS demonstrates many "heart, relational, and strategic competencies" of the CSLF; keeps board informed	HOS embodies the CSLF; contributes to the Christian school movement; supports board; regularly reports strategic plan to board and community
	Personnel	Limited capacity or support in recruitment and evaluation of school personnel	Some recruitment and support (coaching or mentoring); inconsistent evaluation processes	Developing recruitment strategies; employee support; annual performance reviews	Intentional recruitment strategies; robust formative and summative performance reviews; linked to professional development
	Stability and Engagement	High turnover in HOS position	Reasonable stability of HOS; engaged with some stakeholders; effective board engagement	Stability in HOS position; strong engagement with all stakeholders; engagement with external communities	Consistent HOS leadership: HOS inspires the community, is highly respected by stakeholders, networks and blesses other schools, and has vision for Kingdom support
	Operating Systems	Lax financial controls; no external reviews; no attention to risk management; little to no tuition assistance	Feasible financial plans in place; some external financial review; limited risk management; tuition assistance available	Review/audit by external CPA; clear budgeting, reporting, attention to risk management; tuition assistance implemented and assessed; strategic financial plan	Hard-income driven; regular audits; meet ECA standards; significant funding for tuition assistance; thorough risk management process; rolling strategic financial planning process
School Viability	Advancement	No formal admissions or development processes or staffing; use of fund-raising sales/events	Beginning donor cultivation; written admissions process	Some advancement staff in place; some successful fund-raising efforts; mission-driven admissions policies	Mature development/admissions functions; successful annual fund, capital campaigns, endowment
	Financial Resources	Financial viability in question; cash flow and debt concerns; no formal budget process	Formal budgeting process; debt manageable	Financially viable; balanced budget evident; growing cash reserve; debt reduction plan in place	Cash reserves >5% of budget; debt service <5% of budget; long-term financial viability evident
	Facilities	Inadequate, insufficient facilities; low-level functionality	Adequate facilities; developing educationally usable spaces	Well-developed and appealing physical plant; branding is evident	Physical plant supporting all programs; distinctive presence and branding

Domains	Elements	Formative Level	Maturing Level	Effective Level	Flourishing Level
Student Learning	Curriculum	"Off the shelf" curriculum in use; no systematic review	Basic curriculum in place; some systematic review; moving to comprehensive documentation	Clear scope and sequence; fully documented curriculum; strong faculty involvement in processes	Curriculum fully mapped and fully integrated with biblical worldview; regularly and collaboratively reviewed
	Exceptional Students	Little differentiation; no ability to serve exceptional students	Some differentiation; limited ability to serve exceptional needs	Differentiation evident; programs and services available to meet needs of exceptional students	Differentiation pervasive; programs and services for exceptional students effective and assessed at all levels
	Expected Student Outcomes (ESOs)	No identified outcomes; little or no clarity or consensus on ESOs	Basic objectives/goals for ESOs are documented; full ESOs not developed	Well-defined, communicated ESOs in all areas of student development; some assessments available (internal and external) for the ESOs	Well-communicated ESOs embedded into curriculum driving all programmatic decisions; analysis of ESO assessments drives school improvement
	Assessment of Learning	No external assessments of student learning	Some use of standardized assessments; minimal analysis, use of data, or tracking of graduates	Annual tracking of internal and external assessments; basic data analysis and use of test results to improve instruction	Annual analysis of internal and external assessments; tracking of student success at the next level; school improvement built on student assessment information
	Biblical Worldview	Little intentional biblical integration (other than the textbooks)	Developing biblical integration; some training of faculty	Biblical integration evident in curriculum documents and in planned and unplanned activities	Biblical integration pervasive; strong evidence of a biblical worldview developed and assessed
Spiritual Formation	Cocurricular	No cocurricular options	Limited cocurricular options	Many cocurricular options	Abundant cocurricular options in broad areas
	Technology	Minimal or no technology	Limited technology available	Current technology used and integrated into instruction; regular staff training	Pervasive use; training and evaluation of technology for staff and students in all areas of instruction
	Climate	More incidental than intentional; control; conformity	Some goal statements; grace and truth culture unbalanced	Clear outcomes for spiritual formation; balanced grace and truth culture	Student spiritual leadership evident; embedded grace and truth culture
	Parent and Church Partners	No intentional training for parents or church involvement	Encouragement of biblical parenting and church involvement	Intentional but informal teaching regarding biblical parenting and church involvement	Formal teaching/mentoring to develop biblical parenting and church involvement
	Assessment	Formative; no data collected	Anecdotal data on spiritual growth	Some data (surveys, follow-up) on student and alumni spiritual growth	Ongoing external assessments of spiritual climate, student outcomes, alumni
School Culture	Ministry/Service Opportunities	Occasional opportunities	Planned but inconsistent opportunities	Students have ministry, service, or discipleship opportunities	Significant school ministry resource commitment; multiple opportunities
	Faculty Culture	Some faculty not qualified; significant employee turnover	Qualified faculty; mixed employee morale; limited turnover	Stable, well-qualified, committed faculty; positive employee culture	Mission-driven, qualified faculty and administration; culture of mutual respect and support
	PD Culture	Little planning or time allotment for professional growth	Limited, unfocused professional development; individually initiated; "a la carte" approach	Faculty engaged in regular, systematic professional development; resourced adequately	Clear evidence of holistic, comprehensive, well-resourced professional development culture
	Organization	Minimal organizational structure	Some systems, policies, and structures	Documented systems, policies, structures, assessments	Actions based on ongoing assessments of student, faculty, and school cultures
	Student Culture	Fragile student culture	Developing student culture; limited sense of school pride/ownership	Positive student culture and sense of school pride/ownership	Clear evidence of positive student leadership; supportive student body
External	Accreditation	Little interest in accreditation	STAR, candidacy, or in process	REACH 2.0 (option for dual regional)	REACH + Regional + Exemplary Accreditation