

# Capital Budgeting For Education

*A Small Business CFO Case Study*

## COMPANY

Sunny Days School is a private, nonprofit elementary school for gifted children.

## BACKGROUND

The school owns its building and equipment, but had not budgeted for maintenance, repairs, or replacement costs. The board wanted to establish a reserve fund, and needed to know how much the annual contribution to the fund should be.

## SBCFO'S ROLE

- ☑ **Established which items qualified for future maintenance, repairs, or replacement.**
  - Took inventory of furniture, teaching aids, and other capitalized equipment.
  - Identified building systems, such as air conditioning, fire alarm and suppression, and security.
  - Listed building areas that would need future repairs.
  
- ☑ **Calculated future cost of qualified items.**
  - Researched current costs by going to purchase records and supply catalogs.
  - Estimated the inflation rate from historical rates and by consulting with equipment experts.
  - Obtained expected life of qualified items from users or the building architect.
  
- ☑ **Calculated the required annual contribution to the property, plant, and equipment fund.**
  - Determined the annual contribution (annuity) needed for individual items using future cost, expected life, and expected investment return.
  - Totaled the individual annuities to arrive at an annual figure.
  
- ☑ **Performed a sensitivity analysis.**

Calculated the required change to the annuity, should parameters change such as inflation, life expectancy, or low investment returns.



Sunny Days School

### **Business Need**

To establish a formal annual budget and reserve for maintaining school building and equipment.

### **Solution**

Identified equipment, determined annual maintenance and future replacement costs, and used discounted cash flow techniques to determine the annual budget.

### **Results**

The school board was able to create a budget and reuse templates in the future as the school grows.



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(Continued)

## BENEFITS

☑ **Complete inventory was provided.**

The board and administration had property and inventory information in one place.

☑ **Fiscal preparedness.**

The primary aim of the effort, knowing what should be set aside for the future, had been achieved.

☑ **Easy to replicate the exercise in the future.**

The report and spreadsheet templates were provided to the client so that the time and effort of repeating the work would be significantly reduced.

☑ **Risk mitigated.**

- The primary risk of not having funds ready for repairs or replacement had been met.
- The sensitivity analysis provided the administration with a better understanding of what the impact would be of negative factors such as increased inflation or premature equipment failure.

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*With your budgeting and financial analysis tools, the board can effectively budget for the maintenance and replacement of school equipment.*

”

- Sunny Days  
business administrator



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