

Defining your Dollars

Building the Proper Reserves from Within



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Presentation Agenda

Building the Proper Reserves from Within

- Why do independent schools need financial reserves?
- Where are a school's reserves and how are they defined?
- What level of reserves is appropriate?
- Where are a school's reserves and how should they be managed?
- What strategies exist for developing, growing, and managing reserves?

Resources

- Case Studies
- NBOA, ACIS, NAIS
- Rating Agency Medians
- Third-Party Professionals
- Your Business Office Peers!

Berkshire Hathaway Cash Reserves

Coincidence?

Warren Buffett Sends Investors a \$344 Billion Warning. History Says the Stock Market Will Do This Next.

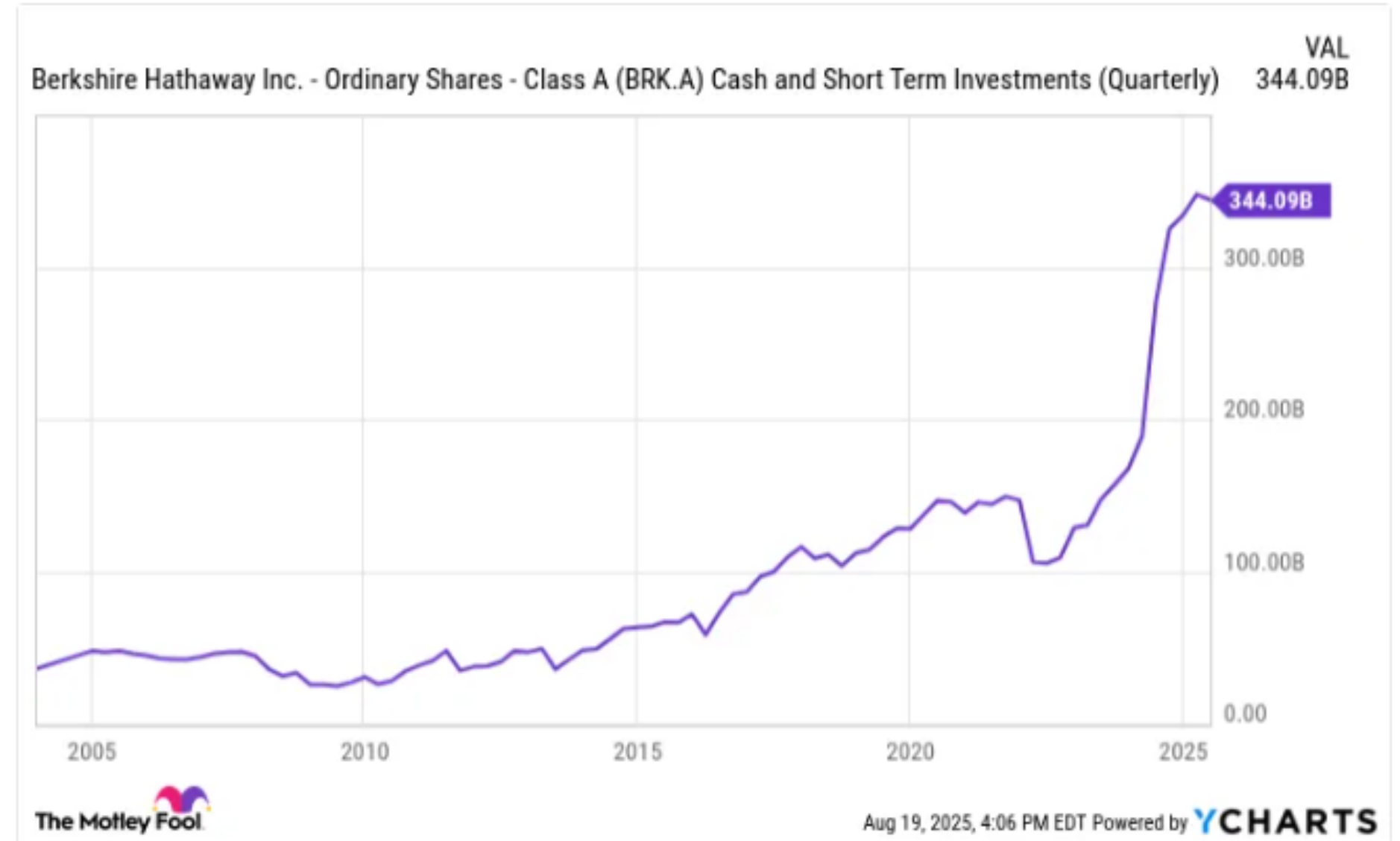
Keith Speights, The Motley Fool
August 24, 2025 • 5 min read



Buffett's \$344 billion warning

If you really want to know what Buffett thinks about the shape of the stock market, look at **Berkshire Hathaway's** (NYSE: BRK.A) (NYSE: BRK.B) cash position. The more bullish Buffett is, the less cash the conglomerate will have -- because he's spending money buying stocks hand over fist. On the other hand, when Buffett isn't so bullish, Berkshire's cash stockpile will grow.

What's the status of Berkshire's cash position now? At the end of the second quarter of 2025, the company had cash, cash equivalents, and short-term investments in [U.S. Treasury bills](#) totaling \$344 billion. That's the second-largest cash hoard in Berkshire Hathaway's history, lagging only \$3.6 billion behind the company's cash position at the end of the first quarter of 2025.



BRK.A Cash and Short Term Investments (Quarterly) data by YCharts

Why Do Schools Need Reserves?

It's Obvious, Right?

Most Obvious

- 
- Provide a “rainy day” fund
 - Prepare for unforeseen circumstances
 - Invest and reinvest in physical plant
 - Seize key strategic opportunities
 - Grow liquid balance sheet resources
 - Better access debt financing markets
 - Diversify revenue sources and reduce tuition dependence

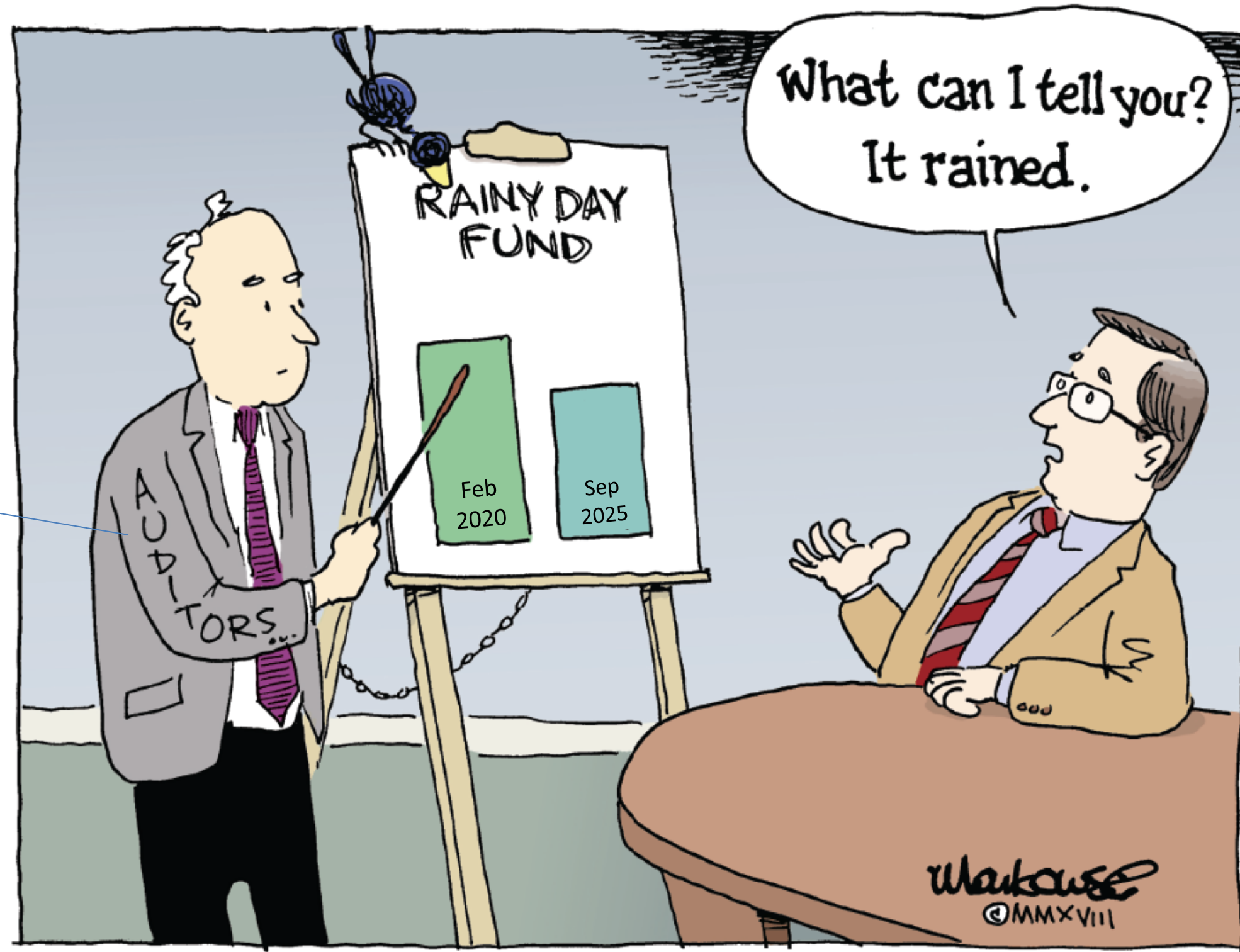
Least Obvious

Common Fallacies of Reserve Fund Building

- We're a non-profit, we should charge what it costs to deliver our program
- Having reserves hinders fundraising
- You can't fundraise for reserves
- We're too young to have reserves
- Too many reserves might jeopardize our 501(c)(3) status
- We should always avoid debt and use reserves to fund capital projects

Why Do Schools Need Reserves?

Or Lenders!



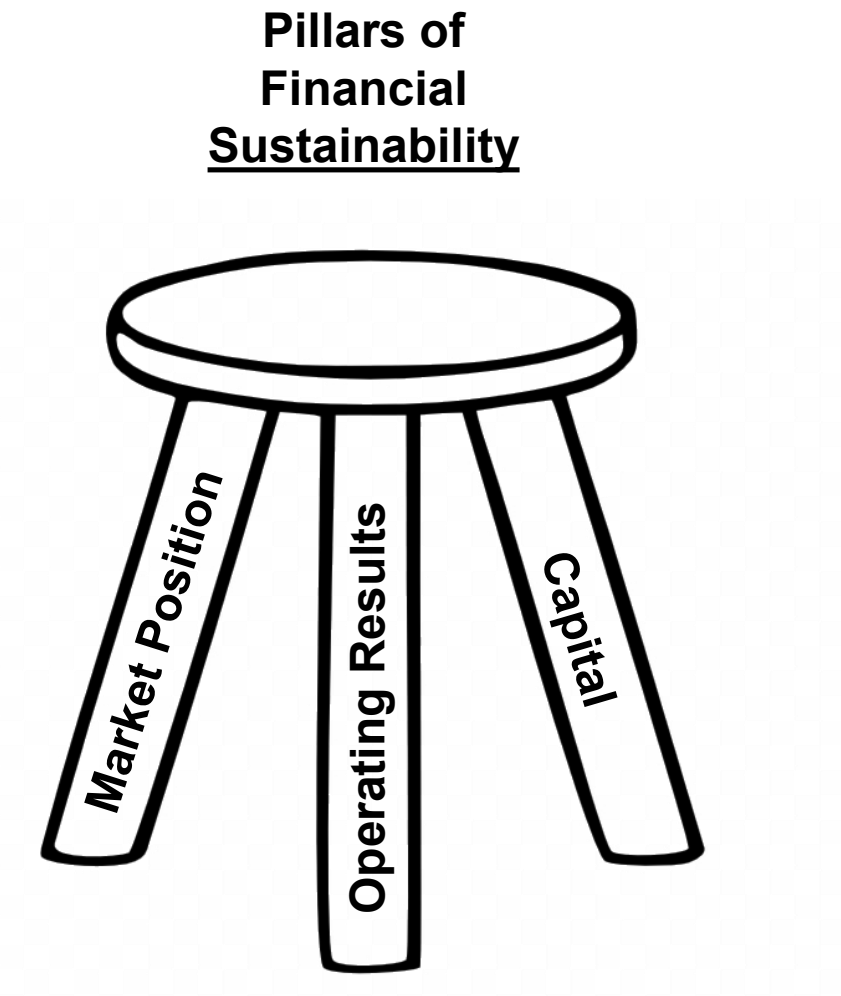
No Margin, No Mission

Schools who cannot operate with a positive margin will be unable to sustain their mission

- Establishing, maintaining and growing reserves is a key tenet of independent school financial sustainability and prudent governance.

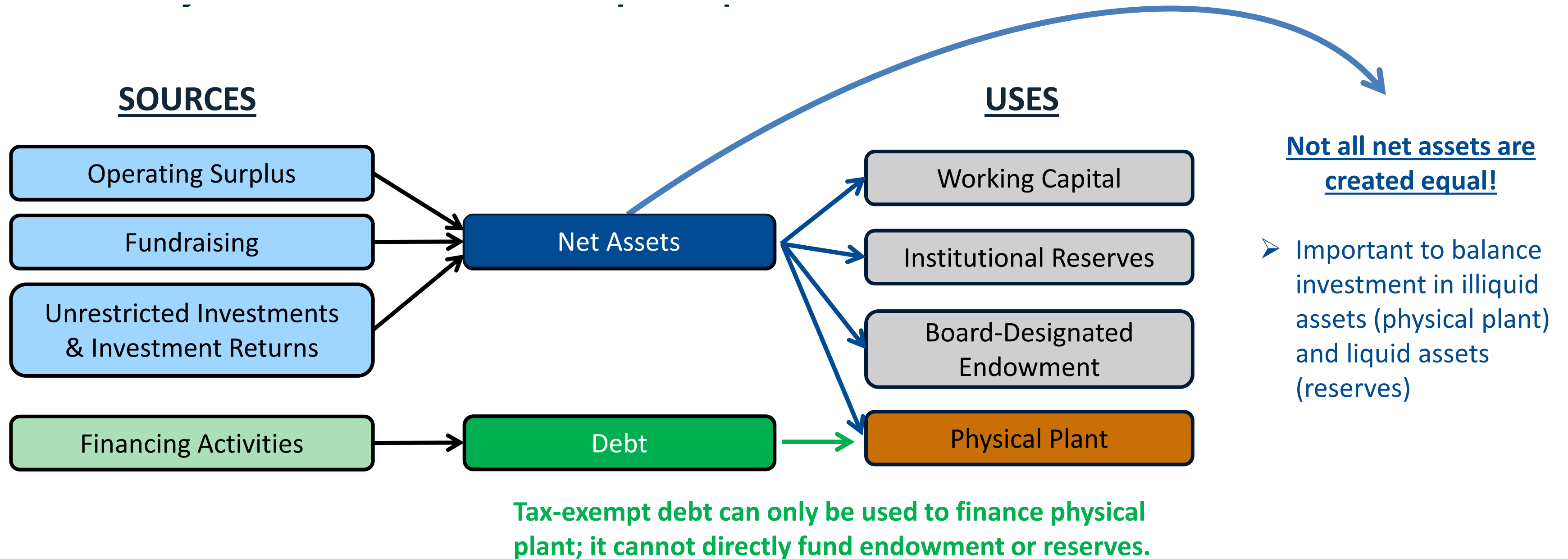
How so?

- Sustainability Criteria #1: **Established, Defensible Market Position**
 - *Reserves allow for key strategic investments*
- Sustainability Criteria #2: **Disciplined, Consistent Operating Results**
 - *Reserves help support “regular” operations in highly “irregular” times*
- Sustainability Criteria #3: **Ongoing, Consistent Access to Affordable Capital**
 - *Reserves dramatically improve a school’s overall credit profile and ability to secure third-party financing*



Defining Reserves

What are your school's sources of capital?



Defining Reserves

Operating Cash vs. Operating “Reserve”

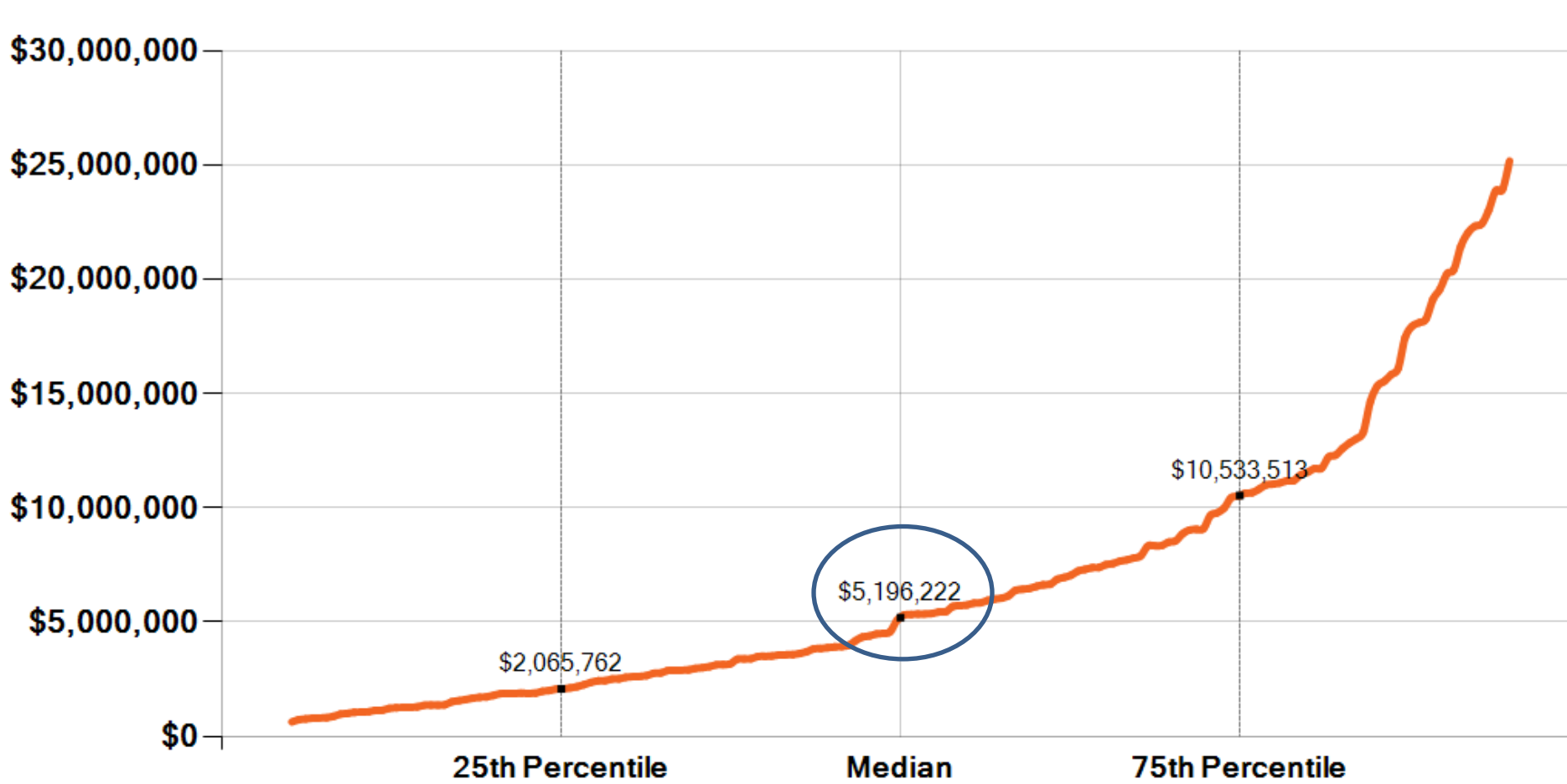
- Is your school’s “operating reserve” in a separate account from general operating cash or working capital? What defines or separates the two?
- What is your school’s minimum cash balance throughout the year?
- Does your school rely on a working capital line of credit?
- At June 30, does your school have cash in excess of deferred revenue?
- Restricted endowment is not a reserve!

Given the tuition collection cycle for independent schools, minimum cash balance does not always equal “reserve fund” balance

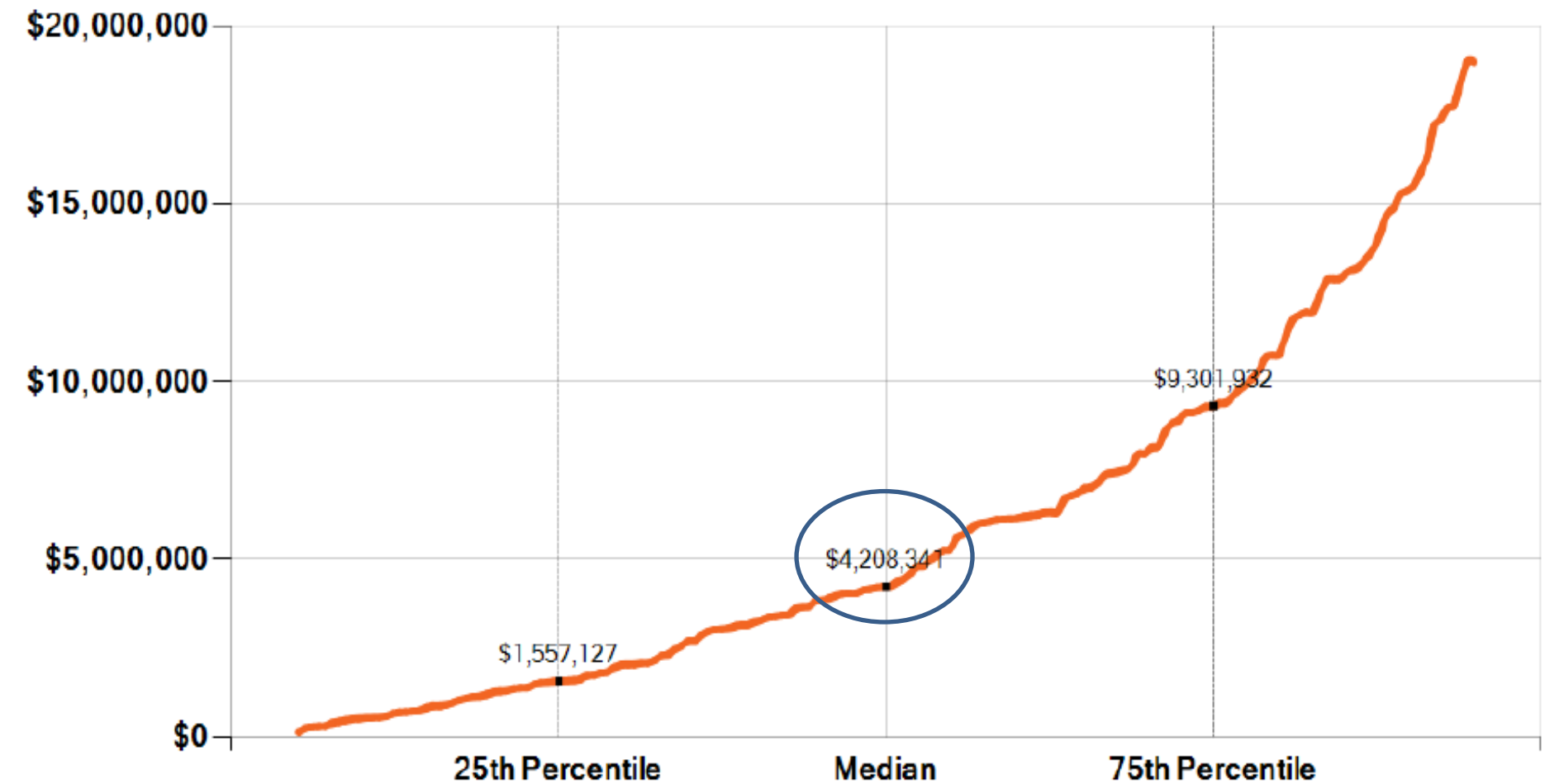
Defining Reserves

Operating Cash & Deferred Tuition Revenue

Cash & Equivalents



Deferred Tuition & Fees



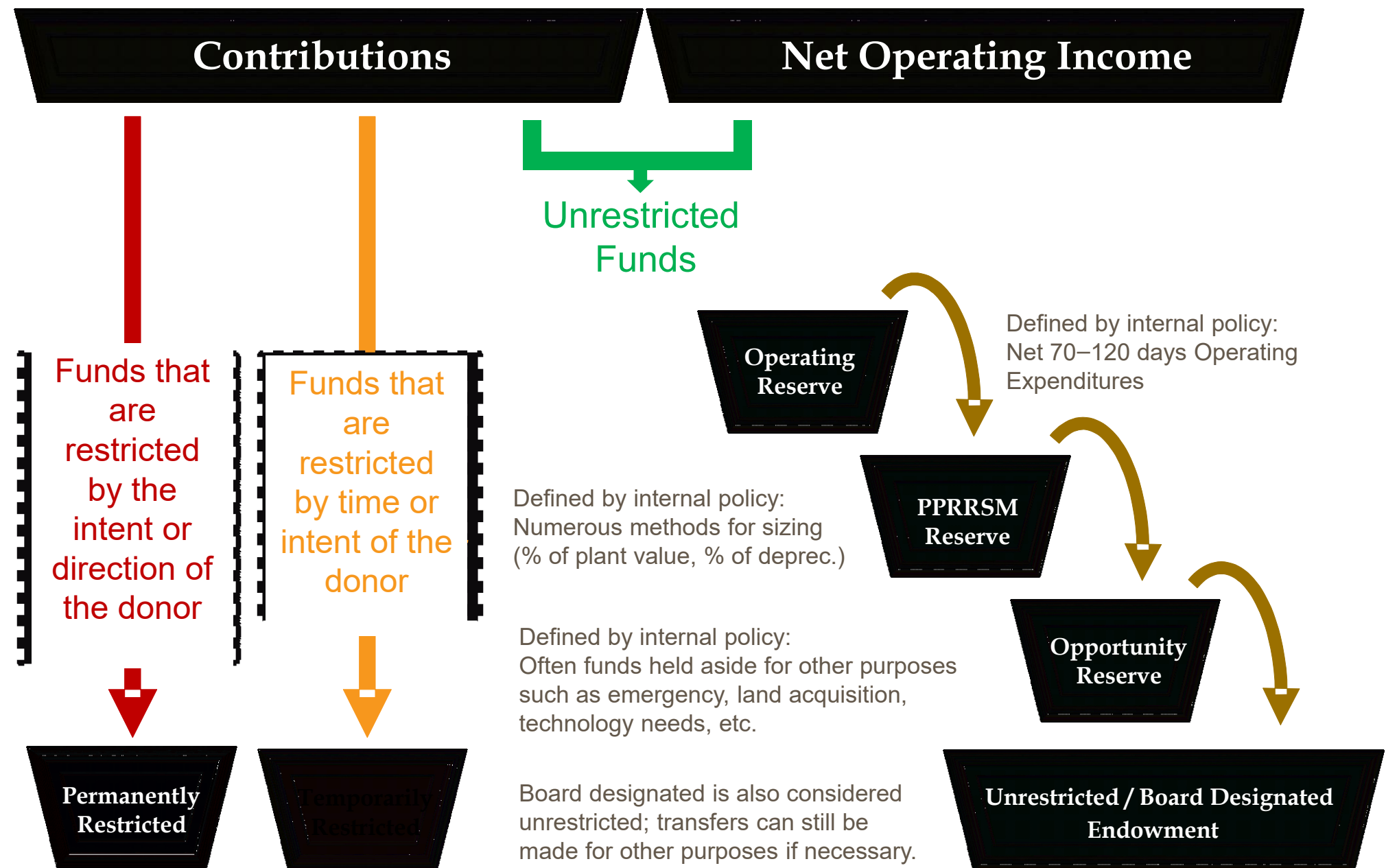
Sample Data from 200+ California Independent Schools suggests median independent school cash reserves of less than \$1.0 million

Defining Reserves

What are your school's reserve funding priorities?

How does a school begin building?

- Operating Reserve: The starting place for most schools
- PPRRSM Reserve: Avoiding deferred maintenance and investing in the School's physical plant
- Opportunity Reserve: A pool of funds available to be deployed quickly
- Board-Designated Endowment: Long-term assets that support operations via a spending policy



Measuring Reserves

Budgeting for Plant Maintenance

PROVIDED BY	METHODOLOGY	CA AMOUNT
ISM	3 - 5% of plant replacement value	\$ 5,250,000
NBOA	3% of plant replacement value	\$ 3,150,000
SAIS	One-time annual depreciation	\$ 2,961,333
Building Solutions	1.5 – 2.5% of replacement value per year	\$ 2,625,000
Facility Condition Assessment (FCA)	20-yr average of expected annual replacement costs	\$ 1,650,000
Sample School Board Policy	2% of plant net book value	\$ 1,411,321

Of these budgeted amounts, how much should be spent vs. how much deposited into reserves?

Measuring Reserves

Rating Agencies, DASL and Other Sources

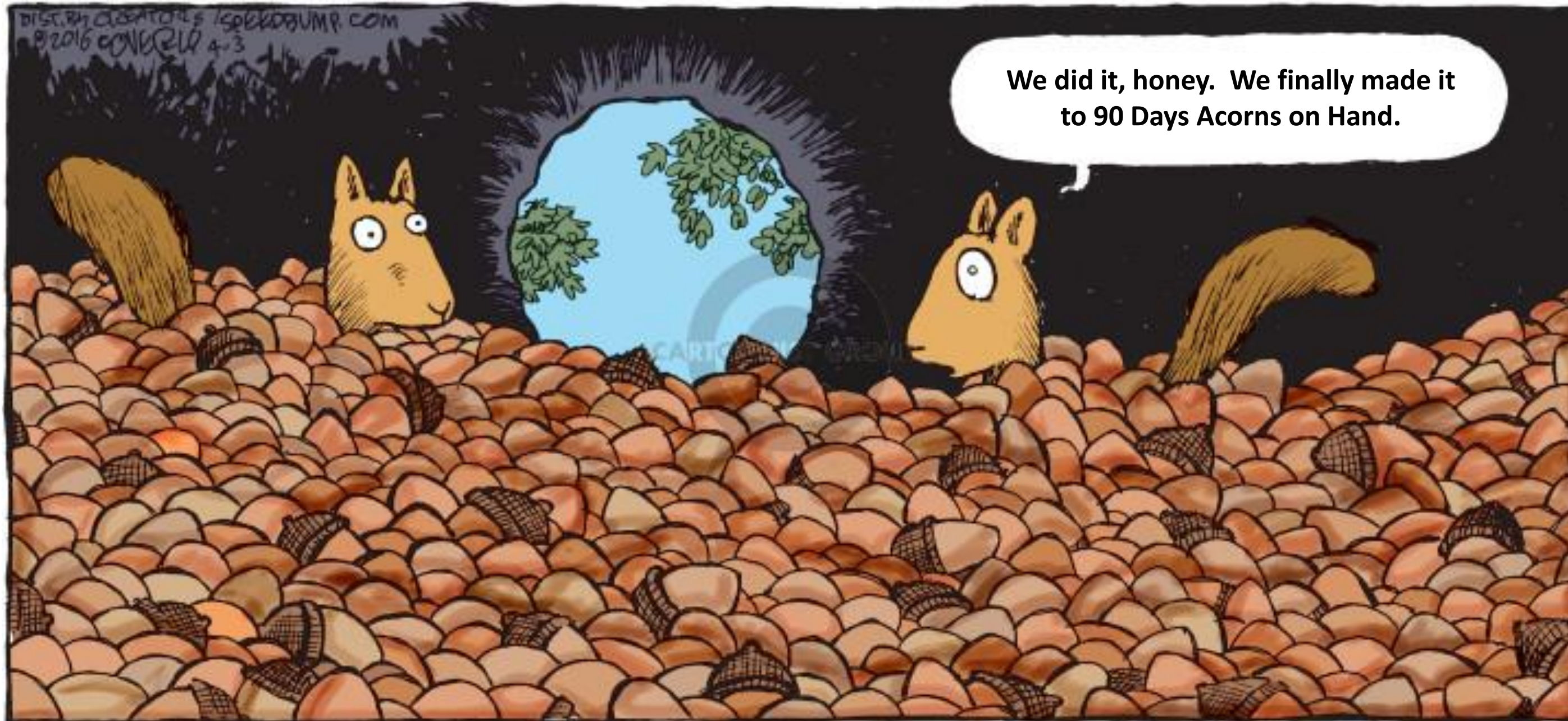
	S&P Medians "AAA" Category	S&P Medians "AA" Category	S&P Medians "A" Category	S&P Medians "BBB" Category	S&P Medians "BB" Category
KEY FINANCIAL STATISTICS					
Total Direct Debt	\$110,000	\$40,288	\$22,475	\$31,099	\$46,210
% Change vs. Lower Rating Category	173.0%	79.3%	-27.7%	-32.7%	N/A
Endowment Market Value	\$919,215	\$242,663	\$92,246	\$28,586	\$2,524
% Change vs. Lower Rating Category	278.8%	163.1%	222.7%	1032.6%	N/A
Cash + Investments / Debt	10.84x	7.72x	5.01x	1.88x	0.66x
Cash + Investments / Operations	9.95x	5.62x	2.63x	1.34x	0.89x
REVENUE DIVERSITY					
Tuition Dependence	45.3%	60.7%	74.4%	83.1%	84.9%
Investment and Endowment Income	41.8%	19.4%	7.7%	4.3%	2.8%
Private Gifts	9.1%	7.6%	5.7%	3.1%	3.9%
DEMAND STATISTICS					
Enrollment	654	532	665	1,237	478
Selectivity Rate	14.9%	20.3%	39.4%	52.4%	62.8%
Matriculation Rate	67.3%	67.8%	63.7%	61.5%	56.9%

Where Should We Start?

- 60 to 180 days of operating expenses (20%-50%)
- ISM: 75 days
- An operating reserve fund is the most frequent starting place for independent schools

Measuring Reserves

Different Methodologies for Measuring Reserves



How do we measure reserves?

- Days Cash on Hand ($\text{Cash OpEx}/365$)
- Liquidity Relative to Debt
- Liquidity Relative to Operating Expenses
- PPRRSM Reserves Relative to Net Plant Value
- PPRRSM Reserves Relative to Replacement Value

Building Reserves

Where do independent schools start?

- Start a conversation (Head of School, Fin Comm Chair, etc.)
- Name them
 - PPRRSM
 - Debt Service
 - Operating
 - Strategic (technology, expansion)
- Determine priority to your institution
- Establish policies around them
 - Minimum and targeted levels
 - Investment objectives
 - Use
 - Measure and report
 - Replenishment
- Budget for them
 - Have the conversation
 - Encourage Board to fund them
 - Educate and build constituents

Building Reserves

...Amidst never-ending budgetary demands

- Retain cash-based operating surpluses
- Fundraising to Board-designated reserves
- Leverage a fundraising campaign, using debt to fund a project and retaining a portion of the fundraising on the balance sheet to serve as reserves/liquidity
- Transformational gifts or bequests

Tangible Strategies

- 1) Budget for depreciation
- 2) Budget pre-determined deposits to reserves
- 3) Budget for a conservative level of enrollment
- 4) Over-budget for controllable expense categories
- 5) Make endowment a portion of every future capital campaign
- 6) Return to closely connected donors to “unrestrict” funds

Many schools start by budgeting for a portion of depreciation

The amount budgeted for depreciation allows for:

- 1) Opportunity to achieve a GAAP-based surplus
- 2) Reinvest in the School's physical plant
- 3) Avoid deferred maintenance
- 4) Flexibility to balance illiquid plant investment with liquid reserve investment

Building Reserves

Reserves play a role no matter your school's financial position

- Young schools: Work towards 90 Days Cash on Hand as an operating reserve. Once established, discuss/determine next reserve funding priority.
- Growing schools: With a well-established operating reserve, additional reserve funding can provide significant optionality as the school continues to grow and implements its strategic plan.
- Mature schools: Well-funded with sizeable endowments, but a focus on growing Board-Designated endowment funds to support ever-growing human capital needs, demand for financial aid, and to continue to reduce reliance on student tuition and fee revenue.

Stifel's experience with highly rated, highly endowed independent schools is a keen focus on growing liquid balance sheet resources.

Moody's and Standard & Poor's have cited liquid balance sheet resources as one of the most significant determinants of a credit rating outcome.

In the current market, lenders are actively seeking partnerships with schools who can demonstrate strong liquidity/reserves.

Managing Reserves

Balance Risk vs. Return based on the Purpose and Time Horizon of Reserves

Operating Reserve

- Highly liquid, short-term funds. Money market fund or a sweep from the general operating account.

PPRRSM Reserve

- Investment vehicle typically designed to match time horizon. Many schools may be planning for a major capital project or master plan, and the timing of future cash needs often dictates the investment strategy.

Opportunity Reserve

- Highly variable among schools. Strategies range from conservative, highly liquid investments to investing these funds in a diversified portfolio of long-term assets.

Board-Designated Endowment

- Diversified, Long-Term “Buy and Hold” Portfolio. Designed to provide a long-range rate of return that provides a predictable stream of income while also increasing the purchasing power of the investment portfolio.

A Holistic Approach

An Objective, Quantitative Model Helps Build Consensus

- Capital Budget
- Fundraising
- Operating Budget Assumptions
- Enrollment
- Reserves and Endowment

