



Charter Finance 210

A Guide to Financial Oversight for Board Members


Agenda

- I. Primary Board Responsibilities
- II. Reviewing Financial Packages – Test Case

I. PRIMARY BOARD RESPONSIBILITIES

School Board's have a lot to do, these are the most critical.

Primary Board Responsibilities

1. **Determine the organization's mission and purpose.** It is the board's responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.
2. **Select the chief executive and assess his/her performance.** Boards must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
-  3. **Provide proper financial oversight.** The board must assist in developing the annual budget and ensuring that proper financial controls are in place.
4. **Ensure legal and ethical integrity and maintain accountability.** The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.
5. **Enhance the organization's public standing.** The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.

II. REVIEWING A FINANCIAL STATEMENT PACKAGE

What you should be looking for and when to ask questions.

Financial Package Elements

The financial statement package provided on a monthly basis is intended to give both a retrospective and prospective view of the organization's financial condition. The possible elements included in the monthly package include:

- *Executive Summary*
- *Monthly Cash Flow/Forecast*
- *Budget vs. Actual*
- *Statement of Financial Position*
- *Statement of Cash Flows*
- *AP Aging*
- *Monthly Check Register*



Enrollment

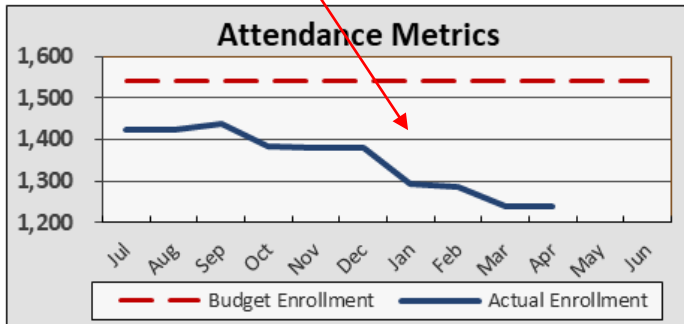
Enrollment, and attendance in some cases, is the main driver of school revenue. Good financial oversight must start with understanding enrollment.

Do these changes match your expectations and other discussions about school operations?

Are enrolled students attending on a regular basis?

How does the actual enrollment compare to the budget?

What direction is enrollment trending?



| Enrollment & Per Pupil Data | | | |
|----------------------------------------|----------------|-----------------|---------------|
| | <u>Avg-YTD</u> | <u>Forecast</u> | <u>Budget</u> |
| Average Enrollment | 1349 | 1540 | 1540 |
| Attendance Rate | 91.7% | 95.0% | 95.0% |
| Revenue per Student | | \$12,130 | \$12,611 |
| Expenses per Student | | \$12,118 | \$12,162 |

Is the forecast updated to match the current enrollment?



Revenue

Maintaining a balanced budget means starting with the funds you have, **THEN** allocating them to meet needs.

Is it possible to estimate revenue more accurately in the future?

How does the year-to-date revenue compare to the year end forecast?

How does the change in forecasted revenue compare to the changes in enrollment?

Revenue

| | Year-to-Date | | | Annual | | |
|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|---------------------|
| | Actual | Budget | Fav/ (UnFav) | Forecast @6/30/2018 | Budget | Fav/ (UnFav) |
| Core State Funding | \$ 6,885,720 | \$ 7,782,756 | \$ (897,036) | \$ 15,930,925 | \$ 15,791,793 | \$ 139,132 |
| Federal Revenue | 748,321 | 430,572 | 317,749 | 1,106,198 | 1,125,157 | (18,958) |
| Other State Revenue | 798,732 | 1,071,633 | (272,901) | 1,522,725 | 2,262,346 | (739,621) |
| Other Local Revenue | 75,218 | 209,824 | (134,605) | 120,666 | 241,062 | (120,396) |
| Total Revenue | \$ 8,507,991 | \$ 9,494,784 | \$ (986,793) | \$ 18,680,514 | \$ 19,420,358 | \$ (739,844) |

Do delays in funding require more collection activities?

Are particular revenue sources changing from the budget?



Expenses

Properly allocating spending requires understanding the difference between “wants” and “needs” and adjusting based on available resources.

Does the school spending mirror it's priorities?

Are there any significant changes from the budget?

Expenses

| | Year-to-Date | | | Annual | | |
|-----------------------|----------------------|----------------------|-------------------|----------------------|----------------------|------------------|
| | Actual | Budget | Fav/ (UnFav) | Forecast @6/30/2018 | Budget | Fav/ (UnFav) |
| Certificated Salaries | \$ 3,055,224 | \$ 3,734,807 | \$ 679,583 | \$ 4,761,632 | \$ 5,617,037 | \$ 855,405 |
| Classified Salaries | 2,090,993 | 1,619,447 | (471,546) | 3,187,712 | 2,449,669 | (738,043) |
| Benefits | 2,051,764 | 2,098,070 | 46,306 | 3,173,506 | 3,146,499 | (27,007) |
| Books and Supplies | 1,198,199 | 1,835,414 | 637,214 | 1,744,772 | 2,238,888 | 494,116 |
| Student Services | 159,850 | 314,927 | 155,078 | 259,066 | 495,000 | 235,934 |
| Professional Services | 342,938 | 371,528 | 28,589 | 725,294 | 627,918 | (97,376) |
| Facilities | 2,293,441 | 2,080,903 | (212,538) | 3,408,691 | 3,121,355 | (287,336) |
| Operations | 639,302 | 570,552 | (68,750) | 924,000 | 880,328 | (43,672) |
| Depreciation | 102,944 | 101,583 | (1,361) | 161,935 | 152,374 | (9,561) |
| Interest | 210,000 | - | (210,000) | 315,000 | - | (315,000) |
| Total Expenses | \$ 12,144,656 | \$ 12,727,231 | \$ 582,575 | \$ 18,661,607 | \$ 18,729,068 | \$ 67,461 |

Were budget overages previously discussed and approved?

Are there any surprise expenses?

If revenue is decreasing, are expenses being reduced proportionately?



Assets

Assets represent everything the school owns and everything it is owed as of a specific point in time.

Does the school have sufficient cash to meet operating needs?

| | Current Balance | Beginning Year Balance | YTD Change | YTD % Change |
|-------------------------------|---------------------|------------------------|-----------------------|--------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash & Cash Equivalents | \$ 2,269,841 | \$ 2,572,309 | \$ (302,468) | -12% |
| Accounts Receivable | - | 12,667 | (12,667) | -100% |
| Public Funding Receivables | 941,894 | 2,884,146 | (1,942,252) | -67% |
| Due To/From Related Parties | 15,000 | - | 15,000 | 100% |
| Prepaid Expenses | - | 41,834 | (41,834) | -100% |
| Total Current Assets | 3,226,735 | 5,510,956 | (2,284,221) | -41% |
| Long Term Assets | | | | |
| Property & Equipment, Net | 625,307 | 728,251 | (102,944) | -14% |
| Deposits | 10,000 | 10,000 | - | 0% |
| Total Long Term Assets | 635,307 | 738,251 | (102,944) | -14% |
| Total Assets | \$ 3,862,042 | \$ 6,249,207 | \$ (2,387,165) | -38% |

Do collection activities need to be increased?

Are there any transactions with related parties?

Is cash increasing or decreasing?

Are the school's assets liquid or tied up in permanent fixtures?



Liabilities

Liabilities represent everything the school owes to others as of a specific point in time.

Do you fully understand all of the school's obligations?

Are invoices being received on a timely basis?

Liabilities

Current Liabilities

| | Current Balance | Beginning Year Balance | YTD Change | YTD % Change |
|----------------------------------|------------------|------------------------|----------------|--------------|
| Accounts Payable | \$ 542,848 | \$ 245,330 | \$ 297,518 | 121% |
| Accrued Liabilities | 1,401,296 | 754,530 | 646,766 | 86% |
| Deferred Revenue | 18,128 | 139,303 | (121,175) | -87% |
| Total Current Liabilities | 1,962,272 | 1,139,163 | 823,109 | 72% |

Is the school maintaining cash levels by not paying bills? (check the AP Aging)

Long Term Liabilities

| | | | | |
|------------------------------------|------------------|------------------|----------------|------------|
| Deferred Rent, Net | 1,186,289 | 759,897 | 426,392 | 56% |
| Notes Payable, Net | 3,500,000 | 3,500,000 | - | 0% |
| Total Long Term Liabilities | 4,686,289 | 4,259,897 | 426,392 | 10% |

Total Liabilities

| | | | | |
|--------------------------|------------------|------------------|------------------|------------|
| Total Liabilities | 6,648,561 | 5,399,060 | 1,249,501 | 23% |
|--------------------------|------------------|------------------|------------------|------------|

Does the school have enough cash to meet current needs? (compare current assets to current liabilities)

Are there any covenants or restrictions from lenders?

| Debt Covenants | Forecast | Budget |
|----------------------------------|----------|--------|
| Days Cash On Hand (45 min) | 36.07 | 63.85 |
| Debt Service Coverage (1.20 min) | 1.01 | 1.24 |
| Fund Balance Reserve (5% min) | 4.7% | 8.2% |

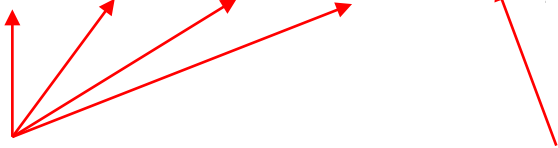
Are outstanding obligations increasing?



Accounts Payable Aging

The accounts payable aging shows all outstanding invoices that are awaiting payment and how old they are. Old invoices indicate that bills are being paid late and service could be disrupted.

| Vendor Name | Invoice/Credit Number | Invoice/Credit Date | Current | 1 - 30 Days Past Due | 31 - 60 Days Past Due | 61 - 90 Days Past Due | Over 90 Days Past Due | Total |
|-----------------------------------|-----------------------|---------------------|-------------------|----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| Vendor Name | 1 | 2/9/2019 | \$ 60 | \$ - | \$ - | \$ - | \$ - | \$ 60 |
| Vendor Name | 200326 | 8/31/2017 | - | - | - | - | 19,306 | 19,306 |
| Vendor Name | APEX051418 | 5/14/2018 | - | - | - | - | 21,704 | 21,704 |
| Vendor Name | APEX062918 | 6/29/2018 | - | - | - | - | 22,884 | 22,884 |
| Vendor Name | 2856 | 1/7/2019 | - | 2,002 | - | - | - | 2,002 |
| Vendor Name | 3878 | 2/12/2019 | 2,637 | - | - | - | - | 2,637 |
| Vendor Name | 0000062647 | 12/12/2018 | - | - | 86,715 | - | - | 86,715 |
| Vendor Name | 0000062810 | 1/7/2019 | - | 6,804 | - | - | - | 6,804 |
| Vendor Name | 1701302 | 2/15/2019 | 9,259 | - | - | - | - | 9,259 |
| Vendor Name | 1701306 | 2/15/2019 | 8,409 | - | - | - | - | 8,409 |
| Vendor Name | 110044322-0 | 11/9/2018 | - | - | - | 46,347 | - | 46,347 |
| Vendor Name | 112220575-0 | 1/9/2019 | - | 33,910 | - | - | - | 33,910 |
| Vendor Name | 69148021 | 12/26/2018 | - | - | 4,382 | - | - | 4,382 |
| Total Outstanding Invoices | | | \$ 108,245 | \$ 100,694 | \$ 96,831 | \$ 56,120 | \$ 180,958 | \$ 542,848 |
| | | | 20% | 19% | 18% | 10% | 33% | |



Are vendor relationships being strained?

Are invoices being paid a timely basis?

Is the AP Aging complete?
(The total should match the AP balance on the Statement of Financial Position)



Fund Balance

Also known as “Net Assets” The Fund Balance represents “net worth” of the school. It consists of all the accumulated surpluses and deficits going back to the date the organization was first created.

| Debt Covenants | Forecast | Budget |
|----------------------------------|----------|--------|
| Days Cash On Hand (45 min) | 36.07 | 63.85 |
| Debt Service Coverage (1.20 min) | 1.01 | 1.24 |
| Fund Balance Reserve (5% min) | 4.7% | 8.2% |

Are debt covenant minimums being met?

Is the budget balanced?

Total Surplus(Deficit)

Beginning Fund Balance

Ending Fund Balance

As a % of Annual Expenses

| Year-to-Date | | |
|------------------------------|------------------------------|--------------|
| Actual | Budget | Fav/ (UnFav) |
| \$ (3,636,665) | \$ (3,232,447) | \$ (404,219) |
| <u>850,147</u> | <u>850,147</u> | |
| <u>\$ (2,786,518)</u> | <u>\$ (2,382,300)</u> | |
| -14.9% | -12.7% | |

| Annual | | |
|--------------------------|----------------------------|--------------|
| Forecast @6/30/2018 | Budget | Fav/ (UnFav) |
| \$ 18,907 | \$ 691,290 | \$ (672,383) |
| <u>850,147</u> | <u>850,147</u> | |
| <u>\$ 869,054</u> | <u>\$ 1,541,437</u> | |
| 4.7% | 8.2% | |

If the school sold all its assets, collected its receivables and paid off all its liabilities, the Fund Balance is what would be left over.

Are there significant timing differences between when expenses are incurred and revenue received?

Are there minimum “reserves” required by the authorizer or state?

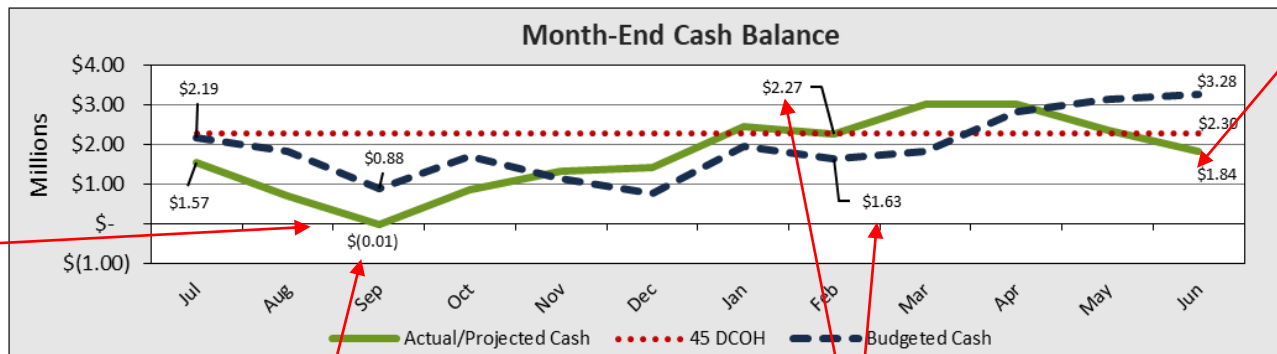


Cash Flow Forecast

There are often significant difference between the time that revenue is received, and bills need to be paid. In addition to maintaining a balanced budget, the school should monitor its expected cash balances throughout the year.

Should be Board set a minimum cash reserve to prepare for the unknown?

| Debt Covenants | Forecast | Budget |
|----------------------------------|----------|--------|
| Days Cash On Hand (45 min) | 36.07 | 63.85 |
| Debt Service Coverage (1.20 min) | 1.01 | 1.24 |
| Fund Balance Reserve (5% min) | 4.7% | 8.2% |



Are there any cash shortfalls during the year?

Are debt covenant being met?

*Will any loans be needed ?
(And what options does the school have?)*

Is the actual cash balance consistent with the budget?

CHARTER IMPACT

Empowering charter schools and non-profits with
financial management and operational support.

OFFICE:

888.474.0322

info@charterimpact.com

8500 BALBOA BLVD., SUITE 140
NORTHRIDGE, CA 91325

WWW.CHARTERIMPACT.COM