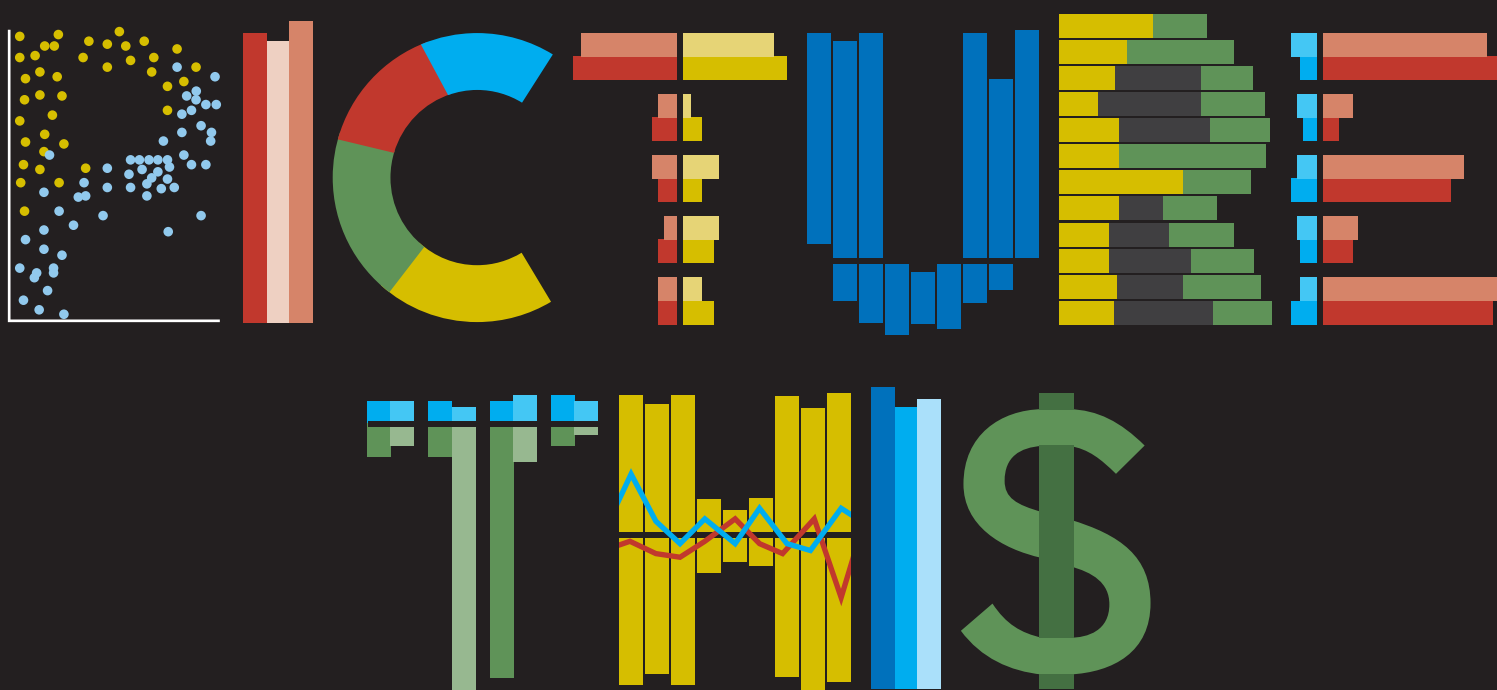


Net Assets

ADVANCING BUSINESS EXCELLENCE IN INDEPENDENT SCHOOLS • MARCH/APRIL 2016



FINANCIAL DASHBOARDS:

Increasingly vital tools for tracking, explaining and acting upon key financial metrics. But which metrics? [p10](#)

Plus:

Innovative learning spaces [p20](#)

Tax implications of fringe benefits [p30](#)

Technology and fraud [p38](#)



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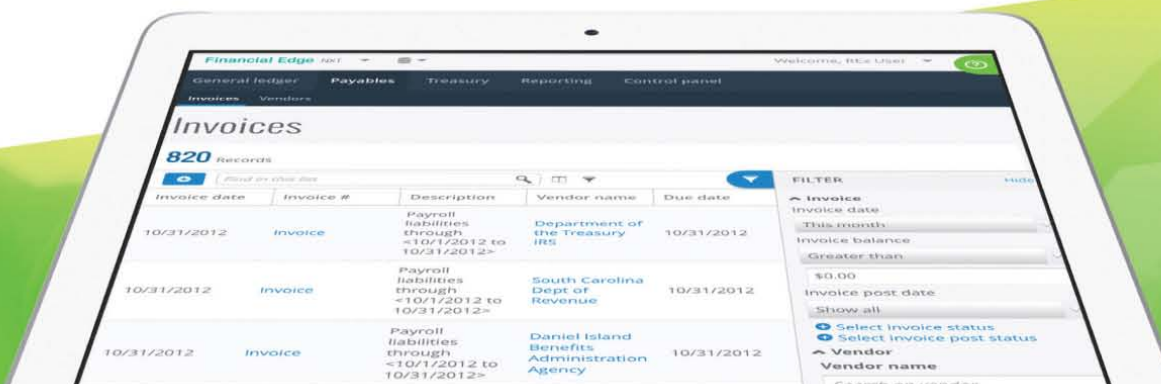
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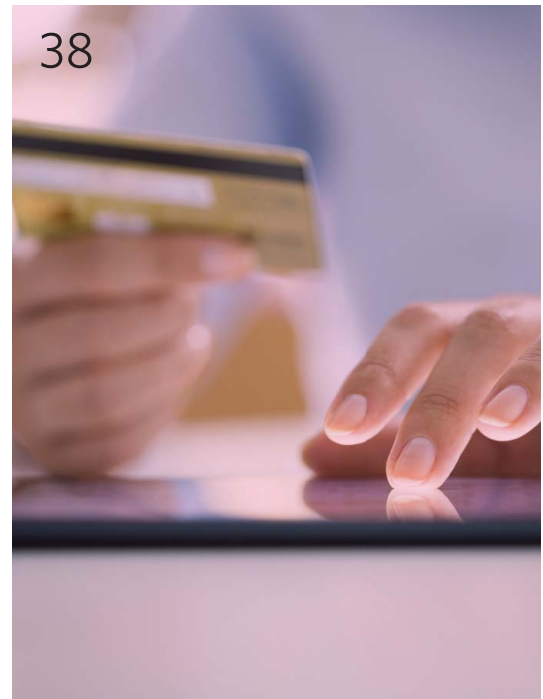
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Net Assets is published bimonthly by the
National Business Officers Association
(NBOA), which develops, delivers
and promotes best business practices to
advance independent schools. Net Assets
is committed to providing its readers
with forward-thinking, practical solutions
to the financial and operational challenges
facing independent schools.

Published by
NBOA
National Business Officers Association

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» PROJECTIONS

The Business Officer's Dilemma

"A problem requires a solution, but a dilemma must be managed because it will never be solved or go away."—HOWARD TEIBEL, BUSINESS CONSULTANT TO EDUCATION INSTITUTIONS



JEFFREY SHIELDS, FASAE, CAE
NBOA President and CEO

Independent school business officers face a dilemma almost every day. You are charged with identifying, leading and implementing world-class business practices within school cultures that are at best not inclined—and at times downright averse—to accept such practices as desired attributes. This is not a problem to be fixed. It is a dilemma to be managed.

In a recent podcast called "The Levers and Pulleys of Financial Sustainability," and more recently in his deep dive at the 2016 NBOA Annual Meeting, my colleague Howard Teibel articulated this important distinction (teibelinc.com/podcast). The culture of independent schools is formed by every community member who lives their school's mission:

faculty, administrators and the students and families we serve. Very few among us want our culture to feel like a corporation; in fact, the business officer graveyard is filled with well-intended professionals who explicitly stated their "get-to-business" goals.

By comparison, NBOA's own research data show us time and time again that business officers who succeed at independent schools do so not solely by virtue of their technical skills or business-savvy, but because they understand how to apply those skills and processes in ways that are compatible with the unique culture of their schools.

This dilemma takes on even greater importance in light of current realities challenging many schools' ability to secure a financially sustainable future, be responsive to student and parental demands, and keep pace with a preK–12 educational landscape that values innovation and 21st-century learning methodologies. Business officers and other leaders must advance business-like rigor against the backdrop of school cultures that in many cases have enjoyed success for decades without considering that eventuality.

I've worked in nonprofit management my entire career. Like many of you, I'm drawn to organizations that bring people together for a common cause, are mission-oriented and/or provide services to support and elevate a profession. I'm proud of this distinction, and most successful business officers I know feel the same way. How do these individuals manage the big dilemma, you ask? My advice is to be present within your school. Advocate for financial resources that are aligned with your school's core mission and purpose. Offer resource alternatives that will sustain your school financially in the long term. Communicate business and financial matters in non-business and non-financial terms. Above all, stay connected to your NBOA colleagues who face similar dilemmas every day. ■

Jeff.shields@nboa.org
[@shieldsNBOA](https://twitter.com/shieldsNBOA)

TOP OF MIND WITH JEFF

Q: What's one thing many people don't know about independent school business officers?

A: Many of them could easily get jobs in a great many other (often more lucrative) industries. But they tell me they choose to work in the independent school environment because it provides a higher purpose to their work.

Q: On the other hand, you also mention a "business officer graveyard." What epitaphs might one expect to see there?

A: Here lies the 'all-business' business officer who didn't make it past their first faculty meeting.

Q: Peter Drucker famously said "Culture eats strategy for breakfast." Personally, do you agree or disagree?

A: I agree absolutely. I've seen the best strategies fail because they weren't aligned with the culture of the organization.

Q: What do you and your family like to eat for breakfast?

A: We love chocolate chip pancakes!



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» On The Horizon

91,818	101,665	96,417	57,778
197,612	142,864	153,022	142,818
269,392	247,602	297,185	
		307,339	
148,749	136,818	138,452	301,486
17,394	7,407	56,198	132,134
		112,868	85,656
278,325	196,792	212,061	115,426
148,917	(361,658)		
48,197			

» FINANCIAL MANAGEMENT/REPORTING

Building a Better Spreadsheet

As with life, independent school financial projections are filled with uncertainties. Spreadsheets, however, are absolute. A new product, Guesstimate, takes uncertainty into account, providing a range of probable best answers instead of a definitive (and often misleading or dead wrong) “best” answer. To project enrollment revenue, for example, you might enter a range of amounts, and then receive best- and worst-case estimates based on the full range.

Fast Company Design

» ORGANIZATIONAL STRATEGY

Sustainable Collaboration

Teams are collaborating more than ever, but all that together time exposes the risk of leaving individuals with too little time for the critical work they still need to do. Performance can suffer, and the “virtuous cycle” of collaboration can turn vicious when the top collaborators—a small minority of the whole—become overtaxed, fall behind and inadvertently become bottlenecks. Workplace solutions: Streamline and redistribute collaborative responsibilities, and reward effective contributions.

Harvard Business Review



» SELF-IMPROVEMENT

THE POWER OF NOW

View your “future self” as you, and your long-term habits, health and happiness may be far better than if you were to view your future self as a stranger, as many people do. Brain research reveals that bad habits often become ingrained when individuals feel disconnected from who they may become years down the road. However, people are shown to make better decisions when they routinely connect current events in their lives to specific future events, even those lying just ahead. The more you connect with the person time will make you, the more easily you’ll justify helping him or her out.

Lifehacker.com



» STUDENT PERFORMANCE

The Play’s the Thing

Frequent and regular recess breaks don’t just help students let off steam, they can also improve behavior, physical health, and social and emotional development. In Texas, Eagle Mountain Elementary School tripled recess time from 20 minutes to an hour; for kindergarteners and first graders, this means four 15-minute breaks over the course of the day. Modeled on the high-performing Finnish school system, this “new” structuring of the school day quickly resulted in students being more attentive and on task, and less distracted. Moreover, teachers say their classes are ahead of schedule academically.

KQED MindShift

» HUMAN RESOURCES

Perks and Recreation

Goodbye performance reviews, hello more generous parental leave? Continuous, real-time feedback is replacing annual performance reviews at growing numbers of organizations, sparking a closer look at the usefulness of the traditional appraisals. Paid parental leave also took off in 2015 as employers sought better ways to attract and keep in-demand talent and provide the work/life balance that many professionals expect today.

Society for Human Resource Management

“The difference between death and taxes is death doesn’t get worse every time Congress meets.” —Will Rogers





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» WHAT YOU SAID

The 2014–2015 NBOA Business Office Survey Report: a Closer Look

A snapshot glimpse of who business officers are, how you are compensated and with whom you work. BY MARY KAY MARKUNAS

NBOA has conducted the Business Office Survey since 2003. Among other data points, this in-depth study of the independent school business office and business officers provides a snapshot glimpse of who you are, how you are compensated and with whom you work. Here are some broad findings, as reported in the 2014–2015 NBOA Business Office Survey Report.

Business Officer Demographics

- The age of business officers is increasing. Nearly 60 percent of survey respondents are between 50 and 64, and more than 10 percent are 65 or older. Your average age is 53, and you have an average of 29 years of professional experience.
- On average, you've been at your current school for approximately eight years. This tenure has held steady since 2005.
- The gender balance continues to tip toward women, who now comprise 60 percent of the business office profession.
- Titles including *chief financial officer* and *director of finance, operations or business* are becoming more prevalent. Meanwhile, the title of *business manager* continues to decline.

Business Officer Compensation

- As expected, compensation for business officers tends to correlate with school enrollment. In FY16, the

median salary ranges from \$151,500 at schools with more than 1,001 students to \$74,550 at schools with fewer than 200 students.

- Compensation is highest in the East, where respondents report median salaries of \$162,300. Business officers in the Midwest report the lowest median salaries: \$95,000.
- Score one for your NBOA membership investment! NBOA members report higher median salaries (\$127,500) than non-members (\$102,000).
- The gender gap persists despite the shifting gender balance. Men report median annual salaries of \$141,550, compared to \$104,000 for women. That's \$.73 on the dollar.

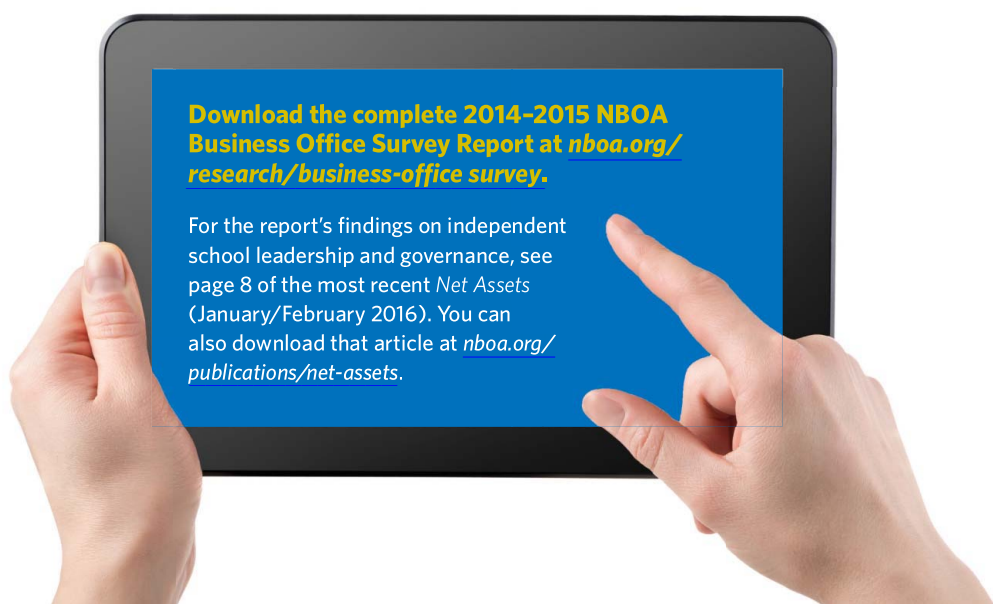
Financial Health of Independent Schools

- 43 percent of respondents perceive their schools' financial health to be well above average or outstanding, and expect it to remain so at the end of the 2015–16 fiscal year.

- Larger schools (with 701 students or more) express the most optimism about this measure.
- Respondents' generally upbeat financial outlook is bolstered by positive admissions statistics. Slightly more than one-third of respondents say their student yield and retention rates have increased. More than half say applications are up.
- Unfortunately, the endowment outlook is not as positive. Respondents expect their schools' endowment market value to decrease a median of 10.2 percent.

Much more is available in the full report, including financial aid statistics and further information on governance, which was highlighted in the January/February *Net Assets*. Also available are regional reports. The full 2014–2015 NBOA Business Office Survey Report, as well as reports from previous years, is available to NBOA members at nboa.org/research/business-office-survey. ■

Mary Kay Markunas is NBOA's senior manager, member resources and industry research.



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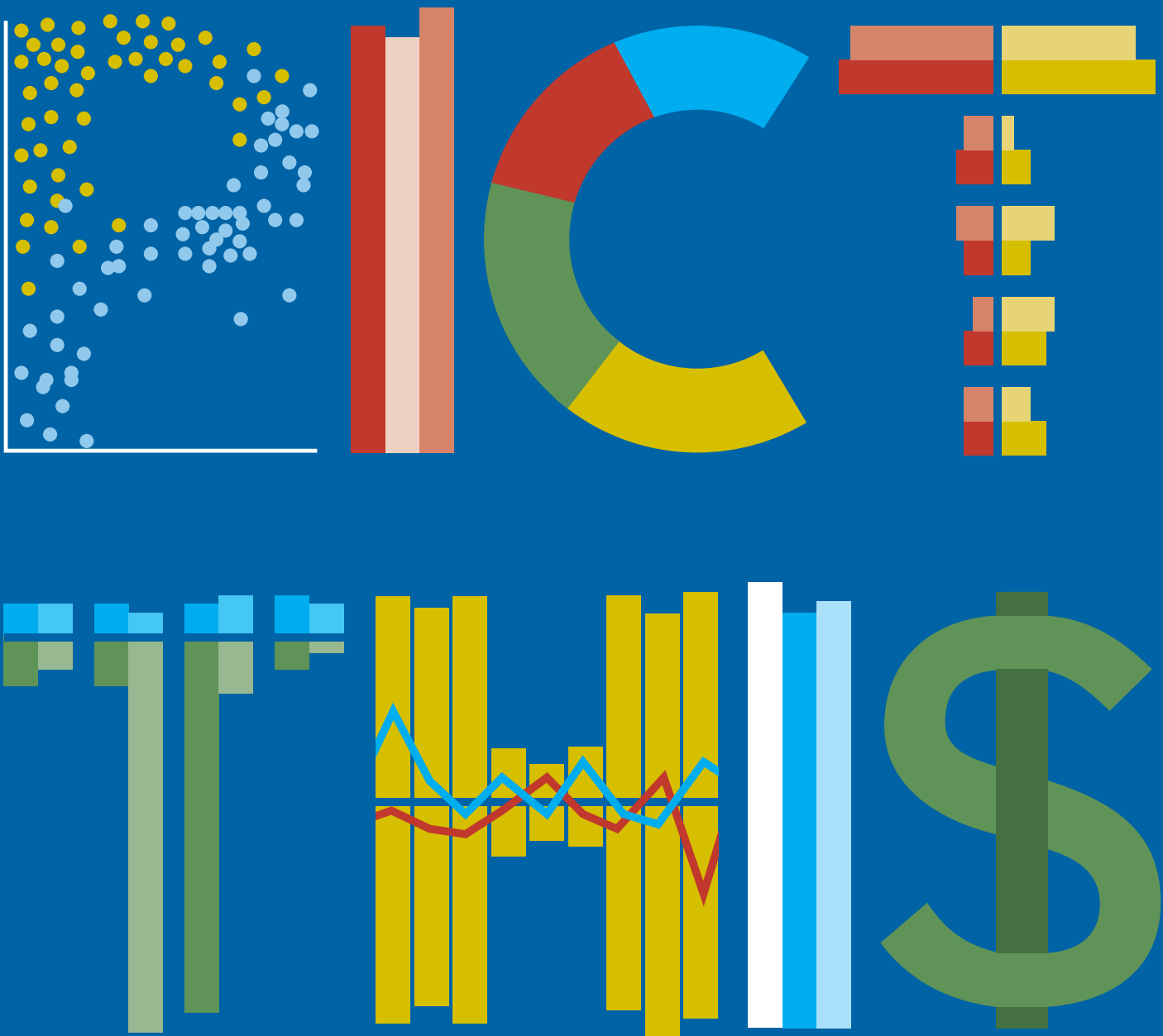
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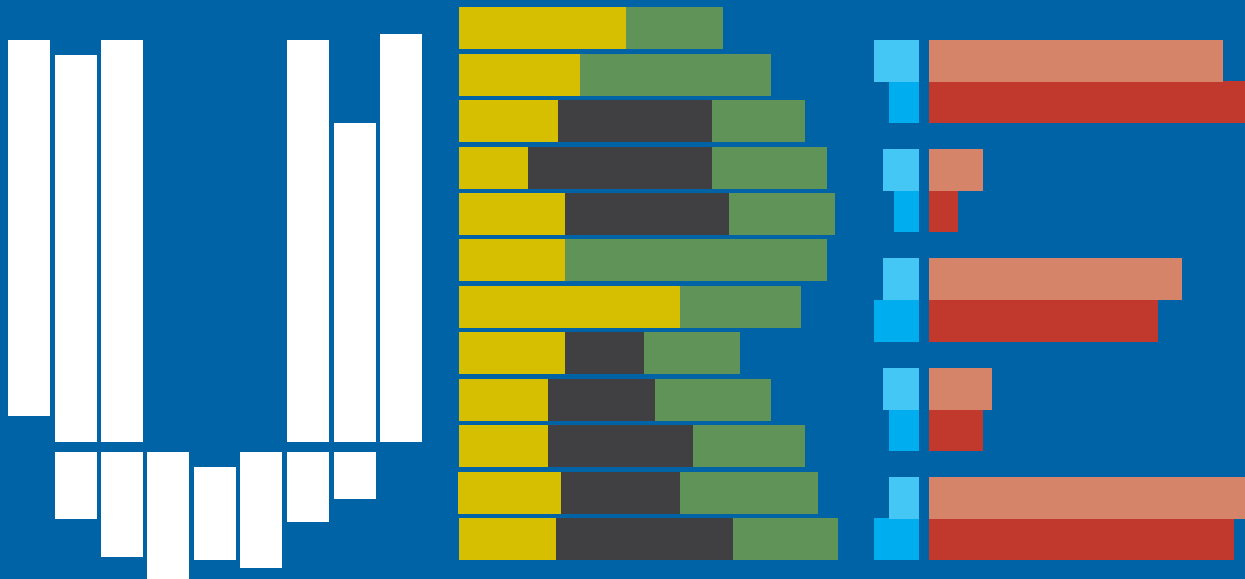
Independent schools are increasingly attuned to their ability to track, explain and act upon key financial numbers and metrics. For growing numbers of schools, financial dashboards have become vital tools for that ongoing process.

A visual representation of numbers showing anything from cash flow and operating expenses to enrollment figures, financial aid and endowment

levels, a dashboard is a succinct way to show various stakeholders how an entity is doing at a moment in time or over a period of time. For an independent school, “a dashboard is a good way to keep data in front of the people you need to see it—your admin team, your finance committee and board,” says Mary Kay Markunas, NBOA’s senior manager, member resources and industry research. The latter group is

particularly important. “You want your board engaged at appropriate levels to understand the financial health of a school so they know where to prioritize their work and the resources of the school,” says Jeff Shields, NBOA’s president and CEO.

But the seemingly simple idea of showing graphs and charts can quickly become complex. Which numbers are important? Who will see the dashboard?



Financial dashboards brighten as tools for helping schools recognize trends and engage constituencies. The key is knowing which data and metric points to measure.

By Stacey Freed

What's the best way to share the information? What does the data mean? While certain financial metrics apply to nearly every school, some schools may wish to examine other metrics as well. "Every school will show the variables that are most important to them," says Bill Hodgetts, assistant head of school for finance and operations at Garrison Forest School outside Baltimore. "For a school sensitive to enrollment, that will

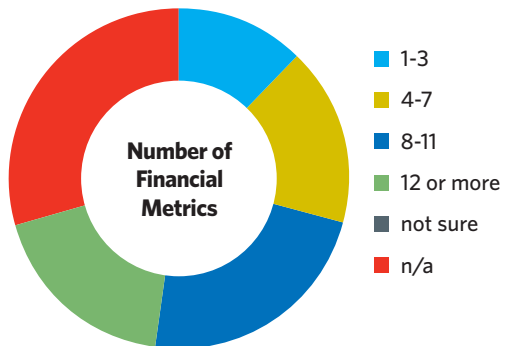
Jim Pugh's suggestions for dashboard information:

Education consultant and retired business officer Jim Pugh asked trustees at a dozen different independent schools about the most useful reports they receive from the administration. These topics received the most mentions, in order of frequency:

- Current year operating budget
- Operating cash
- Admissions pipeline
- Endowment, debt and net endowment
- Physical plant
- Student turnover
- Financial aid
- Tuition
- Net tuition revenue
- Faculty
- Annual fund
- Staffing

Financial Dashboards

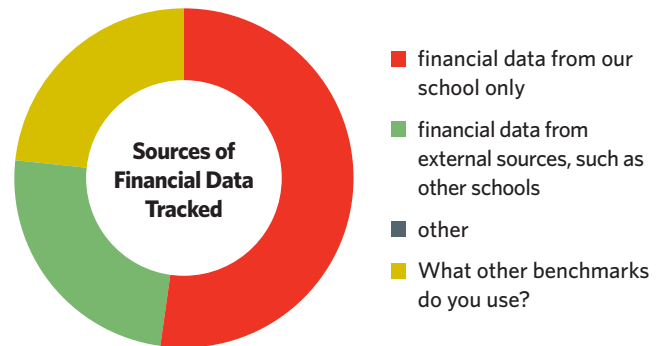
In December, NBOA created an informal online survey about financial dashboards. Nearly 80 member schools participated; some of the summary data and respondents' quotes are included.



How many financial metrics does your school follow on its dashboard?

Number of Metrics	Response Percent	Response Count
1-3	12.3%	8
4-7	16.9%	11
8-11	23.1%	15
12 or more	18.5%	12
not sure	0.0%	0
n/a	29.2%	19
What metrics do you follow?	36	36

Among items cited in open-ended responses: net tuition revenue, net tuition per student, net tuition per FTE, endowment per student, draws on endowment, assets to liabilities, annual reserve contribution, tuition discount rate, annual fund as percent of revenue, cumulative percentage change in tuition and compensation over time, key enrollment variables.



What "benchmarks" do you use to track your school's financial data?

Sources	Response Percent	Response Count
financial data from our school only	52.3%	34
financial data from external sources, such as other schools	24.6%	16
other	0.0%	0
What other benchmarks do you use?	23.1%	15

Included in other benchmarks: NBOA, NAIS, VAIS, INDEX, NACUBO, ISANNE

be foremost. One sensitive to FTEs for faculty and staff will track that.”

Ultimately, what might be the most important aspects of a dashboard are not the graphs within it but the conversations held before and after its creation.

METRIC MADNESS

“Too much data is almost as bad as no data,” says Ed DiYanni, chief financial

officer and chief operating officer of Stevenson School in Pebble Beach, California, who has presented on financial dashboards in an NBOA webinar and at the 2014 NBOA Annual Meeting (see “More on NBOA” list). “There are hundreds of different data and metric points, but you’ve got to know which ones to measure,” he says.

Figuring that out means defining your school’s goals and objectives.

“If a dashboard is not well conceived and thought out going into it, [the dashboard’s] usefulness is really limited,” says Lisa Pullman, executive director at INDEX, a collaboration of independent schools that share data and resources to evaluate performance. “Before putting one together, think deeply and thoroughly about what you’re going to do with a dashboard. What drives

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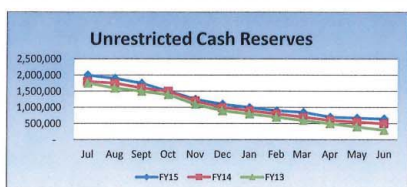
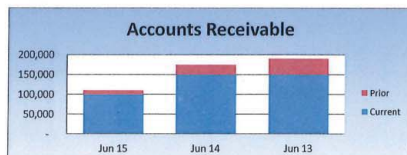
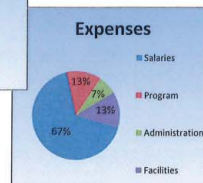
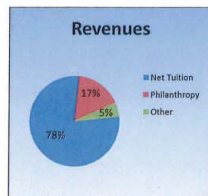
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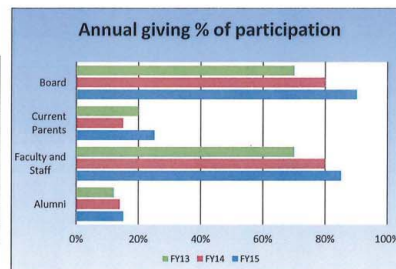
Dashboard
June 30, 2015

Finance			
	YE Budget	YE Actual	Variance
Net Tuition	5,000,000	5,100,000	100,000
Total Revenue	6,000,000	6,150,000	150,000
Total Expenses	6,000,000	5,950,000	(50,000)
Operating Income	-	200,000	200,000
Capital Expenditures	400,000	375,000	(25,000)
Debt Service Coverage	2.50	2.70	0.20
Cash Reserves	500,000	650,000	150,000



Professional			
	YE Budget	YE Actual	Variance
Student/Teacher Ratio	11.00	11.30	0.30
Student/Staff Ratio	15.00	14.70	(0.30)
# Teacher FTE's	54.5	54.0	(0.5)
# Staff FTE's	40.0	40.8	0.8
Salaries Expense	4,020,000	4,080,000	60,000
Salaries per student	6,700	6,777	77
Benefits as % of Salaries	20%	19%	-1%

Fundraising and Endowment			
	YE Budget	YE Actual	Variance
Annual Fund	1,000,000	900,000	(100,000)
Auction	100,000	120,000	20,000
Total Annual Giving	1,100,000	1,020,000	(80,000)
Endowment Draw	500,000	500,000	-
Restricted Giving	50,000	30,000	(20,000)
Endowment Giving	300,000	400,000	100,000
Development ROI	3.90	4.40	0.50



Admissions			
	YE Budget	YE Forecast	Variance
Enrollment	600	602	2
FA as a % of tuition	15%	20%	5%
% of students on FA	20%	24%	4%
Average FA Grant	4,000	5,000	1,000
# of tuition remission	10	11	1
# of Int'l Students	20	22	2
Net Tuition per student	8,333	8,472	139

Keep visuals simple. Beth Tessier of Marshall School created this one-page sample dashboard with key metrics that can be taken in at a glance.

everything in the dashboard will be your strategic vision.”

DiYanni suggests keeping “a financial dashboard relatively brief, maybe 10 to 12 things that are the key metrics for any school”—enrollment, tuition, endowment, cash/liquidity, faculty and staff head count, salaries, financial aid, fundraising, capital expenditures, operating income, debt service. Echoing others, he recommends that each school tailor its dashboard to

reflect the key measurements that matter most to it.

Be prepared to spend a lot of time up front developing a dashboard. Collecting data may mean reaching across to other departments within the school, talking with the controller and key staff as well as pulling figures from accounting systems and other data sources. “It can be a huge undertaking,” says Jennifer Hillen, controller of Harpeth Hall School in Nashville, Tennessee, who is in the early stages of creating

a dashboard for the day school for girls in grades five through 12. She’s finding that not all the numbers she needs are available at the same time. “It’s a lot of manual work,” she says. “I took [consultant] Jim Pugh’s ‘10 markers for success’ from an NAIS article and adapted them and tailored them to our school and added a few of our own metrics.” (See sidebar, page 11.)

KEEPING SCORE

Boards are made up of all kinds of people. As with school administrators and other stakeholders, not everyone will have a financial background or know about nonprofit financial management. “You want to present the information in a way that’s fairly easy to understand,” says DiYanni, who came to Stevenson, an 800-student co-ed boarding and day school, from private industry. “Some board members are visual and prefer to see graphs and charts; others are numbers people who want tables and spreadsheets.”

Everyone interviewed for this article and nearly all of the 75 people who answered an NBOA online survey responded that they use Excel spreadsheets to create their dashboard (see page 12 for some survey results).

Beth Tessier, CFO at Marshall School, a 450-student day school in Duluth, Minnesota, says she pulls information from her Sage 100 accounting software and downloads it to Excel to build a one-page dashboard with seven metrics—net tuition, total revenue, total expenses, operating income, capital expenditures, debt service coverage, cash reserves. “It’s easier for me to hand out a single sheet of paper with charts and graphs so [the board] can see the story in just a glance,” she explains.

Each year, DiYanni gives a booklet of financial highlights to his board to review on their own. The booklet includes an overall summary dashboard that runs one or two pages,

followed by supporting schedules with further information. Seth Austin, director of finance and facilities at The Wardlaw-Hartridge School in Edison, New Jersey, presents his dashboard to the board “in the form of PowerPoint with charts and graphs, and it’s discussed verbally.”

In terms of visual presentation, Lawrence Butler, in his book, *The Nonprofit Dashboard: Using Metrics to Drive Mission Success*, published by BoardSource, suggests that the scorecard approach works well in hardcopy and online “where the color-coded items can be used as hyperlinks.” (See an example of a very simple scorecard on page 16.) The graphic style with charts, numbers and words arranged on a single page works better in hardcopy since a computerized version may mean the user has to scroll to see all the details.

More tips for dashboard design come from Alison Cumming, director of publications and research at Wickenden Associates in Princeton, New Jersey, which provides consulting services to independent school boards and heads. In an article entitled “Data Dashboards Demystified: Why So Many Trustees Are Asking for Them and How they Can Benefit the Board and the School,” she offers advice on governance dashboards that also applies to financial dashboards.

- Ideally, each chart should tell a story. A chart that evokes a “so what?” response may not belong.
- Don’t take the dashboard metaphor too far. Tricked-out gauges and fake speedometers are rarely the most effective methods of presenting data.
- Two excellent resources on information design are *The Visual*



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Sample Scorecard-Style Dashboard

INDICATOR		ACTUAL	GOAL/TARGET	VARIANCE	COMMENTS
Net tuition	▼	3,197,104	3,400,000		
Auxiliary revenue	▲	487,150	450,000		
Contributions	◆	503,500	500,000		
All other income, net	▼	59,195	75,000		

In this fictitious example of a scorecard dashboard presentation, the colored icons of varied shapes offer a quick synopsis of performance. Green (pointing up) means positive performance, red (pointing down) indicates poorer performance, yellow (diamond) may be an early indication of negative performance.

Display of Quantitative Information
by Edward Tufte and *Information Dashboard Design* by Stephen Few.

PROVIDING CONTEXT

“Most boards don’t actually lack for data,” says Cumming. “What they are missing is context and meaningful analysis.” That means you’ll need historical information going back at least two or three years to make

the visual elements meaningful. Similarly, according to Hodgetts, “Any number that increases, decreases or remains flat can be telling you something, but you need the whole story—enrollment, financial aid, debt, endowment. It’s hard to know where you’re going unless you know where you’ve been.”

There are two parts to context—internal issues and improvements,

and benchmarking against other schools. “Otherwise you’re in a vacuum,” Pullman says.

Finding a group of schools to benchmark against can be difficult, DiYanni says, since no two are exactly alike. He suggests benchmarking against “schools that are well run, well managed and well respected. They have it right. If your numbers are comparable to



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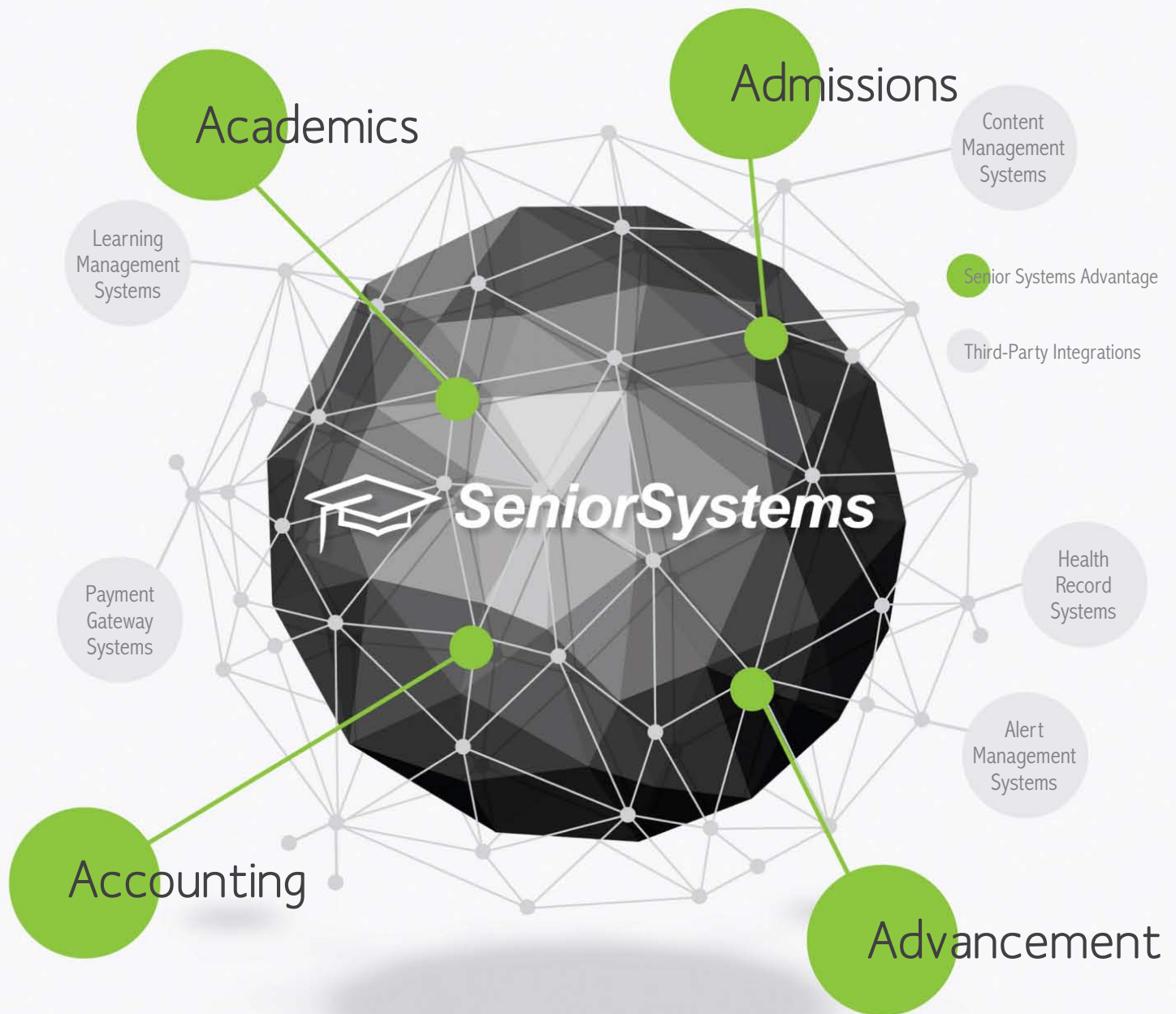


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the numbers those types of schools generate year in and year out, then you're on the right track." How do you find such schools? "Parents, firms and auditors that work with independent schools can help you figure out which schools are best run and have the soundest financial statements," DiYanni says. You can even look at form 990 tax returns, which are public records and available online. There is also a significant amount of helpful survey information available through organizations such as NBOA, NAIS and BoardSource.

In the past two years, CAIS, the California Association of Independent Schools, has begun using a dashboard for schools seeking accreditation. They are required to input seven years (if possible) of data for variables such as enrollment, tuition, fundraising, staff demographics, financial aid and student attrition. "The process of the self-study is to help schools improve

themselves. We use the data to see trends," says Mary Fauvre, CAIS director of accreditation.

Once a school completes the 10 Excel spreadsheets and answers "reams of questions," it must input data only once a year after that, Fauvre says. This streamlines the accreditation process and provides CAIS with an apples-to-apples way to compare schools. The approach can also help schools celebrate positive trends and determine places for improvement, she says. For example, "We intend our schools to support financial assistance for families that can't afford the tuition. Let's say a school sees that one year its financial aid support was at 2 percent and it rose the next year to 5 percent. They might think that's good, but we know that around the state most schools show 20 percent in financial aid support."

In addition, schools can use dashboards to guide policy going

forward, suggests Hodgetts, who is also looking into dashboard use through his work on NBOA's Strategic Initiatives Committee. "You may want to play out the trends from your dashboard," he says. "What would it mean for faculty salaries, or financial aid, if we kept tuition at a 2 percent increase? The dashboard can set the stage for some of the exercises you can do with a long-range model."

The best dashboards tell a story that your audience can easily read. But its "real value," writes Butler "is in the thinking and discussing that boards do before beginning to create the dashboard. It is in deciding what to measure—not what the dashboard looks like—that the whole exercise proves its value to the organization." ■



Stacey Freed is a freelance writer living in Pittsford, New York. She has written for publications including USA Today, AARP, The Democrat & Chronicle, Better Homes & Gardens, Remodeling and Timber Home Living.

MORE ON NBOA.ORG

Search "dashboard" on NBOA.org for links to various discussions, samples and more. In addition:

How to Use Data Dashboards to Interact with Your Board go.nboa.org/1mcM1pO

Developing a Dashboard for Your Board go.nboa.org/1T6p6Hw

From Business Office to Board: Financial Metrics that Matter go.nboa.org/1YqpRwo

ADDITIONAL RESOURCES

Tutorials and examples of Excel dashboards: chandoo.org/wp/excel-dashboards/

Learn about INDEX and its support for collaborative groups of schools at indexgroups.org.

Many YouTube videos show how to build dashboards from Excel

In *The Nonprofit Dashboard: Using Metrics to Drive Mission Success*, Lawrence Butler offers a link to BoardSource's dashboard generator (password protected): go.nboa.org/1QRI6LE

128.59	145.83	133.86	115.62
313.32	315.47	291.68	287.13
17.61	18.48	17.58	17.58
45.15	43.37	38.64	42.41
11.49	15.58	14.23	11.87
28.40	26.23	28.48	27.72
77.51	82.02	74.36	73.78
93.65	95.21	89.57	87.98
61.45	60.63	51.59	44.03
25.28	25.49	25.74	25.54
5.56	5.88	5.89	5.68
51.16	51.63	53.29	51.62
46.19	47.58	49.14	46.33
50.98	52.14	52.93	51.72
41.82	42.66	43.83	42.29
414.76	421.22	433.40	418.68
137.86	140.96	144.18	139.96
21.50	21.92	22.48	21.79
87.78	88.29	76.87	84.41
128.21	141.94	141.28	140.98
125.83	133.14	124.11	121.21
14.74	11.11	14.80	11.41
80.13	78.81	78.11	78.22
25.23	25.23	25.23	25.23

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By Donna Davis

MAKING SPACE FOR

INNOV

As schools consider adding innovative new learning spaces, business officers must evaluate possibilities through the lens of their budgets and strategic goals.

Harnessing nuclear fusion as an energy source has puzzled scientists for decades, but an upper school student at Maine's Berwick Academy believed he could take on the challenge. Working with the school's Berwick Innovation Center, he built his own nuclear fusion reactor—off-site. Another Berwick student took a less volatile, yet still scientific, approach to invention. She created the “perfect” dark chocolate cupcake recipe based on chemistry principles and focus group feedback.

The two Berwick students are among countless participants in the maker movement, which started around 2005 with the first Maker Faire in New York and has since blossomed into a global phenomenon in schools and communities. They tinker, build, hack and create in makerspaces—also known by terms such as idea labs, innovation centers, fab labs and tinker labs. To Laura Fleming, an educator active in the movement and author of *Worlds of Making*, “a makerspace is a metaphor for a unique learning environment



All photos used with permission of the schools. Above: Bennett Day School

that encourages tinkering, play and open-ended exploration for all.” Unlike conventional classrooms, these spaces contain tools of all kinds, from 3D printers to knitting needles.

Within independent schools, makerspaces and other innovative learning spaces operate in new as well as existing spaces. School libraries, for instance, are evolving into high-tech centers of collaboration sometimes called learning commons. The outdoors also figures prominently in the movement, whether in a playground purposefully designed

with the curriculum in mind or the places and people of a school’s city. Collectively, these spaces bring STEM and STEAM initiatives to students and all aspects of the curriculum. The long-term effect, educators hope, is that students learn more creative thinking and entrepreneurial skills to support them in college and beyond.

CREATING A 21ST-CENTURY LEARNING ENVIRONMENT

As independent schools consider adding these spaces to their

campuses, business officers and other administrators must evaluate possibilities through the lens of their budgets and strategic goals. Does such a project fit into the school’s mission? What form would it take? How would the school find dollars to equip it? How much space would it require? What about long-term funding for new equipment and supplies, upkeep and staffing?

“Innovation is expensive,” says Robert Sager, president and founder of Edu-Tech Academic Solutions, which provides technology support

MAKING MORE OF THE LIBRARY

As more independent school libraries evolve into innovation spaces, what traditionally were hushed settings for reading and study are evolving into communal, active and sometimes noisy spaces. Lounge-type furniture and moveable tables are replacing long, heavy tables and wooden chairs. Books have moved to the periphery and are fewer: Most schools have downsized from an average 25,000 books to 10,000, according to Tom Spies, principal with the architecture firm Hord Caplan Macht. Online databases have replaced shelves filled with magazines and newspapers.

An example is the Berwick Innovation Center (BIC), which began in the library at Berwick Academy, a 590-student, preK-12 day and boarding school in South Berwick, Maine. "Everything is changing in the library world," says Darcy Coffta, upper school librarian and director of innovation. "We are allowing our students to design and drive their own learning and encouraging creativity and collaboration. The library is no longer for quiet, independent work."

Since 2008, BIC has grown enormously. More than 150 students have completed an "Innovation Pursuit," such as the Berwick student's nuclear fusion reactor and those perfect cupcakes. Nor is tinkering limited to the upper school; in the middle and lower schools, younger students take on pursuits like geo-caching, coding with Lego robotics or making soap. The center's budget is about \$45,000 a year for operations, with most going to mentor stipends. Each IP receives a project allowance.

Now BIC's reach is expanding beyond its physical campus with the Remote Innovation Pilot Program. Five students from several states are enrolled, working on projects ranging from botany to video game design. Coffta is helping these students find mentors in their area as they fine-tune their projects. Like all Berwick innovation makers, they will present either in person or virtually at BIC's annual "Innovation Celebration."

and staffing to independent schools and helps them design and operate makerspaces. "The very word 'innovation' means you are continually looking for new and better ideas, and that means you're spending money. You have to have a budget behind you."

Here are some best practices for setting up a new learning environment.

ASSESS THE NEED

As innovative learning spaces become more popular, some administrators might feel pressured to keep pace with the competition. As always, independent school leaders should look first at their mission and strategic plan, Sager says. "The last thing you want to do is put one in because the two schools on either side of you have one and you think you need it to compete. It needs to serve a purpose."

In addition, trustees are advised to consider the cost-benefit calculation and return on investment, in terms of student outcomes as well as financials, Sager says.

Although makerspaces can create new options for summer camps and other auxiliary programs, Douglas Lagarde, head of school for Severn School, cautions against thinking of them primarily as revenue enhancers. Severn, an 845-student, preK-12 day school in Severna Park, Maryland, opened its Graw Innovation Center in fall 2015. "The ROI has to be about

the kids," Lagarde says. "If they are interested in trying to develop novel solutions to problems, then we have the best ROI we can have." Any financial benefits are secondary. "It wasn't done to attract kids, but like your athletics or your drama programs or STEM and STEAM programs, they attract students and they also attract faculty."

IDENTIFY THE SPACE

Some schools elect to gut existing buildings or, as with Severn School, build new ones to accommodate their goals. But a new innovative learning space does not have to involve a major capital campaign—schools may be able to repurpose existing square footage.

At Garrison Forest School in Owings Mills, Maryland, learning is heading outside with a new "Outdoor Classroom" for lower-school students. Scheduled to open in spring 2016, the new space will include a mud kitchen, water features, a garden and a stage. Teachers have developed curriculum to guide play in the space. The concept for the \$260,000 project came from Nature Explore (natureexplore.org), a nonprofit that provides concepts for outdoor classrooms and training for teachers. "The area is a combination of imaginative play and learning in defined ways," says Bill Hodgetts, assistant head of school for finance and operations.

In Newtown Square, Pennsylvania, Stratford Friends School turned a PC

Making for the sake of making is not best practice for students or financial sustainability. The budget should go beyond "hiring an architect, telling them you want a cool, modern space and then spending thousands on furnishings and gadgets," says Robert Sager of Edu-Tech Academic Solutions. "What we have learned is that it is about making a space that is flexible and letting the use of the space and the needs of the faculty and students dictate the budget, which means your budget needs to be flexible as well."



photo courtesy of Severn School

lab into the Innovation Center for its lower and middle schools. Sager helped the school reimagine the space with 3D design renderings superimposed digitally over images of the original space. “The idea was to make the space more inviting and valued in a cost-effective way,” he says. The center now features programs ranging from coding to robotics.

DETERMINE THE BUDGET

All in, the full cost of a makerspace includes design, building and/or renovation costs; costs for equipment, supplies and ongoing maintenance; and

money for staffing. Think long term, advises Terry del Prete, Severn School’s director of business and finance. “It’s not just putting in money the first year and not expecting to do more.”

Del Prete compares budgeting for Graw Innovation Center to creating an asset management plan for deferred maintenance. Because makerspace equipment, supplies and furnishings can be expensive, look beyond annual costs to future expenditures for equipment repairs or replacement as well as supplies. “Your costs are going to continue and they may even grow as the program grows,” he says.

THE STATE OF MAKERSPACES

Just how prevalent are makerspaces in independent schools? Hord Coplan Macht Inc., an architecture firm whose projects have included Severn School’s Graw Innovation Center, conducted a survey with NBOA (and presented the results at the 2016 NBOA Annual Meeting). Some findings:

- Half of surveyed schools had makerspaces; the other half planned to add one.
- Schools spent an average of \$50,000 on equipment.
- Most makerspace budgeting comes from the annual operating budget.
- Less than 20 percent of spaces have a full-time director.
- Most makerspaces total 1,000 to 1,500 square feet.
- Many are near-grade or at-grade to facilitate moving large equipment and projects.
- Most makerspaces were installed in available, existing space.

Baseline equipment includes 3D printers, laser cutters, large-format printers and electronics. Many makerspaces included sewing machines.

“We do see a range from modest to robust,” says Peter Winebrenner, a principal at the firm. “Even schools with limited resources can have a space dedicated to making. It depends on the scale you are looking at—it’s attainable for everybody.”

BREAKING DOWN THE NUMBERS

Funding for the new Graw Innovation Center at Severn School came from a \$1 million gift. The school designated half for design and construction and the other half to endow the job of a full-time director.

Because the center opened in the 2015-2016 school year, budget numbers are still fluid. The school spent \$75,000 to \$80,000 outfitting the center, including purchasing three 3D printers, a laser cutter and several less costly items such as sewing machines, hammers and saws. For ongoing funding, the school is budgeting \$15,000 annually. That number includes operations and programs, such as honorariums for visiting educators and speakers. To determine many of the costs, administrators used a smaller maker lab in Severn’s lower school as a model.

Not every cost can be nailed down. One question, for instance, is the ongoing cost of filament for 3D printers. An option might be charging a fee to use the printers for special projects or for summer school or parent sessions. “We want to put a governor on costs like those so that we get through the year or three with no unanticipated budgetary needs,” says Douglas Lagarde, head of school.

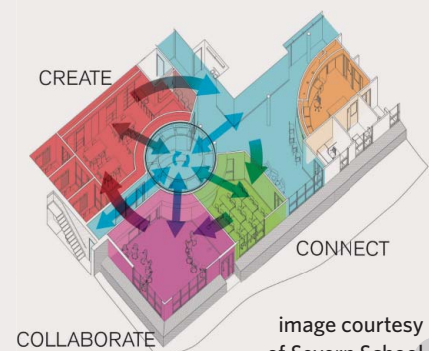


image courtesy of Severn School



THE YOUNG MASTERS

Imagine a school where children as young as 3 can tinker with and master materials aligned with STEAM. That ideal drove former venture capitalist Cameron Smith and veteran independent school educator Kate Cicchelli to open Bennett Day School in Chicago in 2014.

The 60-student, preK-grade 1 school embraces the Reggio Emilia emphasis on collaborative learning, multiple intelligences and the environment as a third “teacher,” along with educators and parents. “The key is to use the city and the entire school to make the magic happen,” says Smith, Bennett’s CEO. “The space has wonderful materials and tools, but you have to link it back into the classroom.” Walls themselves are makerspaces—wood plank, plywood, pegboard. Some of the paint is conductive, allowing students to learn about circuitry; dry erase paint turns another surface into a huge whiteboard.

Ultimately, students create a digital portfolio of their work. The idea is to familiarize them from the beginning with the collaborative and creative body of work that will help them enter college and progress in their careers, Smith says. “Why wait until you are 25 or 30 years old to have that kind of experience?” However, equipping a makerspace doesn’t have to be expensive, he notes. “It just has to be intentional.”

GET THE RIGHT STUFF

When it comes to equipping a makerspace, Edutopia, the George Lucas Education Foundation’s website, recommends focusing on items that fit the budget and give the most impact at the lowest cost. Not every space needs a 3D printer and a laser cutter. Activities, tools and materials can be as varied as ages of students using them. Besides high-tech machines, items might include woodworking tools, electronics parts, robotics parts, sewing machines and drills, along with wood, textiles, cardboard, wire and paint to use with them.

Schools can also repurpose or recycle materials. At Bennett Day School in Chicago, 5- and 6-year-old students built a model of the city of Chicago using foil packing material and other objects similar to objects they discovered as they explored the streets and neighborhoods for their research. Another option: Ask families or local organizations to donate worn-out electronics, toys or tennis balls, or collect items like cardboard, straws and popsicle sticks.

TALK TO THE END USERS

Soliciting teacher and student input on the right type of innovative learning project ahead of time means the new space will get more buy-in and use. Encourage teachers to voice their ideas about using the space to teach,

Sager says. Students can express their interests and learning goals.

To build teacher interest in its Graw Innovation Center, Severn School has invited teachers, staff and students into the space to explore and play with the resources, says Kelly Wilson, director of Severn’s innovative and entrepreneurial programs. She also holds brainstorming sessions with teachers. “They tell me this is what they want to accomplish, and I look for creative solutions.”

Patience is important. While adventurous and tech-savvy students may be ready to jump right in, some teachers have never encountered makerspaces. Professional development and in-house demonstrations can help. “Enacting change requires patience and reflection on what programs will add value,” Wilson says.

FIND A LEADER

The largest ongoing expense for an innovative learning space may be the faculty member who leads it. This individual is essential, says Sager. “It’s something that is overlooked more than anything—who is going to manage the space, and more importantly, be a coach and mentor to students and teachers?” A dedicated director gives teachers an expert to consult with on projects and to keep momentum going.

At Bennett Day School, this leader is Colin Reynolds, curator of the TinkerLab. “He is literally on the cutting edge of kids

photos courtesy of Bennett Day School





photos courtesy of Bennett Day School

in the tinkering movement,” says school CEO Cameron Smith. Reynolds works with three to six students at a time and helps teachers ensure that the projects and materials they are using mesh with the students’ classroom learning. Reynolds will also work at the school’s campus for older students when it opens in fall 2016 in Chicago. As the school grows, Smith says, more faculty will come on board with the curator.

FUNDRAISE AND MORE

Makerspace donors can surprise schools. At Phoenix Country Day School, the donor for the Cole Center for Art, Science and Innovation was someone new to the community who wanted to be involved in a unique project, CFO Kathy Peters says (see sidebar, next page). Severn School got its major gift from an entrepreneur whose grandchildren had been students there. His goal, says

Lagarde, was to give students a place where they could “fail successfully.” Schools can also look for support—in the form of money, mentoring or sponsorship—from local engineering and tech companies, Sager says. Other schools have used crowdfunding platforms such as Indiegogo.

Grants are available for makerspaces. Berwick Academy has received several grants for its Innovation Center,

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MAXIMIZING DONOR DOLLARS

A swimming pool project set off the cycle of generosity behind Phoenix Country Day School's jump into innovation spaces. In 2012, the 722-student, preK-12 school started designing an aquatics center as part of a major capital campaign and improvement project cycle. Inspired by that project, another donor came forward with a gift to add a second gym for sports team practices. Then another donor asked to help renovate the school's arts and science spaces. That offer, combined with project funds from the capital campaign, led to the \$4 million Cole Center for Art, Science and Innovation whose groundbreaking is scheduled for spring 2016.

By keeping the new center within the same footprint of the former 22,000-square-foot arts and sciences building, the school was able to avoid applying for supplemental building permits for new construction—difficult and costly to attain in Phoenix, says CFO Kathy Peters.

Before design began in earnest, "The best thing we did was researching other schools," says Peters. A team from the school visited 21 schools around the country to gather design ideas on issues from space configurations to furniture. "We put together a list of dos and don'ts," many of which "we would have had no clue about" without the visits.

Once completed, the center will inspire innovations in both the arts and sciences. Renovation plans include a digital fabrication lab, an art room, a woodworking shop, a metalworking shop, a testing space primarily for robotics, and a presentation space where teachers and students will share their work.



photos courtesy of Berwick Academy

including a \$30,000 Follett Challenge Award and multiple Edward E. Ford Foundation grants. The Follett grant recognized Berwick's transformation of its traditional library, says Darcy Coffta, upper school librarian and director of innovation. ■



Donna Davis is a freelance writer based in Boulder, Colorado. A contributor to Net Assets since 2008, she specializes in education-related topics.

MORE ON NBOA.ORG

Re-imagining School Libraries
go.nboa.org/1NnGXVo

Redefining the Library of the Future
go.nboa.org/1Pg6xB2

Exercising Their Options
go.nboa.org/1ZPJk4

OTHER RESOURCES

Severn School
severnschool.com/Page/Programs/Graw-Innovation-Center

Berwick Academy
berwickacademy.org/Page/Academics/Berwick-Innovation-Center

Edu-Tech Academic Solutions edutech.com

Hord Coplan Macht hcm2.com

Bennett Day School bennettday.org

Phoenix Country Day School pcds.org

Edutopia edutopia.org

Laura Fleming worlds-of-learning.com

Renovated Learning
renovatedlearning.com

MAKE makezine.com

Maker Education Initiative
makered.org/resources

Colleen Graves colleengraves.org

Indiegogo indiegogo.com

Follett Challenge follettchallenge.com

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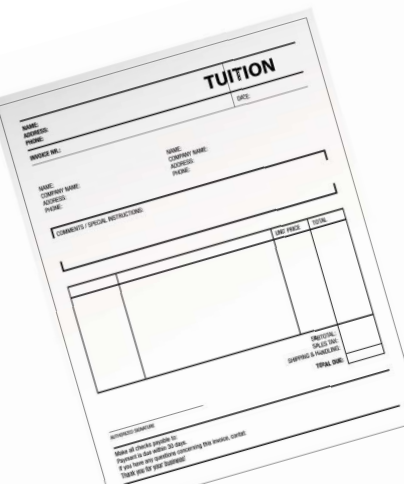
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By James P. Sweeney, RSM US LLP

FRINGE BENEFITS:

SWEET, BUT KNOWN TO BITE

On the eve of tax season, tips for ensuring the fringe benefits that help make your school such a nice place to work are also compliant with the law.

With perks that may range from free lunches in the dining hall to deeply discounted tuition fees, independent schools' generous fringe benefits packages serve as key competitive advantages in helping them recruit and retain high-quality faculty and staff. Different fringes affect staff at all levels; some are intended to defray living expenses for modestly compensated teachers, while others may serve little purpose beyond attracting a superstar head of school in an intensely limited field.

As important as they are to a school's overall compensation package, fringe benefits are often something of a gray area—and a potentially fraught one—when it comes to taxability. Neither the Internal Revenue Code (IRC) nor Treasury regulations define fringe benefits in definite terms, yet employers are required to include certain fringes in an employee's gross income in the year in which he or she receives them. Schools that fail to administer fringe benefits properly, or to clearly convey potential tax implications to employees, risk subjecting themselves and their employees to unwelcome scrutiny, greater tax liability and, in some cases, IRS penalties.

A good overview of fringe benefits is IRS Publication 15-B (2016), *Employer's Tax Guide to Fringe Benefits*: irs.gov/pub/irs-pdf/p15b.pdf

Here's a look at the potential taxability of several types of fringe benefits that are common to independent schools, along with guidelines to help business officers play within the many rules impacting them. With tax season approaching, a careful review should be an important element of your school's strategy for offering a package of fringe benefits that is at once competitive, financially sustainable and in compliance with the law.



Tuition Reduction Benefits

- May be exempt from income tax withholding
- See IRC Section 117

Tuition breaks for the children of employees vary widely among independent schools, from a relatively small percentage discount to full tuition waivers, though the latter are becoming rare. Overall, the benefit is one of the most valued a school can offer (particularly when many employees are parents of young children), as well as one of the easiest to provide. Schools may provide this benefit in the form of a financial break or a cash grant, and may account for it as compensation, a benefit or financial aid, depending on the circumstances.

To be a qualified tuition reduction program (QTR) under Section 117, it must not discriminate in favor of highly compensated employees (see sidebar). In addition, as explained by Debra Wilson, legal counsel at NAIS:

A QTR may be used to benefit a child who is a son or daughter, stepson or stepdaughter, any legally adopted child, or a foster child who is a member of the employee's household and whose principal place of residence is the employee's home. This child must also be a dependent—that is, the child must fall into one of the following categories: (1) the employee provides over one-half of the child's support for the year; (2) both of the child's parents are deceased and the child is less than 25 years old; (3) the child's parents are divorced or separated and the child receives one-half of his or her support from either or both parents; or (4) the employee is allowed to treat the child as a tax dependent under special rules that apply to multiple support orders.

Source: Tuition Remission—a Tax Free Fringe Benefit, 2011 nais.org/Articles/Documents/tuitionremission10v2.pdf



Working Condition Fringe Benefits

- May be exempt from income tax withholding
- See IRC Section 132

Working condition fringe benefits are defined as including any property or service provided to the extent that, if the employee had paid for it, she or he would have been able to deduct the cost as an "ordinary and necessary business expense" on her or his individual income tax return. A benefit must be properly substantiated and documented to receive the benefit exclusion. Within independent schools, common examples might include work-related club memberships, automobiles, travel, computers, professional dues, publications and events related to the individual's work for the school—for instance, a ticket to a lacrosse tournament for an athletic director who is required to attend for recruitment purposes.

Many independent schools provide a vehicle to the head of school and other employees. In such cases, employees must maintain a written log of mileage and the business purpose for the trip. Because this record-keeping can be onerous, it's not uncommon for schools to provide a (taxable) car allowance instead.

The following are considered employees for the purpose of working condition fringe benefits:

- Current staff and faculty
- Business partners
- Trustees/directors
- Independent contractors
- Volunteers

Taxable fringe benefits for employees should be reported on Forms W-2 and W-3. Taxable fringe benefits for independent contractors should be reported on Form 1099.

Cash payments or cash equivalents are not working condition fringe benefits, unless they represent reimbursements paid under an accountable plan.



WHAT ABOUT ROOM AND BOARD?

Note that this article does not address room and board benefits (IRC Section 119(d)). The technical aspects of housing benefits within independent schools are very complex and often misunderstood. Stay tuned for a closer look in the May-June *Net Assets*.

De Minimis Fringe Benefits

- May be exempt from income tax withholding
- See IRC Section 132

De minimis fringe benefits include any employer-provided property or service with such a minimal value that accounting for it could be considered unreasonable or administratively impractical. The benefit's value is determined by the frequency at which it is provided to any individual employee, or, if this is not administratively practical, by the frequency at which it is provided to all employees as a whole.

Common *de minimis* benefits at independent schools might include cafeteria or dining room meals and

snacks, as well as tickets to school-sponsored theater or sporting events. Section 1.132-6(e)(1) also provides examples that include occasional and not routine group meals, employee picnics, traditional birthday or holiday gifts (not cash) with a low fair market value, and commuting use of a school-owned vehicle if no more than once per month.

For cafeteria/dining room meals to meet the exclusion, the facility must be on or near the school, its revenue must normally equal or exceed direct operating costs on an annual basis, and meals furnished must be provided during, or immediately before or after, the employee's workday.

If a benefit does not qualify as a *de minimis* fringe benefit, the entire



benefit is taxable, not just the portion that exceeds the *de minimis* limits.



No-Additional-Cost Benefits

- *May be exempt from income tax withholding*
- *See IRC Section 132*

No-additional-cost benefits are defined as services or products that the employer provides to employees (whether for free or at a discount) without incurring a substantial additional cost, such as labor expenses or foregone revenue. The service must be offered in the ordinary course of the employer's line of business; for instance, a service that the school already provides to students.

No-additional-cost services occur frequently in industries with

excess capacity services, including transportation tickets, hotel rooms and entertainment facilities. In the context of independent schools, they might include internet access, use of athletic and recreational facilities, and tickets to athletic or entertainment events that would occur regardless of attendance and that would not represent any revenue loss to the school.



Qualified Employee Discounts

- *May be exempt from income tax withholding*
- *See IRC Section 132*

Many schools sell goods or services to employees at a lower price than they charge others. Examples include tickets to sporting and entertainment

NONDISCRIMINATION RESTRICTION

As a general rule, benefits provided to highly compensated employees may not be excluded from income unless the same benefits are available on substantially the same terms to all employees. (The IRS set the 2016 income threshold for highly compensated employees at \$120,000.) Any benefit that is provided only to highly compensated employees—for instance, a full tuition waiver for the children of the head of school—is taxable in full, not just the amount over and above that offered to rank-and-file faculty and staff. Schools must take care to ensure that their benefits plan does not favor their highest-compensated employees. This calculation is very involved and outside the scope of this article.



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A working condition fringe benefit must be properly substantiated and documented to be exempt from income tax withholding.

events, along with spirit wear and other merchandise from the school bookstore. For tickets and other services, the discount is excludable if it is no more than 20 percent of the price charged to the general public. For merchandise or other property, generally the excludable discount is limited to the employer's gross profit percentage times the price charged to the public. For instance, if a bookstore has a 50 percent gross profit percentage, the employee discount must not exceed 50 percent of the usual sale price.



Section 457 Deferred Compensation Plans

- Tax deferrable
- See IRC Section 457

In a Section 457 plan, an employer essentially defers an unlimited amount

of compensation into the plan on a pre-tax basis. Typically offered to attract and retain certain highly compensated employees with supplemental retirement benefits, 457 plans are sometimes called "golden handcuffs" in that they stipulate that employees meet certain periods of service to receive the deferred compensation.

Besides providing supplemental compensation, a 457 lets executives both reduce their taxable income and receive distributions after retirement, when they are likely to be in a lower tax bracket.

A 457 operates similarly to the 403(b) plan many schools offer, with some distinctions:

- Assets are owned by the institution rather than the individual. They are subject to the claims of its creditors and other risks, and invested as determined by the institution and the leader.

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- A 457 is relatively less difficult to establish because there are no requirements regarding coverage, eligibility, participation, vesting, etc. It can be designed in a variety of ways, depending on the employee's time to retirement, desired tax strategy and funding arrangement, and other features preferred by the institution and employee.
- There is no penalty for withdrawal before the age of 59 ½ (although the withdrawal is subject to ordinary income tax).
- Rollovers in and out are not permitted.
- Loans are not permitted.
- Independent contractors can participate.

There are many complexities involving 457 plans, but some additional details follow.

SECTION 457: FUNDING

Section 457(f) plans must be unfunded. The institution owns the plan assets until distributed to employees. However, they can be "informally funded" through the use of institutionally owned annuity contracts, life insurance policies and other types of investments.

If funded with a life insurance policy, the policy is purchased by a benefits trust (usually a "rabbi trust," which protects against most adverse contingencies, except claims of the institution's creditors). The trust uses the contributions to pay the premiums on the life insurance policy. Use of a rabbi trust also provides plan participants with some security without violating the substantial risk of forfeiture requirement in order to defer taxation into the future when payable.

Amounts of funding also can vary among plan participants. For instance, if four individuals are participating, each will have varying levels (time) of service to the school. One approach for a school may be to defer a monthly

amount based on years of service. For example: set asides in the amount of \$3,000 per month for service greater than 20 years, \$2,000 for service of 15 to 20 years, and \$1,000 for service of 10 to 15 years, all based on the date the plan is put into place.

SECTION 457: ELIGIBILITY

Employer: Any 501(c) tax-exempt organization, as well as state and local governments and their agencies, as permitted by applicable law.

Employee: In private institutions, limited to a "top hat" group (select group of management or highly compensated employees). In public institutions, any group or single employee may participate.

SECTION 457: VESTING

457 plans can have a vesting schedule or be 100 percent vested immediately. The general practice is that when taxation occurs, the participant receives the plan balance. A school may make various provisions, e.g., giving participants an immediate right to benefits when substantial risk of forfeiture lapses. Or, if the participant terminates employment or becomes disabled, the benefits can either be both vested and paid, or the plan can continue in place until the specified distribution dates.

SECTION 457: DISTRIBUTIONS

The employee elects the distribution dates for payment of benefits. Distributions can be made at any time but are usually coordinated with the date when the substantial risk of forfeiture lapses. Payment is generally made in a lump sum.

If funded with a life insurance policy, the institution may use the policy's cash value to pay the retirement benefits.

SECTION 457: TAXATION

Accumulations are immediately and fully taxable to the employee when substantial risk of forfeiture lapses, regardless of whether or not the employee receives them. Distributions are taxed as wages, and withholding reporting is via a W-2.

If the plan is funded with a life insurance policy, the employee pays the income tax due on the premium amounts. However, the institution may also elect a "double bonus" arrangement, in which the executive is paid a bonus for the amount of income tax due.

SECTION 457: IRS FORM 5500 FILING

Schools must file a one-time, one-page notice of plan adoption with the Department of Labor to document the plan's "top hat" exemption from ERISA. Public institutions are not subject to any Form 5500 filing requirements. ■



James P. Sweeney is a partner and national lead of the Exempt Organizations Technical Tax Services division at RSM US LLP (formerly known as McGladrey), which provides specialized audit, tax and consulting services to organizations including K-12 independent schools. rsmus.com

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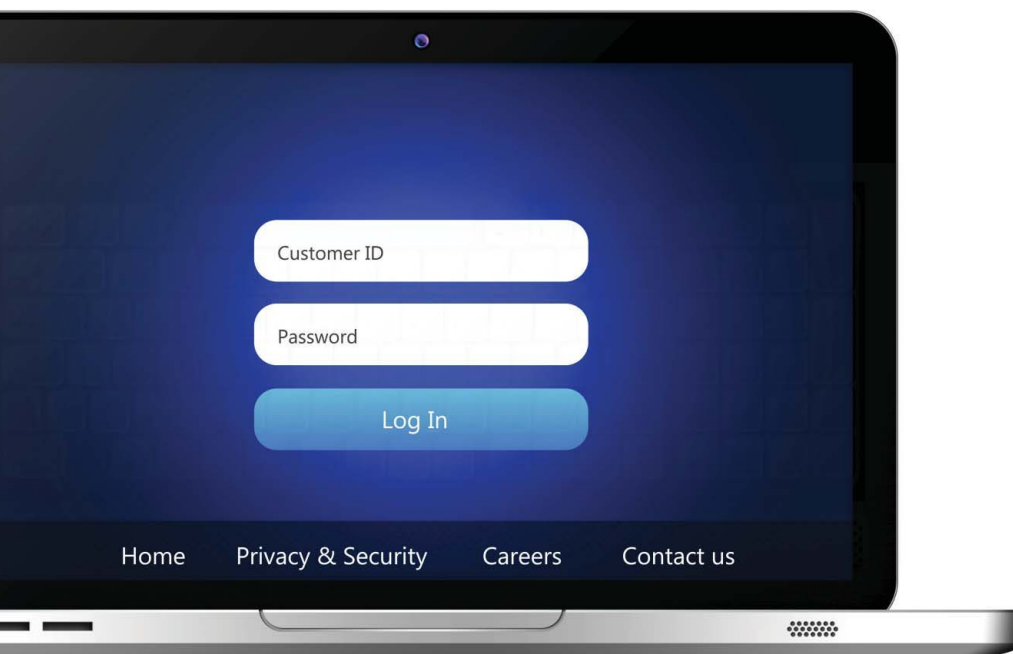
As technology advances, so does the proliferation of more complex fraud schemes—sometimes involving staff.

From online tuition systems to point-of-sale credit card readers, a wide range of finance-related technologies foster greater efficiencies for independent schools along with superior convenience for vendors, parents, students and supporters. At the same time, they open up easier and faster ways to commit fraud and can offer false reassurance when it comes to safeguarding your school's financial assets, ultimately undermining diligence and vigilance.

The true impact of fraud can be disastrous and far-reaching, including monetary loss, diminished productivity,

legal problems and tarnished reputations. Independent schools' communities of lenders, donors, board members and parents expect high ethical behavior and effective internal controls. In fact, technology often presents an enormous dilemma, in that efficiency and effectiveness can be competing imperatives affecting internal controls.

For every potential reward of a technology, there is an intrinsic risk. Every independent school must evaluate these risks and find the right balance between its tolerance for risk and its ability to allocate sufficient resources to achieve internal controls.



Here's a look at a few common technologies, their potential for fraud and the kinds of controls and practices (some of which your bank may already require) that can mitigate or neutralize these risks.

ONLINE TUITION SYSTEMS

Online tuition solutions have revolutionized how many schools conduct business. They can enable better resource management based on cash-flow needs and provide peace of mind by ensuring that tuition is remitted on time. In addition, they offer families more flexible payment plans that meet their unique needs. However, independent schools must recognize that even the best online tuition systems have risks, including opportunities for misconduct.

An actual case study at a New England independent school is a case in point. To accept payments for its after-school program, the school used an online tuition management and fee payment processing system.

The school's (former) director of after-school programs was responsible for collecting monthly payments and issuing refunds when necessary. She had

been with the school for eight years and had a history of exceptional performance and reliability. She logged into the system using her boss's administrator credentials, which her boss provided out of trust and to avoid fees associated with additional user accounts. When the director issued refunds to credit cards, they were for recognizable amounts—for example, if a student opted out of the program for the balance of a month, the refund would be days absent times the

Segregation of Duties

As a baseline recommendation for all financial processes, schools are advised to segregate duties to ensure that no one person is responsible for all steps in any finance function. A basic building block of sustainable risk management and internal controls, segregation of duties ensures that separate employees handle approvals, accounting/reconciling and asset custody. For schools with small financial staffs, it may be necessary to reach across departments in assigning certain duties.

daily rate. The accounting department was not in the practice of reconciling refunds. Staff there simply looked at the amount, recognized it as reasonable and then moved along.

Unbeknownst to the team, most of these refunds were fraudulent; it turned out the director had been directing refunds to her reloadable prepaid cards, purchased at a local market. The fraud occurred for two years undetected, during which time she embezzled \$80,000.

Inadequate internal controls contributed to this fraud. The following controls might have prevented these thefts:

- Assessment of risks associated with the processes
- Appropriate and adequate segregation of duties
- Unique system login IDs and levels of authority
- Reconciliation of refunds by a separate individual in the accounting department
- Analytical review procedures

PAYPAL

PayPal's business solutions allow schools to accept credit cards, debit cards and PayPal payments via mobile devices, computers and in-person, point-of-sale transactions. Many schools use PayPal to accept online donations.

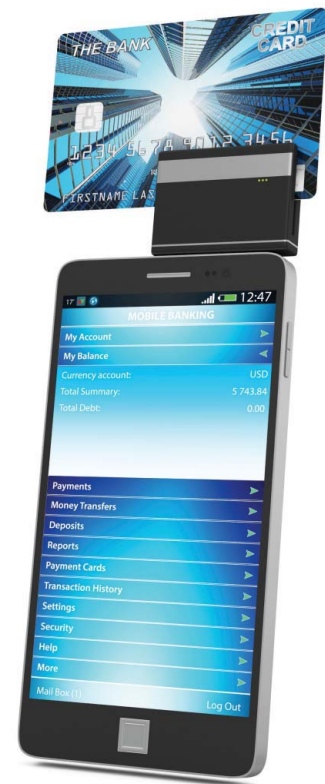
From an internal control perspective, it is imperative that schools set up and treat PayPal like a traditional bank account in their chart of accounts. Transactions should be entered into the general ledger, reconciled monthly and reviewed independently following the same procedures as other bank accounts. PayPal's business accounts also let schools add users, create multiple logins and access levels, and assign specific privileges—functions that enable staff to complete discrete tasks only. These controls can help mitigate risks such as a dishonest administrator making a purchase through PayPal and then transferring the funds to the operating account as a "net" transaction.

POINT-OF-SALE CREDIT CARD READERS

Point-of-sale systems for credit cards (such as Square, Intuit GoPayment and ROAMpay) turn smartphones and tablets into point-of-sale payment-processing systems. From collecting tuition and incidental payments to capital campaigns and fundraising, card readers allow schools to offer flexible and mobile payment options. Many schools also use POS readers at athletic and other events for admissions and concession sales, as well as at fundraisers to collect donations on the spot.

As a baseline measure to secure data and mitigate risk of fraud, employees accepting payments should only use school-owned devices (smartphones or tablets). In addition, financial administrators should ensure that any card reader accounts are locked

for editing. System users, in turn, should have unique login IDs and levels of authority and limited access to sensitive information or features that could compromise controls. Without such controls, individuals can easily redirect the funds to alternative accounts. The risk doesn't end here, though: Once in the field, an employee could potentially connect the POS reader to his or her own device. Random as well as regular monitoring can help mitigate this risk, as can thorough analyses of metrics independent of the device.



REMOTE AND ATM DEPOSITS

Before ATMs, schools had to dispatch an individual to travel physically to a bank and speak with a teller in order to deposit checks. The teller was responsible for examining checks for endorsements and verifying other

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Lost in the Mail

The annual fund appeal is the cornerstone of many independent schools' development program, and its success can greatly impact the student body. In this case, an independent school received donor checks in the mail, and two members of the finance team touched them. One stamped the checks "for deposit only," and the other made a cash receipt log. They then gave the checks to a third member of the team to make deposits and match deposit slips with the cash receipt log.

Although these processes demonstrated good internal control and segregation of duties, the fraud had already occurred. The mailman delivered checks to the receptionist, who deposited some of the checks into her own account through her ATM. The fraud went undetected until a philanthropic parent called to inquire about why she hadn't received the thank you letter that served as "gift acknowledgement" for tax purposes.

The school had established great internal controls; however, these controls were not established from the original entry point. In this case, an independent lockbox would have provided additional safeguards.

In addition, schools should consider:

- Reconciling the donor database with the general ledger
- Prohibiting development from directly accepting checks/donations



information such as dates, identities and the legality of the documents. Now, of course, schools may bypass this process by using ATMs or converting physical checks into digital images and electronically transmitting them using mobile devices or computers with remote deposit capture (RDC).

Although tremendous timesaving tools, ATMs and RDC are not without risks. In schools with inadequate segregation of duties, there is potential for a dishonest employee to deposit checks into a personal bank account. In addition, digital images are easy to alter (and alternations can be difficult to detect), making it relatively easy for someone to change the payee's name, for example. Even without bothering to change the payee's name, however, perpetrators can be successful in cashing checks. And because automated deposit systems typically only spot-check, perpetrators have a reasonable chance of slipping through the system even if checks are not made out to them.

When schools utilize RDC, paper checks remain with the finance department and thus require data security and integrity. The biggest risk is an intentional redeposit of a check that has already been deposited. Furthermore, keep in mind that checks and check images include names, account numbers and other personally identifiable information. Schools must ensure that appropriate data security systems and processes are in place to minimize opportunities for misconduct, while also protecting the integrity (check or check-image quality) of the financial data for the time periods required by banking institutions.

Methods of mitigating ATM and RDC risks include:

- Internal controls to secure checks when they are first received
- Internal controls to prevent double presentment of checks (redeposit)
- Appropriate and adequate segregation of duties

Evaluate Technology Environments

Schools should use as much diligence in evaluating emerging technology systems (information systems, applications, databases and interfaces) as they use in evaluating paper-based financial and operational processes.

- Was the system developed in-house or is it vendor supported?
- Does it interface with core administrative information systems? If yes, is that process manual or electronic?
- What type(s) of source documents are used to input the data?
- Who has access to its data?
- What type(s) of access and edit controls are in place?
- How are the system's transactions reviewed and approved?
- Who reconciles its output to ensure correct information?
- Is a disaster/back-up recovery system in place?
- What is the retention period for source documentation and system data?
- Are there any concerns about the system and its overall functionality?
- Does the service provider offer assurance regarding effective controls over outsourced service functions, such as a service organization control (SOC) report or Payment Card Industry Data Security Standard (PCI DSS) certification?
- Who at the school is responsible for reading the SOC report to understand what controls the school must have in place in order to rely on the service organization's controls?

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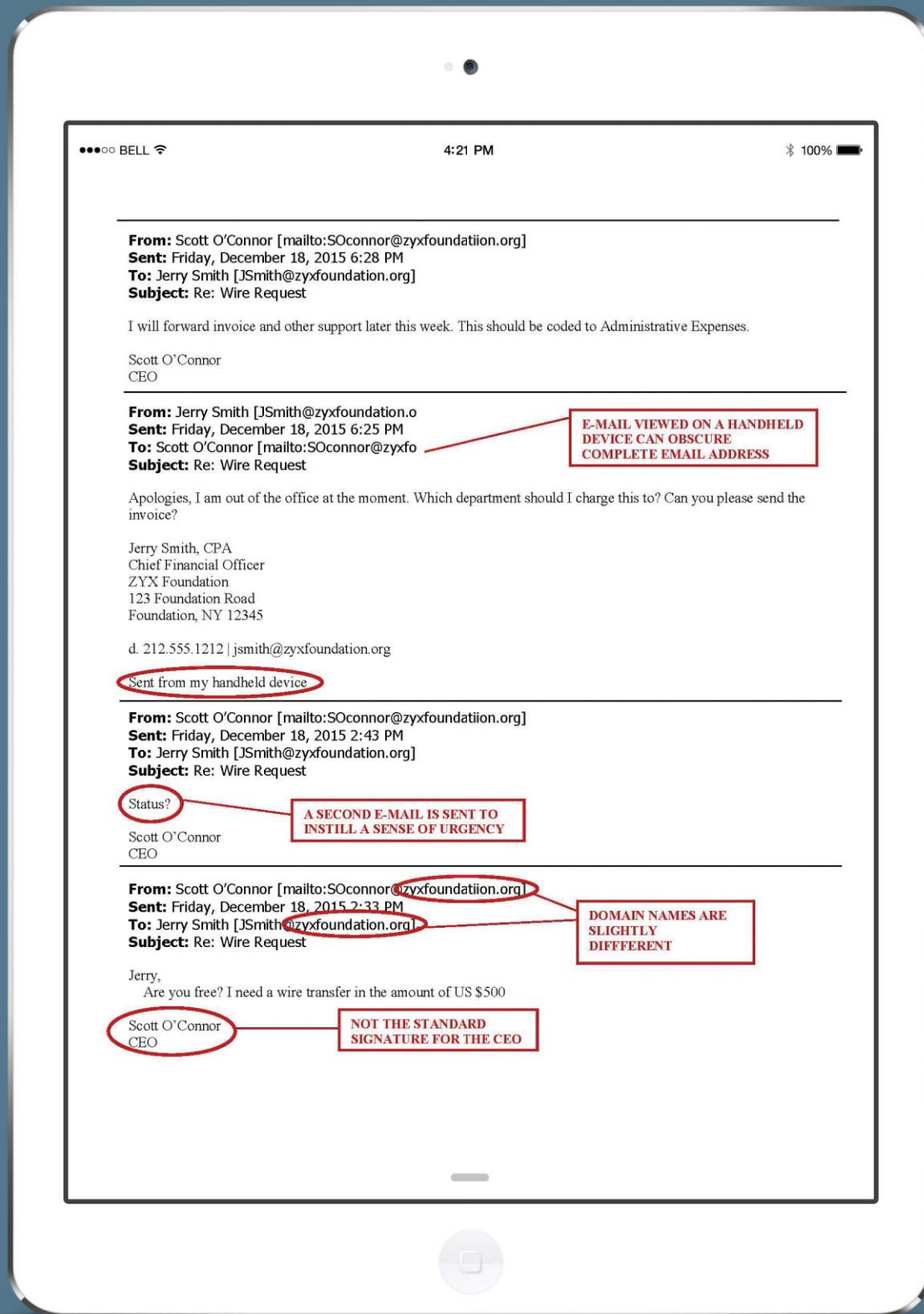
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What's in a 'phishing' email?



Above: Sample telltale signs in a phishing email. See also the September/October 2015 Net Assets: "Greetings from Kazakhstan," exploring one independent school's experience during and after a major phishing incident.

If It Smells Phishy...

Nonprofit organizations report a recent swarm of “phishing” attacks in which thieves appearing to be a legitimate person (often a senior member of the management team) request a wire transfer via email. These emails look legitimate and typically come from an email address very similar to the organization’s, with a slight variation. (The email at left shows indicators of such a message.)

In one such attack, the CFO of a large nonprofit received an urgent email from what appeared to be the CEO asking: “Are you free?” The CFO responded yes, and the “CEO” then instructed him to make a wire transfer to an individual. This request was unusual, but the payment was in line with the general operations of the organization. The CFO then asked where to charge the expense, and the “CEO” typed “Administrative Expenses.” This struck the CFO as odd, and a quick phone call revealed the request to be fraudulent.

These steps can prevent such schemes at your school:

- Follow normal processes for disbursing funds, including check requisitions and signoffs. Note that wiring funds with an “urgent” need, outside of normal processes, increases your risk.
- Educate employees about scams and remind them of the standard protocols when disbursing funds.
- If you have programs that require immediate wire transfers prompted via email, consider setting up standard procedures that require either a verbal confirmation or a code word in the email.
- Adopt a system that requires two individuals to be involved in the wire transfer process: one to establish the wire transfer, and a second to approve and release it.
- Notify your IT staff as soon as you receive a suspicious email.
- Proceed cautiously when receiving any email or communications soliciting funds or personal information. If you fall prey to a scam, immediately notify your bank and the bank that received the funds, and contact your local police.

- Procedures for converting checks to images
- Securing of paper checks after conversion
- Maintaining control over retained checks in a secure environment
- Removal and destruction of checks after any applicable retention period
- Use of trusted vendors to provide hardware and software

ELECTRONIC FUNDS TRANSFER (EFT), AUTOMATED CLEARING HOUSE (ACH) AND WIRE TRANSFER

Electronic funds transfers (EFTs) can decrease a school’s dependency on checks and provide additional benefits in the form of cost savings, convenience and efficiencies for vendors. In addition, EFTs enable schools to automate bill payment and payroll. Again, however, where there is an inadequate segregation of duties a dishonest employee could fraudulently send money. Moreover, just as schools have detailed and elaborate controls surrounding cash disbursements made through bank checks, they should use the same detailed controls with EFTs. That’s because cyber thieves have found ways to steal login credentials and use them to carry out unauthorized EFTs, including automated clearing house (ACH) transactions and wire transfers.

Methods of mitigating EFT risks may include:

- Protocols specifying one user who only establishes EFT payments and a separate authorized check signer who approves and releases these payments
- Requiring secure passwords that must be changed every 60 days, as well as other user controls such as debit blocking.

KEY RECOMMENDATIONS FOR TECHNOLOGY CONTROL

Any school’s technology tools are only as good as the controls in place. Prior to implementing any new technology or financial process, business officers and

other administrators should identify and assess the legal, compliance, reputational and operational risks associated with it. Ensure that the system is compatible with the school’s business strategies and balance the potential return on investment with the school’s ability to manage the inherent risks.

Finally, incorporate your assessments of any new systems, including the specific products and services, into existing risk assessment programs. Whether manual or automated, all financial processes require vigilance. Schools are advised to assess them on an ongoing basis for external and internal risk factors that could create opportunities for fraud. This means adequate segregation of duties, strong controls and clear accountability for financial or programmatic results.

In the end, fraud prevention often comes down to a fundamental analysis of risks, costs and benefits. What level of risk is tolerable to your organization? How many resources can you devote to processes and controls that will deter employees from stealing? Do the benefits you hope to realize outweigh the resources necessary to mitigate risks? ■



John R. Buckley, CPA, is a partner at AAFCPAs, which offers tax planning, tax compliance and IT consulting services to businesses and nonprofit organizations. John is the leader of AAF’s Educational Services Division, and he specializes in various types of fraud audits. He also presented on this topic at the 2016 NBOA Annual Meeting.

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>> Q&A

Stephen Valentine and Reshan Richards

Why independent school leaders should take a “design pause” before sending that email, calling that meeting or excluding the possibility of collaborating with anyone, anywhere.

INTERVIEW BY LEAH THAYER



Stephen Valentine and **Dr. Reshan Richards** met at Montclair Kimberley Academy, a preK-12 independent school in New Jersey, where their work together inspired them to co-author *Blending Leadership*, a forthcoming book from Wiley/Jossey-Bass. Learn more about the book, and sign up for updates, at blendingleadership.com.

Valentine is assistant head of the upper school and director of academic leadership at Montclair Kimberley Academy as well as coordinating editor of *Klingbrief*, a monthly publication from the Klingenstein Center at Teachers College, Columbia University.

After the 2014-2015 school year, Richards left his position as director of educational technology at Montclair Kimberley to focus more on his role as chief learning officer of Explain Everything, which he co-founded. Learn more at explaineverything.com. He is also adjunct assistant professor at Teachers College, Columbia University.

The two sat with down Net Assets to speak via video chat on Google Hangouts.

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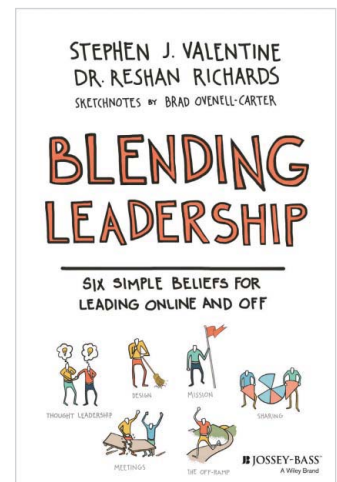
Q In *Blending Leadership*, you make the case for school leaders to rethink their “default modes” of communicating. What’s the urgency behind your message?

A VALENTINE: One of our goals is to describe what we’re seeing in schools. But we also want to push leaders beyond their traditional ways of doing business, because there are a lot more options thanks to technology and how networks are connected. We want to remind leaders that they can exercise other options that might be more efficient or impactful.

RICHARDS: The minute a leader at a school sends an email, whether it’s the headmaster or a student leader, that’s a conscious choice, active or not, among three or four other ways that message could have been communicated. Say the topic is the annual report on the school’s health insurance plan. Plenty of people might take 20 minutes of a full

staff meeting to deliver that message. Others might email it. For us, it’s about thinking deeply about practices that have habitually taken place and realizing that they are all choices. I wouldn’t even say that what we call ‘blending leadership’ is a new approach or methodology—it’s a way to make sense of what people are already doing.

VALENTINE: For example, at Montclair Kimberley Academy, the leader of a team I’m on has been ‘bringing back’ a specialized former employee via conference calls. This may not be revolutionary, but suddenly our meetings have a very different flavor because we have real-time access to an expert who isn’t in the room. Also, because she’s not in the room, she doesn’t need to follow the conventional face-to-face meeting roles. So if the rest of us in the room are talking, she can be doing research to inform the meeting; if she had been there in-person, she might appear to be off-task. Basically, this approach



gives her permission to work in an optimal way while simultaneously helping us break out of the notion—often unquestioned—that we have to solve problems only with the usual people and in the usual ways.

Reshan and I practiced what we preach while developing our book. Besides collaborating online using Google Hangouts and the like, we recently interviewed the founder of Fifty-Three, creators of Paper, because we were using their product to build the book. We had a wonderful 30-minute discussion, and all we had

“THE BUSINESS OF INDEPENDENT SCHOOLS IS HUMAN POTENTIAL. I DON’T WANT TO END MY CAREER ONLY TO FIND THAT THE SCHOOLS I WAS WORKING IN WERE SOMEHOW GETTING IN THE WAY OF THE STUDENTS’ EDUCATION. THE QUESTION IS: HOW CAN WE AS LEADERS BE AS AWAKE AND ALIVE TO THE POSSIBILITIES FOR LEARNING AND UNDERSTANDING AS WE CAN BE?”

to do was take three-and-a-half minutes to set up that interview. Sadly, because of technology, we tend to move so fast that we don't take that breath—what we call the “design pause”—to interrogate reality and say, is this the situation we want to be living in, is this the optimal way to be working and collaborating.

RICHARDS: When I was teaching a high school class on entrepreneurship last year, I don't know how many times I walked into the classroom and two students would be Skyping with some business professional they'd “invited” to the room without telling me. For students, it's a type of new instinct to be able to learn that way. And it's what we, as educators and leaders, need to pay attention to.

VALENTINE: It's giving people permission to be more than they thought they could be.

2

Q Why is it important to think of all this as *blending leadership and learning, as opposed to blended or online?*

A **RICHARDS:** The first iteration of our book was just called “Leading Online,” and then we realized we had totally disregarded the offline component of leadership. That's where our shift to ‘blend’ happened. As for blended versus blending, we

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want to focus on leadership that is active: making decisions about which mode works best for the situation at hand.

VALENTINE: Leadership and followership don't only take place when people are together in a room or looking into one another's eyes. You can take an *online* course where you never actually meet the people you're working with. Blending, on other hand, means actively considering the time, path, place, and mode of your work—all those different components. Take the interaction we're having right now (on Google Hangouts). We're blending this interaction to bring together different people who've never talked before, using modes that combine technology and a face-to-face conversation. Hopefully, it will lead to something useful.

3

Q As a general rule, any technology investment has the risk of becoming outdated or obsolete. How can schools feel confident that they are investing their money, time and resources wisely?

A **VALENTINE:** In our book, we continuously remind people that the

tools schools invest in could go away tomorrow. The companies that built them could go out of business or they could become outdated. Google and Apple are constantly buying companies and then getting rid of them. So we emphasize focusing on some basic questions: ‘What is the thing we're trying to do better? What does the investment offer us now? How will it help us grow the skills of our faculty? And what will we do if the tool disappears?’

RICHARDS: Whether it's your website, your SIS, your course management system or anything else, independent schools are constantly wrestling with and trying to understand what might be the best fit in their community. It can be a challenge if the platform you commit to disappears. This is where a school's rigidity or fluidity, and the way people approach technology, is incredibly important. The focus should not be on how to use a particular tool—eight clicks here and eight clicks here—as understanding its meaning and purpose, and the types of interactions that it supports, and other ways to find the things that users know are possible with the tool. I think that's the role of the school curricular leaders

and pedagogical leaders who are ultimately behind such implementations. If they're not clear on the *why* and the *what's possible* and *how the what's possible* goes back to *why*, then there is no solution. Even a user-friendly system, like Google classroom, is going to be difficult and not very useful for some people because it's so different from what they used before.

4

Q Is it your premise that school leaders should be as technologically adept and knowledgeable as they are at communicating and leading in person?

A **VALENTINE:** I don't think senior school leaders need to be technologists, but they do need to know enough about emerging technology to ask the right questions. For example, they need to understand the limitations of Twitter or Instagram if they're using them to showcase what's happening in their schools. A school can't necessarily know the reach of messages on Twitter. So leaders should begin to wonder if there are content marketing solutions that can achieve more of what they want to do, or if there are companies that can help them improve their mailing

» Q&A

“TECHNOLOGICAL AWARENESS CAN ALSO HAPPEN THE HARD WAY, WHEN SCHOOL LEADERS LIVE THROUGH SOME KIND OF MEDIA MISHAP THAT COULDN'T EXIST 10 YEARS AGO—A PHOTO GETS OUT OR SOMETHING IS RECORDED IN A CLASSROOM OR ON A STAGE THAT SHOULD NOT HAVE BEEN. THEY NEED TO BE KEYED INTO HOW THINGS CAN GO VIRAL OR SPREAD, OR CAN BE REFRAMED OUT OF CONTEXT. WE'RE TALKING ABOUT BASIC RISK MANAGEMENT TO SOME EXTENT.

list. You don't have to fully understand the technology to ask the right question.

I also think school leaders need to be aware of what's possible. For instance, the headmaster at Montclair Kimberley knows that it's always possible for board members to phone into a board meeting. I watched him run a meeting the other day where someone was Skyping in from another country, and someone was phoning in from another state, and most of the rest of us were there, in the room. The simple fact that he was able to ask for that kind of meeting was wonderful because the people who contributed most to the meeting were not necessarily

those who were in the room. By knowing what was possible, getting the support he needed, and making sure the communication tools were tested beforehand, our headmaster was able to generate more participation and more engagement around a critical topic. That's just good leadership, borne of asking the right questions.

RICHARDS: For me, this comes down to institutional mission and the choices a school makes as far as adhering (or not) to certain ways of doing things. If everything a school does connects directly to the mission, which I hope is the case for most independent schools, and in the service of student learning, it's

all about the informed choice to do or not to do something. To do or not to do something “because it's the only way” is very different from “I've done research, and this is the best way to serve the mission.”

VALENTINE: Technological awareness can also happen the hard way, when school leaders live through some kind of media mishap that couldn't exist 10 years ago—a photo gets out or something is recorded in a classroom or on a stage that should not have been. They need to be keyed into how things can go viral or spread, or can be reframed out of context. We're talking about basic risk management to some extent.

I think a blended leader is also somebody who's willing to break down silos—to make sure the school's systems technicians, for example, are fully aware of the school's mission, and to realize that working at a school is different from just working at any other job.

5

Q What are your concerns with regard to independent schools and blending learning?

A **VALENTINE:** The concern I have is that people won't ask the questions that will push us ahead as schools; that they'll avoid asking questions. Or they'll simply accept limitations that no longer need to exist. That's what drives me every day. As technology advances, there are things we can do that we couldn't do five years ago. I want people to remove limitations and move onto bigger questions.

RICHARDS: One concern I have is that some school leaders will see a buzzword like “blended learning” and pass it off as a trend or fad, not realizing that young people are already living this blended life outside of school walls. I think it can be okay for school leaders to make a choice for practices and cultures in school to not exactly mirror life outside of school, but they must also make sure students fully understand the differences.





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THE QUESTION IS: HOW CAN WE AS LEADERS BE AS AWAKE AND ALIVE TO THE POSSIBILITIES FOR LEARNING AND UNDERSTANDING AS WE CAN BE?

Another concern is that as practices get more blended, or things that were offline get moved online, some leaders might see an opportunity to cram more stuff in because of “newly found time.” Ideally, they instead will focus on offline things that take time to develop: human relationships, face-to-face contact. It’s not about trying to get more done just because more can be done. It’s about saying we don’t need one hour for this meeting. Rather, we might need 10 minutes with all of us together, and then I’ll walk

around and catch each of you in your office for a five-minute one-on-one.

That’s just a small example of what I see everywhere—people trying to squeeze more in once they’ve improved workflow and time efficiency. In the end, what can advance a school is when that “found time” fosters more human and personal growth.

VALENTINE: Yes, technology’s efficiencies allow us to reassert the value of face-to-face interactions. We’re all so hooked on email, for

instance, and that helps us to communicate in ways we never could before email. So go ahead, press send, but don’t forget to ask yourself, why are we together in this school? Why are we all in the same building? Remind yourself that school is a construct. Why do we drag ourselves to school—very early most days—and spend most of our lives together in this building?

Here’s an answer I’ve picked up in my work with Reshan: The business of independent schools is

human potential. I don’t want to end my career only to find that the schools I was working in were somehow getting in the way of the students’ education. The question is: How can we as leaders be as awake and alive to the possibilities for learning and understanding as we can be? Being blended is a means of realizing the vastness of your leadership toolkit, the beautiful connections you can make in the world, and the willingness of most people to share what they learn. ■

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>> LEGAL MATTERS

Reviewing Employment Contracts? Consider These Key Questions

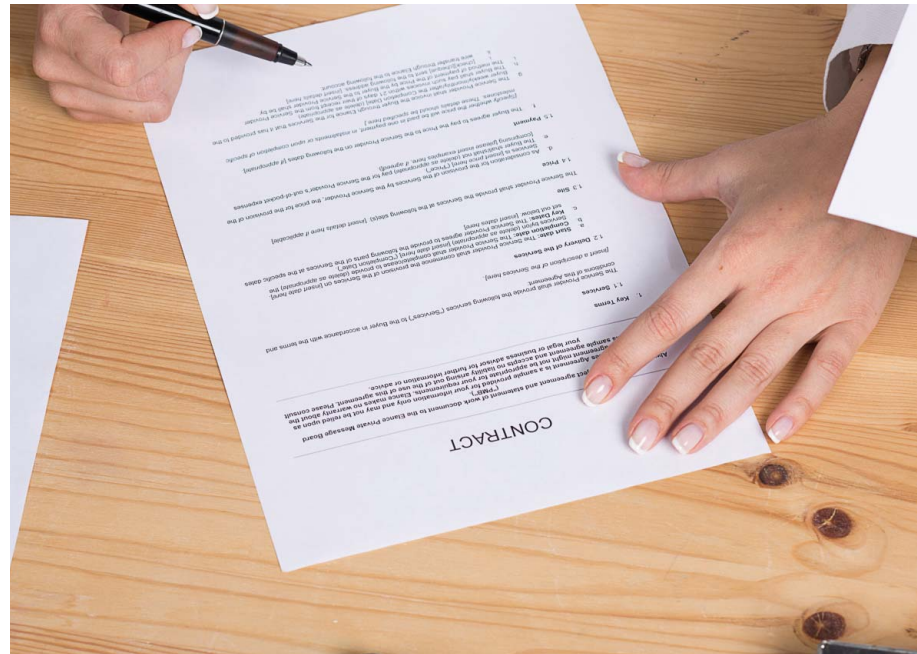
BY GRACE LEE

The employment contract is a core document defining the relationship between an independent school and its faculty and staff, along with the key terms of employment. Because it is also a central document in many employment disputes, the contract (or offer letter, as the case may be) merits a close review every year, at the same time a school firms up its staffing plans for the coming academic year. Any such documents should not only be compliant with state laws, but also consistent with the school's current practices, policies and culture.

In addition to having your employment documents reviewed by legal counsel, schools are advised to consider some guiding questions internally with regard to employment contracts and offer letters specifically.

At-Will or Not at-Will? That Is the Question

Many schools operate on the assumption that they have an at-will relationship with staff and/or faculty; that is, because they provide an employee with an *offer letter* instead of an *employment contract*, they can terminate the employment relationship at any time for any or no reason. However, a review of that offer letter might reveal language suggesting that the relationship is for a specified term—in which case an employee could easily argue that it is actually a contract of employment. In other cases, schools believe they are using an employment contract, yet language in the contract or



the employee handbook states that the employment relationship is “at-will.”

You can't have it both ways. Decide what type of relationship you wish to establish with faculty and staff, and be sure there is consistency between what your school practices (and how it sets and manages expectations) and the language in your employment contracts, employee handbook and any other documents.

What Approach Is Best?

That depends largely on a school's culture and history, along with the ability of division heads and supervisors to monitor and enforce performance standards and policies. Traditionally, most independent schools use an

employment contract for faculty, and every academic year go through a process of renewing or issuing a new contract. Schools that take the at-will approach, whether for faculty, staff or both, often do so believing it provides them with great flexibility involving employment terms, such as modifying work assignments or moving to terminate someone's employment. In reality, any employment separation must be for a legal reason that a school may need to defend, regardless of whether it uses employment contracts or offer letters.

More often than not, schools have reasons for terminating an employee, and those reasons are well documented, are not discriminatory or retaliatory, and do not come as a surprise to the employee. Given that, it makes sense to ensure that

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your well-written employment contract also has clear provisions surrounding separation. This best practice can provide a school with as much flexibility as the at-will approach, while also providing a layer of assurance to both employee and school that they will be together for a certain term.

Is the Contract Clear?

If you decide to give employees a contract, there are certain core terms that an employment contract should set forth in clear language on which the school and employee can rely. For instance:

- Clarify whether contracts for instructional employees are for the 10-month academic year or the 12-month calendar year. In 10-month contracts, clearly specify whether the employee's salary will be spread out over 12 months.
- Specify the actual start and end dates, as opposed to the "2016–2017 academic year."
- Describe the salary as the "annualized salary of x" or "x dollars per pay period" to avoid a claim that the school owes the salary for the whole year even though the individual only worked for part of the term.
- If the contract is for a non-exempt position, describe compensation in terms of the "regular hourly rate of pay."
- State that there is no guarantee of future employment at the end of the current contract year.
- Include a general summary of leave and other benefits available to employees, with a reference to more detailed information in the employee handbook and/or plan documents.

What If the Relationship Doesn't Work Out?

Schools should always consider the possibility that they may need to end an employment relationship at some point, possibly even in the middle of the year. Employment contracts



Are trends in enrollment contracts bellwethers for changes in employment contracts? Growing numbers of some schools are implementing electronic employment contracts to ease the administrative burden of the paper process. Others are moving toward "evergreen" faculty contracts that automatically renew unless either party ends the relationship (See the November/December 2015 *Net Assets* for a look at similar trends affecting the automatic renewal of enrollment contracts.)

should include various reasons for early termination. These include but are not limited to:

- reduction in force
- reorganization
- low enrollment
- cancellation of programs
- *force majeure* (i.e., natural disaster, act of terror, etc.)
- "for cause," which should be defined as violations of a school policy or procedure, failure to meet performance standards and expectations, or actions that are not consistent with the school's mission and philosophy.

While it is not possible to list every situation that would give rise to early termination, this language, along with a reference to the school's employee handbook policies, should provide schools with flexibility to manage employees.

Your contracts should also describe what happens to pay and benefits

when employment ends. For example, it is reasonable to state that "All compensation and benefits will end effective the last day worked by the employee." However, consider whether tuition remission, housing or other benefits would actually end on the last day of employment, and ensure that the language is consistent with your actual practice.

Does the Contract Protect the School?

Include a confidentiality clause in your employment contracts or letters. In this, the employee agrees that any private information gained as a result of employment at the school will remain confidential. Such information includes private information about students, parents and fellow employees.

Any employment document is also a good place to spell out an agreement that any intellectual property, such as curriculum, programs or other work produced through employment at the school belongs to the school. ■



Grace Lee is NBOA's vice president, legal affairs, and an independent school law attorney who has represented independent schools in various employment and related matters. Contact her at grace.lee@nboa.org.

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Ich Kann Deutsch, Y'all

BY JOHN WATKINS, SAN ANTONIO ACADEMY

My hobbies outside of work include colloquial conversational German. I have family and friends in Germany and Austria, and I enjoy the intricacies of this highly inflective language.

For me, speaking German is a mental exercise that keeps my brain active and keeps me on my toes. You have to focus on gender, case and verb conjugation. I'm often amused by German idioms, which can be quite humorous when translated into English. For example, when Germans use the idiomatic phrase for "keeping a secret," they say "*mit etwas hinter dem Berg halten*," which literally translates to "hide with something behind the mountain." Similarly, the German equivalent of "to resolve to mend one's ways" is "*einen moralischen Katenjammer haben*," which translates literally to "have a moral hangover."

My interest in the language took root when I was a child, as I grew up with my grandparents whose own parents had migrated to Texas from Germany. They lived in a German community, had German birth certificates and marriage

certificates alike, and made a practice of speaking German in the home. Later, I married an Austrian girl, and we sometimes spoke (and still do) to each other in German, including those times when we didn't want our young daughter to know what we're saying. Of course, that doesn't work now as she also developed a love of languages.

Learning and speaking this fascinating language is a nice counterpart to my work of studying numbers, which I've been doing essentially since I became a CPA. I've worked in companies ranging from an international accounting firm to real estate development to products distribution to, since 1997, independent schools. Here in San Antonio, one way I've stayed close to German is through the Beethoven Maennerchor, a 149-year-old nonprofit cultural organization whose purpose is to preserve German song, music and language. A few years ago, I began taking a class through the organization on colloquial German. It lasts for two hours on Tuesday evenings, which is also "member night," featuring German beverages and



conversation, along with choir practice for the *maennerchor* (men's choir) and *damenchor* (women's choir).

I also stay connected to the language through several other cultural organizations. I'm a member of the Vienna opera company, the *Wiener Staatsoper*, and stream some of their broadcasts. I subscribe to *Das Fenster* magazine ("the German language magazine in America"). I am also a member of the Texas German Heritage Society in Austin.

When possible, my wife and I travel to Germany and Austria (she is a doctor, so it's difficult for us to find the time). We especially love the Vienna Christmas markets. Vienna is wonderful—very different in many ways from San Antonio, but in other ways it isn't. Wherever we travel in the world, we find that individual people we meet are basically the same. We enjoy feeling at home in just about in any country, and speaking the language helps quite a bit. ■



John Watkins on recent visits to Germany: at top, with his daughter at the Schoenbrunn Palace, and, at bottom, at a hunting cabin outside of Vienna.

John Watkins is chief financial officer of San Antonio Academy, a day school serving boys in preschool through 8th grade in San Antonio, Texas. He has been at the school since 1997.

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