

## CODE E14

Originated with Finance Committee  
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## FINANCIAL STRUCTURE OF THETFORD ACADEMY

It is the policy of the Trustees of Thetford Academy to maintain a strong financial structure for the Academy.

The benefits of a strong financial position include:

1. Having the ability to sustain operations during periods of financial operating deficits.
2. Maintaining flexibility to make expenditures on operations that were not anticipated during the budget process.
3. Having resources available to repair or replace unanticipated problems that arise in buildings and equipment.
4. Having the resources available to maintain or replace plant and equipment, on a regular schedule so that they remain in a condition that is functional and adequate for current program needs.
5. Maintaining a good credit rating, which will insure the ability to borrow funds both from our local banks and with national credit markets for larger projects.
6. Maintaining a consistency of revenue requirements to help prevent large swings in the tuition rate.

### Report on Financial Position

The Business Manager will review the audited financial statements each year and prepare a report to the Finance Committee. The report will detail the operating fund position relative to the target levels of the ratios and measurements detailed below. The report should show progress the fund has made towards the goals in past years and suggestions for any corrective future action necessary to bring the measurements into compliance. The report will also detail other areas of concern raised by the annual financial statements that need to be addressed in order for Thetford Academy to maintain a strong and flexible financial position.

### Operating Fund Financial Measurements

The operating fund is composed of the assets and liabilities used to run Thetford Academy on a day-to-day basis; therefore this fund is most reflective of the financial position of the school. The restricted and unrestricted endowment funds are governed by the investment policy. Other funds have been set up to track operations of specific, narrower segments of Thetford Academy operations. In the operating fund the measures for financial position will include, but not necessarily be limited to: the unrestricted fund balance, the ratio of current assets to current liabilities, board designated reserves, and liabilities both long term and short term.

## **Targets for Financial Position**

Unrestricted Fund Balance - The target for the unrestricted fund balance (the difference between all assets and liabilities less board-designated reserves) should be between 15% and 20% of the following year's operating budget. Unless Trustees approve a different allocation plan, operating surpluses, which arise from income exceeding expectations and/or expenses being lower than anticipated, will be added to the unrestricted fund balance. Further, since approximately one-third of the fiscal year elapses before the first installment of tuition revenue is collected, it will also be used to reduce the need for short-term borrowing to finance this period of operations.

Current Assets/Current Liabilities - The target for this ratio should be 2:1 as of the end of the fiscal year. Two dollars of current assets (cash, prepaid expenses, grants receivable) for every one-dollar of current liabilities (accounts payable, salaries, benefits and tax withholding payable) should ensure adequate levels of assets to pay outstanding bills due over the summer and early fall before tuition is collected.

Board Designated Reserves – The Board of Trustees may from time to time direct that a portion of the unrestricted fund balance be set aside for a specific future use. This may be funded by a one-time transfer or by a series of provisions over several annual budgets. The annual review should include a determination of the status of these accounts and whether they have been funded in accordance with Board directives and if the funding plan is still a sound one based on new information that may have become available.

Liabilities – Short - term liabilities (payable within one year) should be reviewed and compared to the prior year to determine if they are increasing and if so why. Long-term liabilities in excess of \$50,000 are only created with a vote of the full Board of Trustees for major asset renovation or construction. Annual principal and interest payments on long term borrowing together with interest expense on short-term borrowings should not exceed 10% - 14% of operating expenses.

### **Annual Corrective Action**

If the annual review determines that any of the measurement areas are not within the prescribed targets, either in a negative or positive status, corrective action will need to be considered. The Business Manager, Finance Committee and Board of Trustees will include in the next year's budget steps to implement a plan that brings the financial position back within the desired targets.

### **Interim Corrective Action**

The primary financial plan during the year is the budget approved by the Board of Trustees. During the budget year the Business Manager will monitor actual financial results and compare them to the budget and project the final operating surplus or deficit for the year. If the projected surplus or deficit is greater than 4% of operating revenues the Business Manager will report to the Finance Committee with a suggested plan for reducing a deficit or allocating a surplus. The design of the plan will be guided by financial measurements described above. After review and approval or modification by

the Finance Committee the plan will be referred to the Executive Committee and Board of Trustees for final approval.