



Effective Financial Governance

FOR INDEPENDENT SCHOOL TRUSTEES

By Phil Tahey and Ron Salluzzo

Foreword by John Gulla



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I remember well the first significant and lasting lessons I received in the effective financial governance of an independent school. I was a faculty member working on a strategic planning committee established by the head of school and the board and led by the board's finance committee chair. After each meeting, the finance committee chair would graciously give me a ride home, and along the way, we'd talk about the role of the board, the wisdom of governance by a high-functioning collective of committed individuals, and different ways a school's financial operations played out in terms of tuition, financial aid, faculty salaries and facility upkeep. He taught me the meaning of fiduciary, eleemosynary and intergenerational equity (with regard to an endowment draw). He explained to me how cash accounting, which was more familiar to many board members with experience in for-profit business, contrasted with accrual methodology and why this latter approach often worked well for many nonprofits and particularly schools. Those first lessons set me on the right path. Trustees of independent schools are not always so lucky.

For 35 years, I worked as a teacher and administrator in four independent schools in three different areas of the country. For 14 years, I was the head of school of one institution that at the time enrolled almost 1,400 students on three campuses, so I felt that I had a reasonable understanding of independent school finances. I was wrong.

For the last seven years, in my work as the executive director of the Edward E. Ford Foundation, I have had the privilege of working with and getting to know more than 400 schools that have made proposals to the Foundation. In the course of due diligence when considering a school's proposal, I meet with the school head for several hours to discuss the school, its history, and its strengths and challenges. I examine the school's operating budget, analyze reams of data about its operation and review the annual audit. I can now say that I feel that I have a reasonable understanding of independent school finances, that I can see more clearly some of the broad patterns that apply to all independent schools, and that I can more fully appreciate the insights and excellent guidance provided herein.

"Effective Financial Governance for Independent School Trustees," written by Ron Salluzzo and Phil Tahey and published by NBOA, is an invaluable resource for finance committee chairs, board chairs, other board members, independent school administrative leaders and others interested in independent school governance. It's the best thinking that I've seen compiled in one work that explains best practices for creating a sustainable financial model as well as harmonious and effective work between the school's administrative leadership and the board. Investing the time to read the whole work is worthwhile, but the book's organization allows committees or individuals to draw on its guidance regarding more targeted goals in areas such as liquidity, net assets, UPMIFA and debt management, which the board need

not manage but should understand at some level to fulfill their fiduciary role and ensure the school's long-term fiscal health.

Independent schools pride themselves on their independence, which can be a great strength in determining mission, pedagogy or a school's culture, but as an approach to managing resources, independence can lead to idiosyncratic, even iconoclastic practices, which can be risky. People who admire creative academic programming don't always appreciate creative accounting — not auditors, not potential benefactors and not the IRS.

This book sets forth high standards for the financial management of a school and for the collaboration between school staff and board members charged with financial oversight. As you dip into this book, you may begin to see a number of challenges ahead to optimize financial operations at the school with which you are involved. See these areas as aspirational. Very few of the 400 schools I mentioned earlier could read this book, review their operations and not see that they could make significant improvements.

I think this book should be a "must-have" on the shelf of a first-time head of school. Those aspiring to be school heads will also find much of value here. (Savvy candidates for the head of school position should not let questions about deferred maintenance liabilities go unasked!) But it is the school's CFO, the chair of the board's finance committee (and chairs of the audit and investment committees if these are separate) and, of course, the head of school and the board chair who can squeeze the greatest value out of this book. The work these individuals need to do together to establish financial best practices, to plan for a sustainable financial future for the school and to ensure that the allocation of resources aligns with the school's mission and strategic priorities can be better informed by the wisdom and best practices outlined here.

—John Gulla, Executive Director, Edward E. Ford Foundation