



# Magnolia Public Schools

## Board Member Training: Charter School Finance



Business and Development Specialists  
for Charter Schools

2017

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# Charter School Finance Primer

## Agenda



- Introduction
- Charter School Finance Overview
  - Public funding (LCFF): What, when, from where
  - OP budget overview
    - Revenue breakdown
    - Expense breakdown
- Monthly Financial Statements

# Public funding: How is it determined?

## Local Control Funding Formula and Key Drivers



- Local Control Funding Formula (LCFF) is the system that determines rate of a school's general purpose funding
- LCFF is calculated based on four components
  - **Base rates** – same for all schools
  - **Grade span bonus** – 10% for gr. K-3
  - **“Unduplicated Count”** – number of low-income, English Language Learner, or foster students (with no student counted twice, i.e., duplicated)
    - 20% for all unduplicated students
    - 50% if a school has a high concentration
- Once rate is set, key driver is **Average Daily Attendance (ADA)** – how many students are attending school every day

**OP LCFF Rate =  
\$9,001 / ADA**

1

Base Rates,  
COLA adj.

2

Grade Span  
“bonus”

3

20% Supp for  
Unduplicated

4

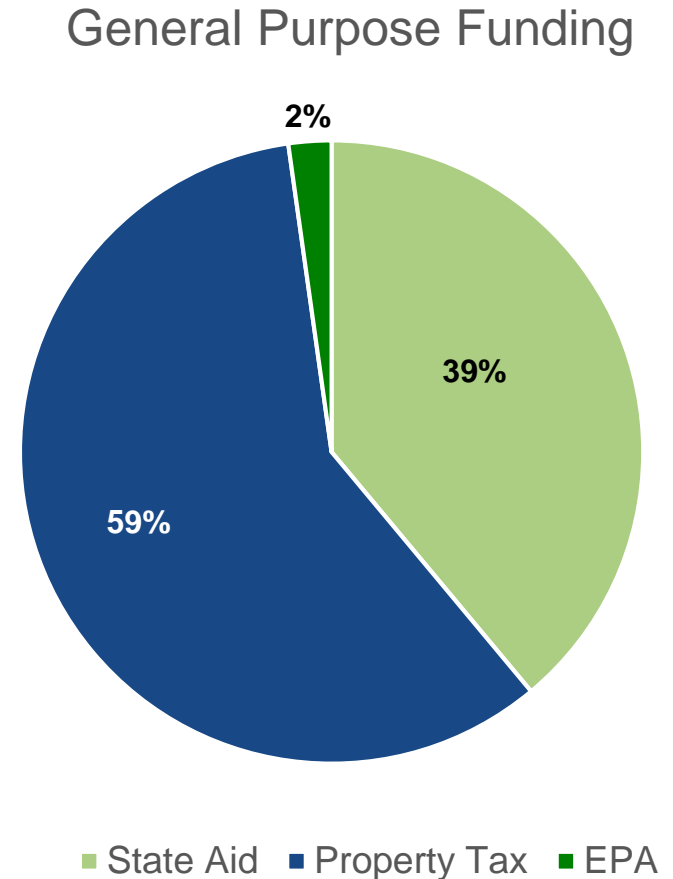
50%  
Concentration  
for 55%+  
Unduplicated

# Public funding: Where does it come from?

LCFF funds come from three different sources

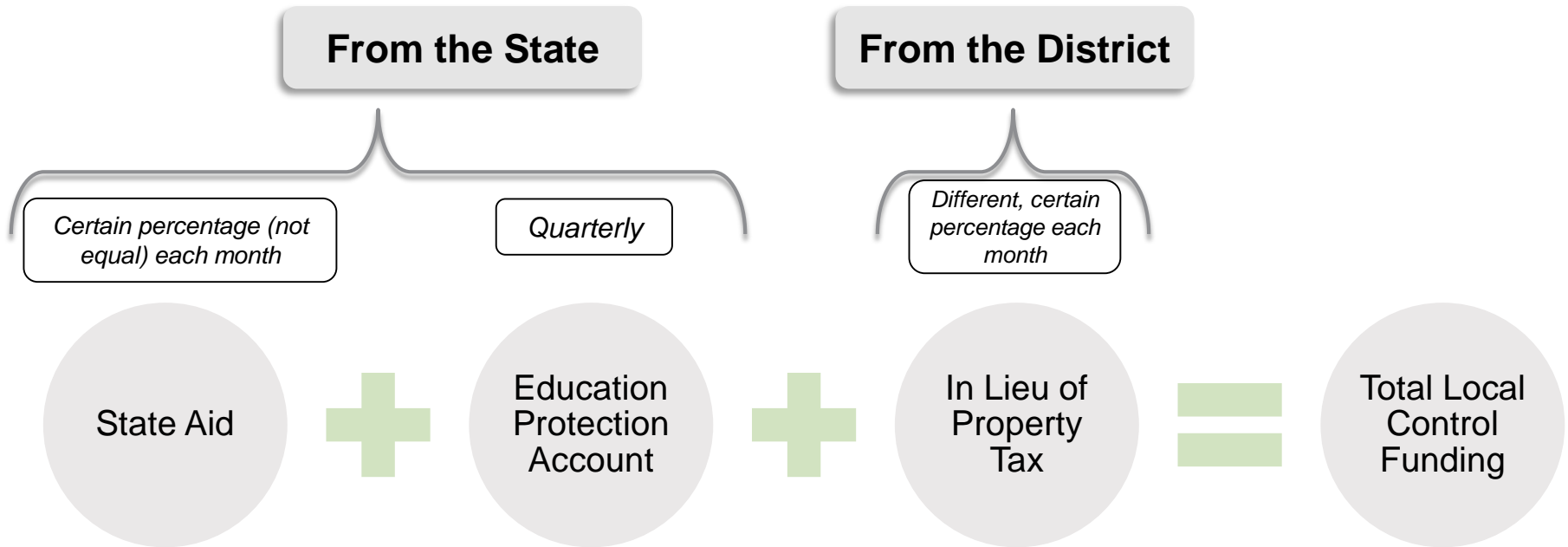


- Total general purpose funding, determined by LCFF rate and ADA, is then sent to school from three sources:
  - “In Lieu of Property Tax”
  - Education Protection Account (EPA) and
  - State Aid
- In case of MPS, funds are primarily split between In Lieu of Property Tax and State Aid



# Public funding: How and when will it arrive?

For fully operational schools, LCFF funds arrive from two sources on three schedules



**For new / expanding charter schools, however, payments are very lumpy – big payments in October and January, more regular in second ½ of year**

# Other Funding: Federal, State and Local

Charter Schools receive funding from Federal, State and Local Sources



## □ Federal Revenues

- Title I, II, III (must apply annually) – approximately \$300-400 per Free-Reduced ADA
- Special Ed – approx. \$125/ADA
- Nutrition (must apply)

## □ State Revenues

- Lottery - approx. \$185/ADA
- Special Education – AB602 – approx. \$500/ADA
- ASES – After School (approx. \$100k-150k/year) – must apply and be approved by State

## □ Local Revenues

- Fundraising, fees

**Note – some revenue programs are highly restricted, others are unrestricted**

# Deeper Dive: Challenge for new schools

First seven payments of the year based on prior year ADA



- State Aid paid on “5-5-9” schedule, with first 7 payments made based on prior year attendance!

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
5%	5%	9%	9%	9%	9%	9%	9%	9%	9%	9%	Rem
Prior Year “P-2” ADA							Current Year “P-1” ADA				P-2

- For new or expanding schools, follows above schedule for students that were enrolled in prior year, and 2 special payments in Oct and Jan for new grade
- In-lieu of Property Tax should follow the schedule below, but often does not comply, particularly for new schools:

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	6%	12%	8%	8%	8%	8%	8%	1/3	1/6	1/6	1/6	Rem
Prior Year “P-2” ADA							Current Year “P-1” ADA				P-2	

# Deeper Dive: Enrollment and ADA

Enrollment and attendance every day matter for public funding



- “Enrollment” is the number of students fully enrolled in the school
- Average Daily Attendance (ADA) is the number of students that are present at school each day – “kids in seats each day”
- ADA is reported to the state three times a year
  - P-1 – Includes all attendance up until the attendance month (i.e., 4 week period) ending before December 15<sup>th</sup>
  - P-2 – Includes all attendance up until the attendance month (i.e., 4 week period) ending before April 15<sup>th</sup> – for many schools, cutoff is March 25!
  - P-Annual – Includes all attendance for the entire year
- **P-2 is the cutoff for most funding sources**



# Fund balance: Why have one?

Important for charter schools to have a healthy reserve to support long-term sustainability



## Cash Reserves

- **Lumpy Cash Flow:** Payments do not match expenses, and sometimes are unpredictable
- **Deferrals!** State budget is “cash based” so if state has budget shortfall, delaying payments can bridge budget gap (common from 2010 – 2014; **very** hard on charter schools)

## Unforeseen Expenses or Revenue Drop

- **ADA fluctuations:** Enrollment and attendance are hard to predict for a new or growing school, in particular
- **Inherent expense risk:** For some expense categories, exact cost neither known nor controllable
  - Health insurance
  - Rent / facilities
  - Legal expenses
  - Special education
  - Emergency

## Strategic Objectives

- **Programmatic Investment:** Years when want to invest in program (e.g., deficit spend)
- **Growth:** Cash flow and risk associated with growth may require additional reserves
- **Facilities:** Alternative facilities options to support growth, sustainability, or stability may be worth investment

# Revenue breakdown for Magnolia

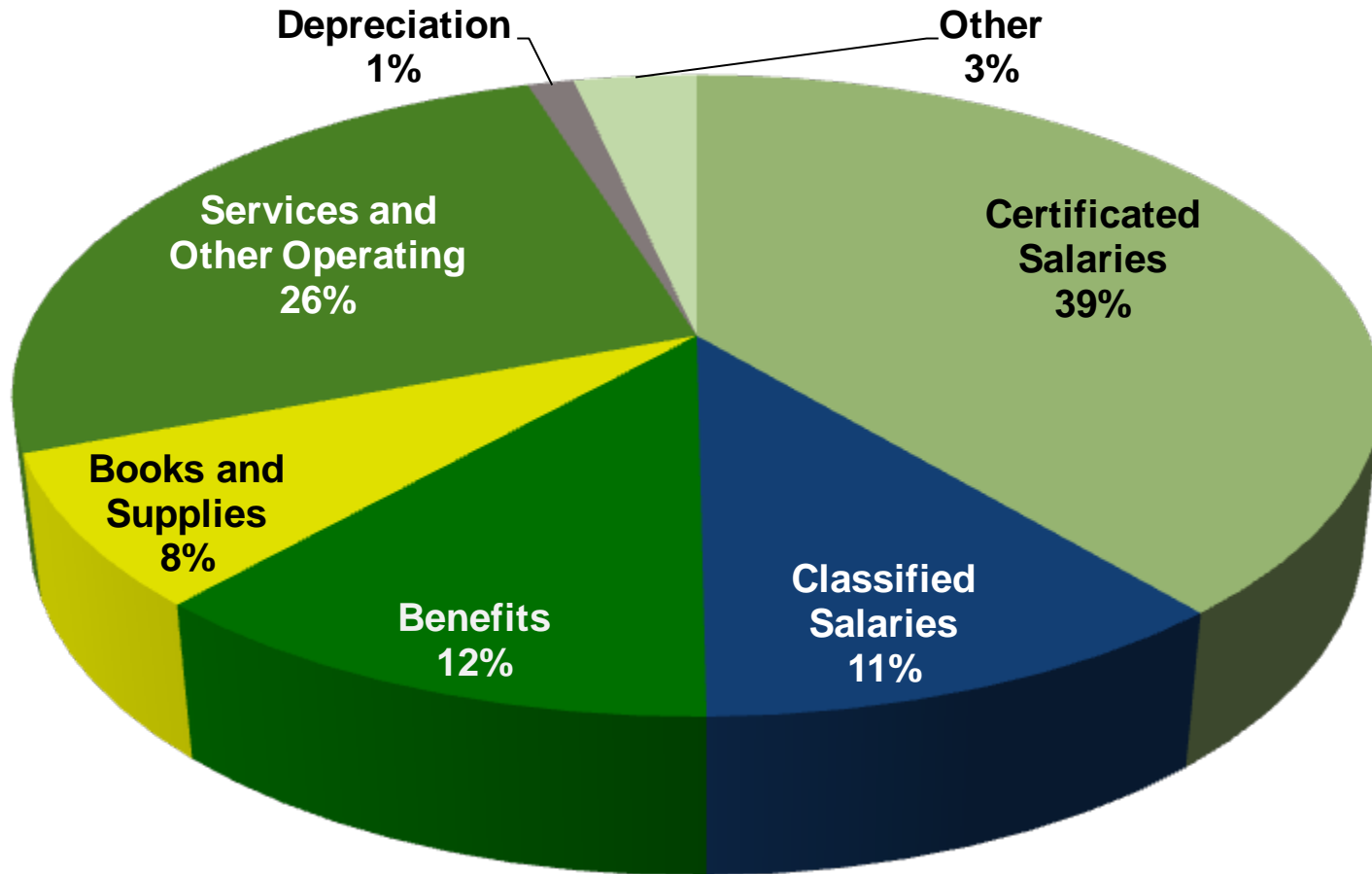
## Impact of Average Daily Attendance



- State funding is entirely driven by Average Daily Attendance
  - ADA: number of students in seats every day
  - Each absence means a loss of ~\$50/day in revenue, while expenses remain constant
- Since at least 42% of revenue depends on ADA, swings in attendance or decreased enrollment can create a large negative impact on the budget

# Charter School Spending as a Whole

On average charters spend 62% of budget on salaries and benefits.



# Monitoring Financial Progress: Profit/Loss Statement



Cumulative revenue and expenses to date

Difference between last two forecasts

As of December 31, 2015		Actual				Budget			
	Oct	Nov	Dec	Actual YTD	Approved Budget	Previous Meeting's Forecast	Current Forecast	(Previous vs. Current Forecast)	
<b>SUMMARY</b>									
<b>Revenue</b>									
General Block Grant	278,285	-	-	278,285	904,605	608,565	576,140	(32,425)	
Federal Revenue	-	-	-	-	571,890	323,502	319,905	(3,597)	
Other State Revenues	-	-	-	-	52,148	42,443	40,451	(1,992)	
Local Revenues	300	0	0	2,440	-	40,453	38,897	(1,556)	
Fundraising and Grants	9,250	12,485	43,371	128,094	112,500	600,000	600,000	-	
<b>Total Revenue</b>	<b>287,835</b>	<b>12,486</b>	<b>43,371</b>	<b>408,819</b>	<b>1,641,143</b>	<b>1,614,962</b>	<b>1,575,393</b>	<b>(39,570)</b>	
<b>Expenses</b>									
Compensation and Benefits	82,551	61,641	58,314	366,483	874,880	768,347	772,206	(3,859)	
Books and Supplies	(93)	16,943	8,783	75,246	356,965	218,180	146,753	71,427	
Services and Other Operating Expenditures	50,144	65,718	63,196	318,678	771,158	811,834	794,569	17,264	
Capital Outlay	-	-	-	-	50,000	-	-	-	
<b>Total Expenses</b>	<b>132,602</b>	<b>144,302</b>	<b>130,294</b>	<b>760,406</b>	<b>2,053,003</b>	<b>1,798,361</b>	<b>1,713,528</b>	<b>84,833</b>	
<i>Operating Income (including Capital Outlay)</i>	<i>155,233</i>	<i>(131,817)</i>	<i>(86,923)</i>	<i>(351,588)</i>	<i>(411,860)</i>	<i>(183,399)</i>	<i>(138,136)</i>	<i>45,263</i>	
<b>Operating Income</b>	<b>155,233</b>	<b>(131,817)</b>	<b>(86,923)</b>	<b>(351,588)</b>	<b>(371,860)</b>	<b>(183,399)</b>	<b>(138,136)</b>	<b>45,263</b>	
<b>Fund Balance</b>									
Beginning Balance (Unaudited)						138,880	138,880		
Operating Income (including Depreciation)					(37,000)	(183,399)	(138,136)		
<b>Ending Fund Balance (including Depreciation)</b>	<b>6,032</b>	<b>(125,784)</b>	<b>(212,707)</b>	<b>(212,707)</b>	<b>(232,980)</b>	<b>(44,519)</b>	<b>744</b>		

Current income ("profit") for the year

Current fund balance



# Monitoring Financial Progress: Cash Flow Statements



	2015/16													Forecast	Accrued Revenue
	Actual & Projected														
	Jul Actual	Aug Actual	Sep Actual	Oct Actual	Nov Actual	Dec Actual	Jan Projected	Feb Projected	Mar Projected	Apr Projected	May Projected	Jun Projected			
<b>Beginning Cash</b>	243,524	470,777	301,173	196,626	366,857	192,267	285,252	143,690	57,129	(75,479)	(61,713)	(134,650)			
<b>Revenue</b>															
General Block Grant	-	-	-	278,285	-	-	-	20,037	33,287	80,055	48,494	48,494	576,140	67,487	
Federal Income	-	-	-	-	-	-	-	-	-	75,000	-	74,932	319,905	169,973	
Other State Income	-	-	-	-	-	-	-	-	5,773	5,773	5,773	5,773	40,451	17,359	
Local Revenues	1,250	-	890	300	0	0	810	810	810	810	810	32,407	38,897	-	
Fundraising and Grants	17,988	-	45,000	9,250	12,485	43,371	48,255	60,612	5,000	-	12,500	30,000	600,000	315,539	
<b>Total Revenue</b>	<b>19,238</b>	<b>-</b>	<b>45,890</b>	<b>287,835</b>	<b>12,486</b>	<b>43,371</b>	<b>49,065</b>	<b>81,459</b>	<b>44,870</b>	<b>161,638</b>	<b>67,577</b>	<b>191,606</b>	<b>1,575,393</b>	<b>570,358</b>	
<b>Expenses</b>														AP	
Compensation & Benefits	28,693	66,524	68,759	82,551	61,641	58,314	70,315	66,353	66,353	65,336	65,336	72,032	772,206	(0)	
Books & Supplies	7,990	18,748	22,875	(93)	16,943	8,783	12,553	16,839	15,132	12,138	7,579	7,269	146,753	(2)	
Services & Other Operating Expense	23,722	64,157	51,740	50,144	65,718	63,196	72,132	84,829	95,994	70,398	67,601	79,178	794,569	5,760	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>60,406</b>	<b>149,429</b>	<b>143,374</b>	<b>132,602</b>	<b>144,302</b>	<b>130,294</b>	<b>155,000</b>	<b>168,020</b>	<b>177,478</b>	<b>147,872</b>	<b>140,515</b>	<b>158,479</b>	<b>1,713,528</b>	<b>5,758</b>	
<b>Operating Cash Inflow (Outflow)</b>	<b>(41,168)</b>	<b>(149,429)</b>	<b>(97,484)</b>	<b>155,233</b>	<b>(131,817)</b>	<b>(86,923)</b>	<b>(105,935)</b>	<b>(86,561)</b>	<b>(132,608)</b>	<b>13,767</b>	<b>(72,937)</b>	<b>33,127</b>	<b>(138,136)</b>	<b>564,599</b>	
Revenues - Prior Year Accruals	-	-	-	3,000	-	(2,120)	-	-	-	-	-	-	-	-	
Expenses - Prior Year Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Accounts Payable - Current Year	18,421	(20,175)	22,937	5,866	(28,773)	32,028	(35,627)	-	-	-	-	-	-	-	
Summerholdback for Teachers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loans Payable (Current)	-	-	(30,000)	-	-	150,000	-	-	-	-	-	-	(150,000)	-	
Loans Payable (Long Term)	250,000	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other Balance Sheet Changes	-	-	-	6,132	(14,000)	-	-	-	-	-	-	-	-	-	
<b>Ending Cash</b>	<b>470,777</b>	<b>301,173</b>	<b>196,626</b>	<b>366,857</b>	<b>192,267</b>	<b>285,252</b>	<b>143,690</b>	<b>57,129</b>	<b>(75,479)</b>	<b>(61,713)</b>	<b>(134,650)</b>	<b>(251,523)</b>			

Revenue or expense that will hit after June



Income each month

Full year forecast; should match P&L

How much cash we have in the bank

# Appendix: Commonly Used Terms with the Profit/Loss Statement



- ❑ **Actuals** – Financial activity (revenue or expenses) that has occurred
- ❑ **Fund Balance** – Represents the net worth of the school, or what the school carries over from previous years; sometimes called the reserve
- ❑ **Reserve** – earmarked parts of fund balance for particular initiatives
- ❑ **Operating Income** – The difference between revenues and expenses; can be positive or negative
- ❑ **Budget** – Adopted funding and spending plan of the school
- ❑ **Forecast** – Projected funding and spending trajectory of the school
- ❑ **Revenues** – money awarded/received by the school
- ❑ **Expenditures** – money spent by the school
- ❑ **Variance** – difference between two values, typically comparing budget to actual revenue/expenditures, or comparing two different forecasts
- ❑ **Depreciation** – allocation of cost over time
- ❑ **Deficit** – shortfall between expected revenue and expenses

# Appendix: Commonly Used Terms with Cash Flow Statement



- **Beginning Cash** – available cash at the beginning of a reporting period
- **Ending Cash** – available cash at the end of a reporting period
- **Balance Sheet** – summary of assets and liabilities
- **Operating Income** – difference between revenues and expenses
- **Assets** – something of monetary worth
- **Liabilities** – something of monetary obligation
- **Receivables** – money owed to the school; an asset
- **Payables** – money the school owes; a liability
- **“Below the Line”** – activity related to changes in balance sheet items that show up on the cash flow statement below the cash inflow/outflow line