***Key Performance Indicators in Strategic Financial Management*—Christian School Management, https://christianschoolmanagement.org**

Key Performance Indicators are a way to focus on the financial metrics that give you confidence the school is doing well. Following and attending to their progress gives you analytical capability so that you – whether the Principal, and/or the Business Manager and/or the Finance Committee – can determine whether the vector of the school's financial position is positive or negative. Using them for analysis also allows you to ask the right questions consistently and persistently. The connection to strategic financial management indicates that paying attention to the day-to-day, while necessary, can obscure long-term trends that left untouched will prove difficult and even perilous to the school's existence. Thus, key performance indicators (KPIs) offer both a tactical and strategic way to think about the school's money. They are what every Board member must understand to carry out the Board's fiduciary duty.

Note: the assumptions made here are for CSM client schools i.e. those with tuition under $12775 (at time of publication). For schools with tuition that is $20,000 or more, some of these would have to be slightly modified. The principles remain true to both groups of schools.

KPI: Gross Tuition, Financial Aid, and Net Tuition

Financial Aid should be at around 10% of gross tuition.

Most financial statements CSM examines include tuition as a net. In other words, the tuition line represents tuition actually received, which makes sense tactically. However, strategically, only being able to see the net tuition obscures dangers that over time can be considerable. We therefore recommend that financial statements include three lines:

Gross Tuition: the amount that the school would have received if every parent had paid the full amount
Financial Aid: the financial aid given out to parents by whatever form it takes. In this line is included all discounts, whether the school thinks about such discounts as financial aid or not. From a financial point of view, if the parent was expected to pay $6500 and actually only paid $5500, the difference is financial aid. Thus, this line includes:

- Means tested financial aid
- Family (multi student) discounts
- Church / pastor discounts (including where the church compensates the school for the financial aid provided – note that the financial aid references the source of the funding – if the parent did not pay it, then the difference is financial aid)
- Tuition remission for faculty, staff, and administration
- Early payment discounts
- 1st year discounts

Net Tuition: this line will show gross tuition minus financial aid. This is the actual money the school received.
Analysis: where the school is giving away more than 10% of its gross tuition in financial aid, it is probable that:

1. Compensation is depressed – consider whether the school is paying enough for families to be sustainable, enough that employees don't qualify for food stamps, enough that is attractive to the best leaders.
2. School programs are underfunded – teachers are accustomed to asking for little or nothing and to not complaining; consider in your budgets whether excellence can be achieved given your investment in it

Analysis: where the school is giving away less than 10% of its gross tuition in financial aid, it is probable that:

1. The school can afford to help more families
2. The school is unsure about its financial aid objectives

KPI: Compensation

Compensation should sit somewhere between 70% and 80% of the school's total budget. Lower or higher in that range is not necessarily better or worse.

It is useful to develop a line that includes all compensation costs so that what the school spends on compensation can be compared to the budget as a whole. Compensation includes all school employees and includes benefits. Compensation is one of three expenses that a school has.
The other two are fixed costs such as utilities, and school programs. In a time of fiscal restraint, the first place for cuts are school programs since those are the easiest discretionary lines to deal with. Fixed costs have little discretion. Changing compensation involves letting people go, reducing hours, and/or reducing salary (and, at the least, freezing salaries).
Analysis: where the compensation total is higher than 80%, it is probable that the programs of the school are underfunded. Since fixed costs have little/no flexibility, the only other place where money is invested is in program. As fixed costs take up more of the difference between compensation and the total budget, the program is more and more squeezed.

Analysis: where compensation is lower than 70%, it is probable that compensation is far below market value i.e. that employees are not paid close to what they could make outside the school. Since fixed costs and program costs don't change a lot, the lack of money for compensation is an indicator of a budget that is out of balance.
Note that a budget where compensation is between 70% and 80% does not automatically mean that compensation is appropriate or that programs are funded for excellence. It only means that the budget is set up proportionally correctly.

KPI: Percent Income of Expenses

Per cent income of expenses should be somewhere around 102% i.e. that tuition / fees and auxiliary income (without fund-raising) should result in a net profit each year of about 2% of the total budget.

Most schools operate at a lost. That is, their income from tuition and fees (and other minor sources of income such as rent or after school programs or summer camps) does not cover their operating expenses. It is quite extraordinary that this is considered normal. The way that schools therefore balance their budgets is through fund-raising. Briefly (since CSM has written about this in detail elsewhere), operating at a loss is poor management; fund-raising to cover the budget is poor fund-raising. And this is a reflection too of changing times. What donors were willing to do in the 20th century has changed a great deal in the 21st century. Today's donors are interested in investing in the future, not in sustaining poor financial practices.

Analysis: the lower the %age is below 102%, we can predict increasing financial instability. For each school in each cultural setting, there is a %age point at which the school is on a knife edge each year and even each month. It is also probable that fund-raising is underperforming since the call to action by the school is not inspiring (help us or we close in April). Where the %age is too low, it is also probable that enrollment is under pressure because of the school's inability to deliver excellence.

Analysis: the seeming irony is that charging more probably allows the school to:

- Increase financial aid and support more families
- Raise more money through philanthropy
- Increase enrollment
- Improve the school's reputation

Setting tuition is thus both a tactical and strategic task that is simple from an arithmetic point of view even as it is difficult from a human point of view. The objective is not a revenue neutral but a revenue positive budget.
Note: tuition is called *resilient income* by CSM since it is historically a very stable income, even through times of national economic turmoil.

KPI: Operations Reserve

The operations reserve should be a number between two and three months of operating expenses.

The operating reserve is sometimes confused with cash flow. Cash flow for our schools varies throughout the year. There are times when our bank accounts are flowing because tuition is coming in but expenses are not going out. The opposite is also true – by February, March, tuition is drying up but expenses are still going out. At the end of the financial year, it is tempting to look at cash flow (tuition has come in for the following year but not yet gone out in expenses) and say that the school has a large operations reserve.
The operations reserve is money that has been set aside, typically in a separate savings account, and that is available only for specific purposes. Briefly, since CSM has written in detail about this elsewhere, it is available to deal with unexpected revenue shortfall because of fewer students, to invest in sudden opportunities, to pay for facilities renovation such as roof or HVAC replacement. It is accumulated through fiscal discipline from the surplus the school runs each year.

Analysis: where there is no operations reserve, it is probably that the school has periodic financial crises where leadership donors have to step up to the plate in order to avert possible catastrophe; it is also probable that other areas of the school's finances are still being considered in an elementary rather than sophisticated way.
Analysis: where there is an operations reserve, it is probable that Board meetings, tuition setting, and daily management is carried out with significantly less stress; it is also probable that the school is able to think about money strategically, rather than day to day; finally, it is probable that the school is able to take on initiatives that were largely unthinkable in former times.

KPI: Net Tuition Per Student

Net tuition per student should rise every year.

CSM has experienced a number of schools where net tuition has dropped even though total income rises. This is not unusual in schools where there is rising enrollment. The Board and School Leadership sees the increasing enrollment and consequent tuition income as a way to fund the improvement of the school. This can also include increasing financial aid. But because there are more students to pay for it, tuition increases are depressed. Even more problematic is the scenario where pressure on enrollment suggest to the Board and School Leadership that they should hold tuition increases to zero or even decrease tuition. Neither of these is ever a good solution to the school's problems.

Analysis: lower net tuition means that tuition is not keeping pace with the needs of the school. Once enrollment increases end (or even worse if this is happening at a time when enrollment is not increasing), the Board will be confronted with the uncomfortable reality that they must now raise tuition faster than normal in order to compensate.

KPI: Tithing to Foundation

Fund-raising should be tithed to the school's endowment.

CSM believes that every Christian school needs to begin an endowment and/or have policies in place that grows it intentionally and meaningfully. This is the way in which the school strategically becomes universally available to its community. CSM also believes that the spending policy of the endowment should also be 10% i.e. that a meaningful part of the investment is spent each year in service to the school's families.
Analysis: where a school does not have an endowment, the school will never be able to have an admission policy that truly invites every Christian family to apply. Because operating can only support a 10% financial aid expenditure, every Christian school is limited in who it can invite to join in its mission. The endowment allows that invitation to expand.

Note: unlike dedicated gifts to endowment that are "true" endowment and where the corpus cannot be typically touched, the fund-raising tithe is "quasi" endowment and has no such restrictions.

Conclusion

As an encouragement, there are Christian schools that have met all or most of these KPI objectives. Wherever your school is on the spectrum from not even started to largely completed, the stance is always one of vector / direction. The most important thing you can do is to take the first or next step. Build the KPIs into the school's financial planning, establish them as policy through Strategic Planning and Strategic Financial Management, and celebrate each milestone along the way.

For example, in the KPI Per Cent Income of Expenses, if your school is at 85%, determine to improve that each year by a single percentage point. It will take 17 years to reach the target of 102%. That means that your Board will likely be completely different at the time of completion than the one you currently have. That's what meant by the term strategic – caring for the next generation of students. What a blessing to that generation to have such resources for their education! And along the way, everybody benefits – every 1% to the KPI releases 1% of fund-raising income to enhance the student experience and build an operations reserve.

Leading a Christian school takes courage and tenacity. Taking the first step to identify the key issues is the most difficult. Maintaining that commitment from Board and School Leadership from month to month and from year to year requires discipline and patience under prayer. The result is a school that better exemplifies the excellence of Jesus in its community, is more available to the families in its neighborhoods, and that attracts teachers and administrators who exemplify excellence themselves.