



**FINANCIAL CONCEPTS ALL
CHARTER BOARD MEMBERS NEED
TO KNOW**

JOHN TARVIN

SESSION 5 - TUE, JULY 2, 2013

2:15 - 3:30

Agenda



- 1) CHARTER SCHOOL FUNDING BASICS**
- 2) ACCOUNTING 101**
- 3) FINANCIAL SCENARIOS**
- 4) YOUR RESPONSIBILITIES**
- 5) QUESTIONS AND ANSWERS**

\$\$ Show Me the Money \$\$



- **PER PUPIL REVENUE**
 - Local Taxes vs. State Aid
- **FEDERAL EDUCATION FUNDING**
- **CONTRIBUTED INCOME**
- **EARNED INCOME/FEES**

Funding Inequities

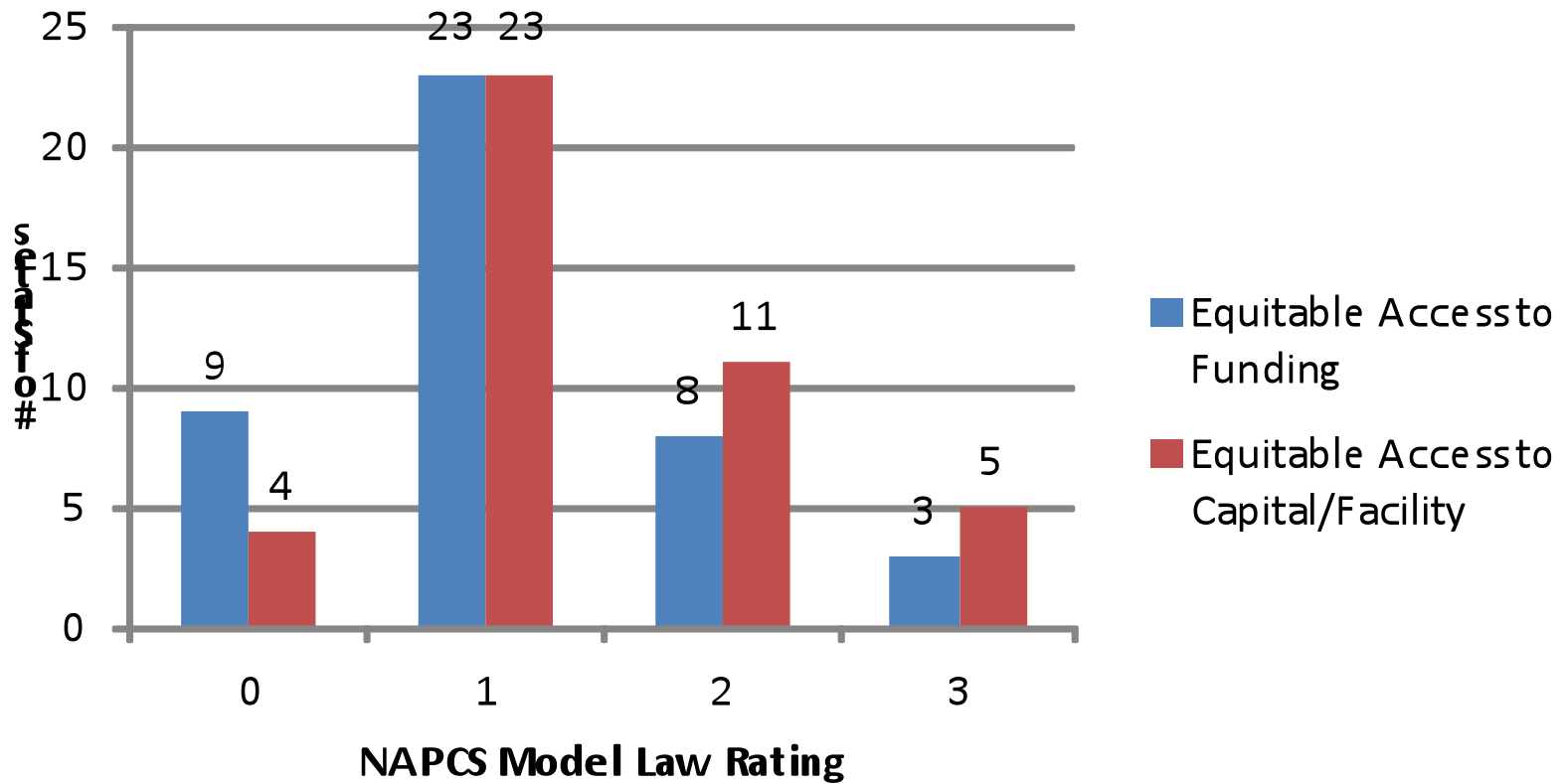


▪ CHARTER SCHOOLS OVERALL ARE SIGNIFICANTLY UNDERFUNDED RELATIVE TO DISTRICT SCHOOLS:

▪ The average state disparity was 19.2 percent, \$2,247 per pupil

▪ *Ball State Study May 2010 (using 2006-07 Data)*

Funding Equity by States



Equitable Access to Funding

NAPCS Rating

0	1			2	3
AK	AZ	MD	TN	CO	CA
DC	AR	MO	UT	CT	IN
IA	DE	NV	VA	IL	NM
KS	FL	NJ	WA	SC	
MS	GA	NY	WI	MA	
NH	HI	NC		MI	
OK	ID	OH		MN	
OR	LA	PA		TX	
WY	ME	RI			

Equitable Access to Capital/Facility

NAPCS Rating

0	1			2		3
IA	AK	MI	SC	AZ	TN	CA
KS	AR	MO	VA	CT	TX	CO
MS	DE	NH	WA	FL		DC
NV	HI	NJ	WI	GA		IN
	ID	NY	WY	MA		UT
	IL	NC		MN		
	LA	OH		NM		
	ME	OK		PA		
	MD	OR		RI		

Federal Funds – ESEA Act 1965



- **TITLE I**
 - Funding schools in need (40% low-income)

- **TITLE II**
 - Libraries, textbooks, instructional materials

- **TITLE III**
 - Supplementary Aid
 - Language instruction LEP and immigrants

- **TITLE IV**
 - College research for school training

- **TITLE V**
 - State DOE support for reforms, languages, arts, gifted



Federal Funds – Other



- **INDIVIDUALS WITH DISABILITIES EDUCATION ACT (IDEA)**

- Special Education – Goal was 40% national average

- **NATIONAL SCHOOL LUNCH PROGRAM (NSLP)**

- School lunches, food, summer program

- **E-RATE (FCC)**

- Voice, video, data at reduced costs

- **MEDICAID REIMBURSEMENTS**

Other Funding



- **CONTRIBUTED INCOME**

- Foundation grants
- Corporate partnerships
- Individual contributions
- Fundraisers

- **FEEES FOR SERVICE**

- Activity fees
- Transportation fees
- Uniform sales

Where the \$\$ Are Spent



▪EXPENSE CATEGORIES – STATE-SPECIFIC BREAKOUTS

▪Functional (MA)

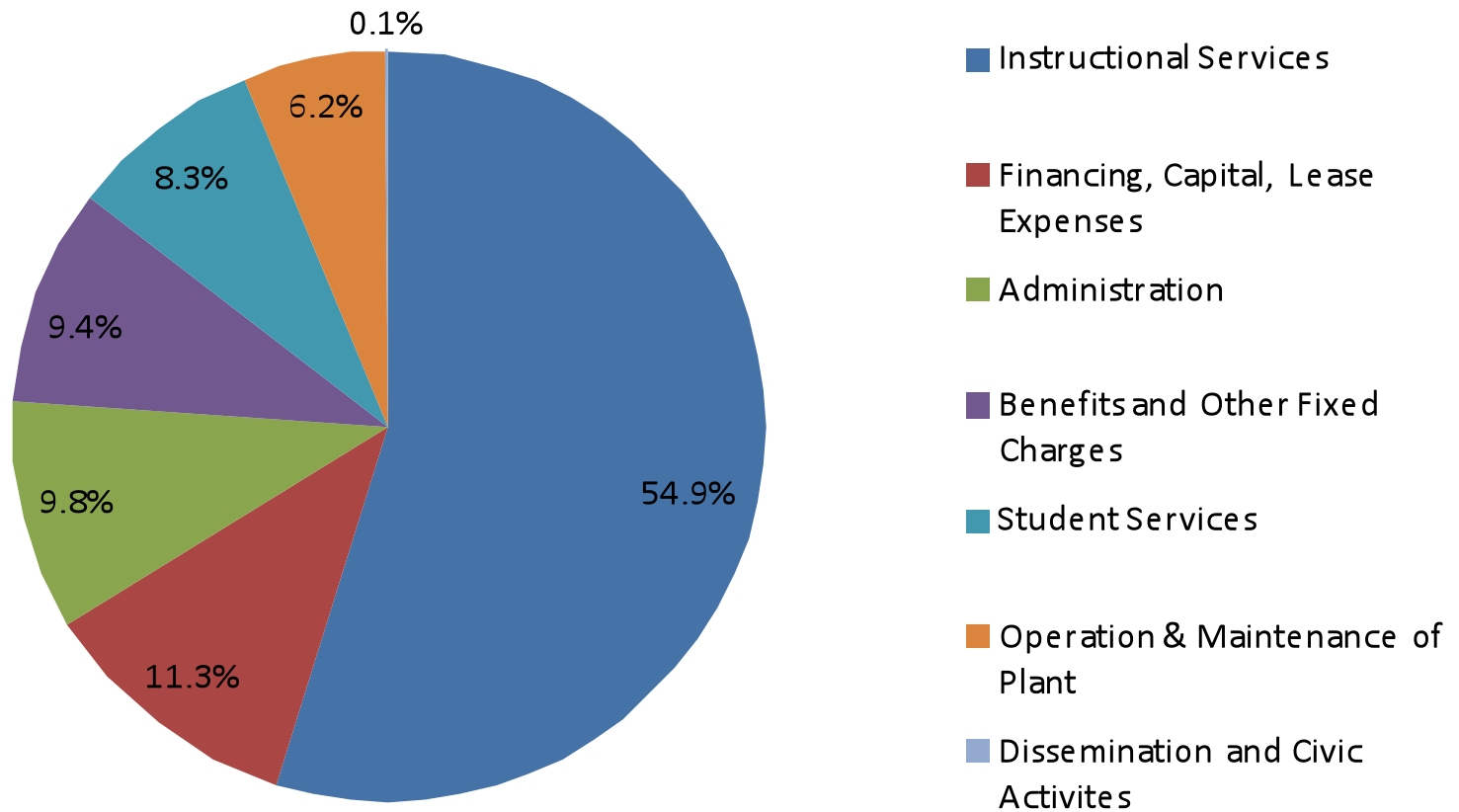
- Administration
- Benefits and Other Fixed Charges
- Dissemination and Civic Activities
- Financing, Capital, Lease Expenses
- Instructional Services
- Operation & Maintenance of Plant
- Student Service

▪Categorical (MA)

- Salaries
- Benefits, Taxes, Retirement
- Contracted Services
- Financing, Capital, Lease Expenses
- Others

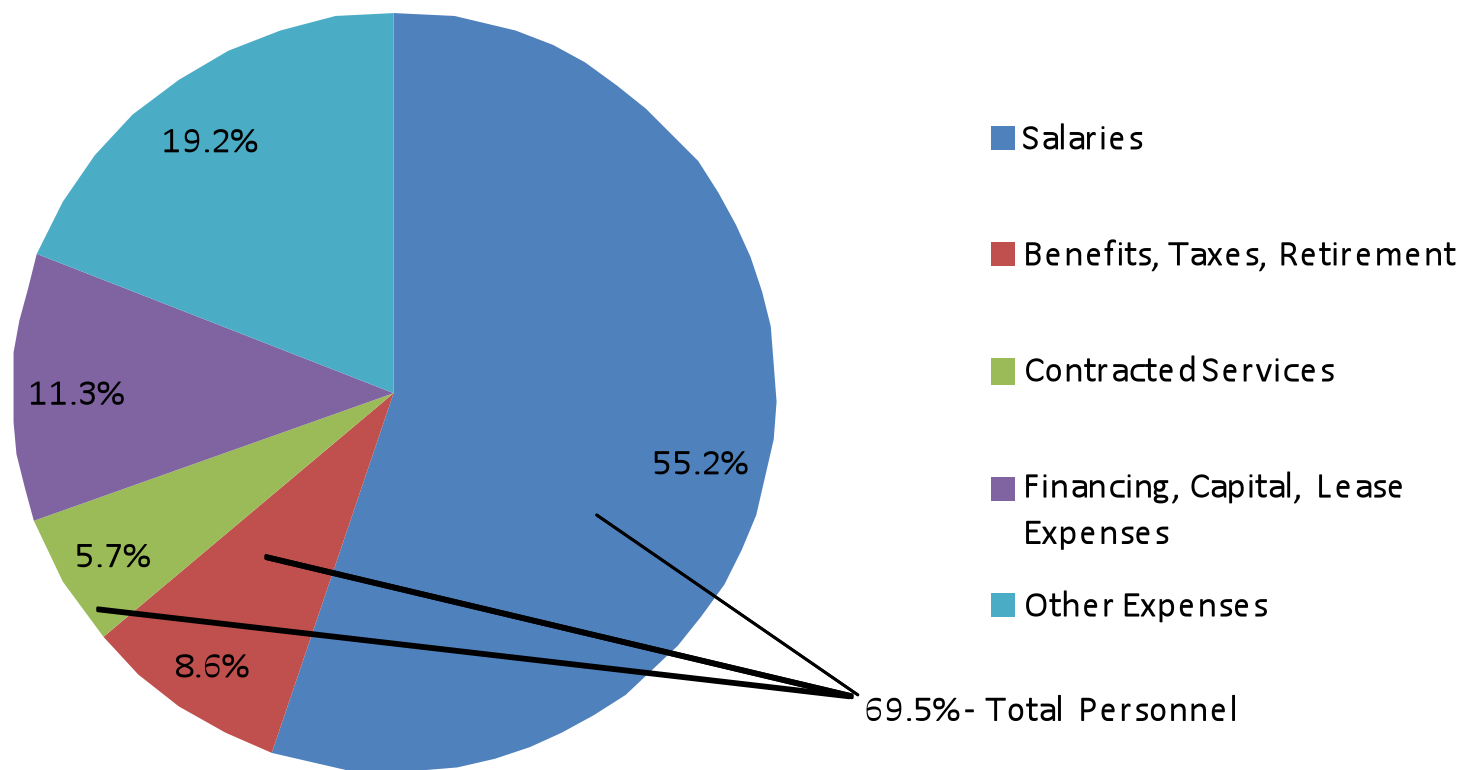
Functional Expense Sample

MA Charter Schools 2008 as consolidated by state DESE



Category Expense Sample

MA Charter Schools 2008 as consolidated by state DESE



Accounting 101 – Financial Statements



- **BALANCE SHEET**

- Assets
- Liabilities
- Net Assets

- **INCOME STATEMENT**

- Revenues
- Expenses
- Net Income

- **STATEMENT OF CASH FLOWS**

- Sources of Cash
- Uses of Cash

Assets – What's Owned



- **CURRENT**

- Cash
- Receivable
- Prepaid Expenses

- **FIXED**

- Buildings, Equipment, Autos
 - (Depreciation)
- Investments/Endowments

- **OTHER**

- Security Deposits

Liabilities- What's Owed



- **CURRENT**

- Payables
- Payroll Liabilities
- Accrued Expenses

- **LONG TERM**

- Mortgage
- Bonds
- Other Debt

Net Assets – What's Accumulated



- **UNRESTRICTED NET ASSETS**

- Flexible Use

- **TEMPORARY RESTRICTED NET ASSETS**

- Donor Restricted
- Time or Use

- **PERMANENTLY RESTRICTED NET ASSETS**

- Endowments, Scholarship Funds
- Use of interest gains

ABC Charter School
Statement of Income and Expenses
Fiscal Year Ended June 30, 2012

		<u>Total</u>	
Revenue:			
Per Pupil Tuition		4,200,000	73%
State Grants		200,000	
Federal Grants		500,000	
Food Program		125,000	
Program Fees		75,000	
Grants		200,000	
In-kind		30,000	
Contributions		400,000	
Total Revenue	1	5,730,000	
Expenses:			
Personnel			
Salaries		2,000,000	53%
Taxes		400,000	
Benefits		500,000	
Total Personnel	2a	2,900,000	
Operating			
Contracted Services		750,000	5%
Testing and Assessment		50,000	
Instructional Supplies and Materials		50,000	
Rent		350,000	
Health services		60,000	
Transportation		70,000	
Expense Item 7-20		1,200,000	
Total Other Types of Expenses	2b	2,530,000	
Total Expense	2	5,430,000	
Net Income	1-2	300,000	

**ABC Charter School
Statement of Income and Expenses
Fiscal Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:				
Per Pupil Tuition	4,200,000	-	-	4,200,000
State Grants	200,000	-	-	200,000
Federal Grants	500,000	-	-	500,000
Food Program	125,000	-	-	125,000
Program Fees	75,000	-	-	75,000
Grants	125,000	75,000	-	200,000
In-kind	30,000	-	-	30,000
Contributions	125,000	175,000	100,000	400,000
Total Revenue	5,380,000	250,000	100,000	5,730,000
Expenses:				
Personnel				
Salaries	2,000,000	-	-	2,000,000
Taxes	400,000	-	-	400,000
Benefits	500,000	-	-	500,000
Total Personnel	2,900,000	-	-	2,900,000
Other Expenses				
Contracted Services	750,000	-	-	750,000
Testing and Assessment	50,000	-	-	50,000
Instructional Supplies & Materials	50,000	-	-	50,000
Rent	350,000	-	-	350,000
Health Services	60,000	-	-	60,000
Transportation	70,000	-	-	70,000
Expense Item 7-20	1,200,000	-	-	1,200,000
Total Other Types of Expenses	2,530,000	-	-	2,530,000
Total Expense	5,430,000	-	-	5,430,000
Net Income	(50,000)	250,000	100,000	300,000

Foundation Grant received in FY12 to fund program starting in FY13

Bequest to fund scholarships to cover sports fees for low-income students

Donations to Capital Campaign to buy furniture for new building

**ABC Charter School
Balance Sheet
as of June 30, 2012**

ASSETS

Current Assets:

Cash	500,000
Accounts Receivable	60,000
Grants Receivable	100,000
Prepaid Expenses	5,000
Total Current Assets	665,000

Noncurrent Assets:

Buildings, net Depreciation	8,000,000
Investments	500,000
Total Noncurrent Assets	8,500,000

TOTAL ASSETS **9,165,000** 1

LIABILITIES

Current Liabilities:

Accrued Expenses	40,000
Accounts Payable	150,000
Payroll Liabilities	75,000
Total Current Liabilities	265,000

Non Current Liabilities:

Note Payable	1,000,000
Bond Payable	6,000,000
Total Non Current Liabilities	7,000,000

TOTAL LIABILITIES **7,265,000** 2

NET ASSETS

Unrestricted Net Assets	450,000
Temporarily Restricted Net Assets	350,000
Permanently Restricted Net Assets	1,100,000

TOTAL NET ASSETS **1,900,000** 3

TOTAL LIABILITIES & NET ASSETS **9,165,000** (2+3)

Current Ratio =
Current Assets /
Current Liabilities
2.5

**ABC Charter School
Statement of Income and Expenses
Fiscal Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue:				
Per Pupil Tuition	4,200,000	-	-	4,200,000
State Grants	200,000	-	-	200,000
Federal Grants	500,000	-	-	500,000
Food Program	125,000	-	-	125,000
Program Fees	75,000	-	-	75,000
Grants	125,000	75,000	-	200,000
In-kind	30,000	-	-	30,000
Contributions	125,000	175,000	100,000	400,000
Total Revenue	5,380,000	250,000	100,000	5,730,000

Total Expense 5,430,000 - - 5,430,000

Net Income (50,000) 250,000 100,000 300,000

	<u>NI - FY12</u>	<u>Bal - FY11</u>
	-50,000	500,000
	250,000	100,000
	100,000	1,000,000
	300,000	1,600,000

In total, Net
Assets increased
by \$300,000 so
last year's Net
Assets had to be
\$1,600,000

**ABC Charter School
Cash Flow Projections
Fiscal Year Ended June 30, 2012**

	Jan	Feb	Mar	Apr	May	Jun
Cash on Hand:	400,000	471,001	102,001	849,001	481,001	56,001

Receipts

Per Pupil	500,000	-	1,050,000		-	1,050,000
State Grants	-	40,000	-	40,000		
Federal Grants	1	-	125,000	-		125,000
Food Program	-	15,000	-	15,000	-	15,000
Contributions	-	-	-	4,000	-	-
Total Receipts	500,001	55,000	1,175,000	59,000	-	1,190,000

Payments

Personnel	240,000	240,000	240,000	240,000	240,000	240,000
Expense Item 1	4,000	4,000	4,000	4,000	4,000	4,000
Expense Item 2	5,000		4,000	3,000	1,000	-
Expense Items Other	180,000	180,000	180,000	180,000	180,000	180,000
Total Payments	429,000	424,000	428,000	427,000	425,000	424,000

Average Monthly Expense	365,286
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Net Change in Cash	71,001	(369,000)	747,000	(368,000)	(425,000)	766,000
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Ending Cash Position	471,001	102,001	849,001	481,001	56,001	822,001
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Balance Sheet Cash

Checking	15,000	12,000	20,000	15,000	25,000	14,000
Savings	456,001	90,001	829,001	466,001	31,001	808,001
Total Balance Sheet Cash	471,001	102,001	849,001	481,001	56,001	822,001

Months Cash on Hand	1.3	0.3	2.3	1.3	0.2	2.3
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Months Cash on Hand = Ending Cash / Average Monthly Expense

Other Financial Concepts



- **ACCRUAL VS. CASH ACCOUNTING**

- **INTERNAL CONTROLS**

- **BUDGETING**

- 12-month vs. rolling

- **FORECASTING**

- Reset – perhaps quarterly

- **BUDGET TO ACTUAL REPORTING**

FY End is 6/30

Paid \$12,000 annual lease
in Jan 2012 for all of 2012

Cash – Expense 12,000

Accrual – Expense 6,000
Prepaid – 6,000

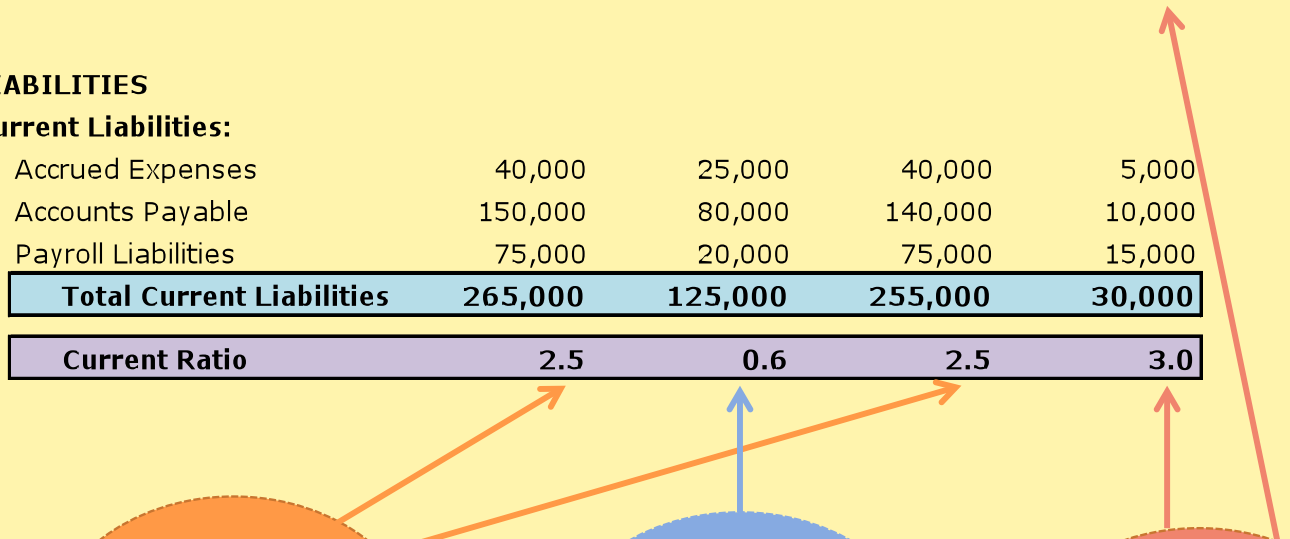
**Balance Sheet
as of June 30, 2012**

	<u>School A</u>	<u>School B</u>	<u>School C</u>	<u>School D</u>
ASSETS				
Current Assets:				
Cash	500,000	20,000	100,000	50,000
Accounts Receivable	60,000	30,000	300,000	5,000
Grants Receivable	100,000	20,000	100,000	15,000
Prepaid Expenses	5,000	10,000	125,000	20,000
Total Current Assets	665,000	80,000	625,000	90,000
LIABILITIES				
Current Liabilities:				
Accrued Expenses	40,000	25,000	40,000	5,000
Accounts Payable	150,000	80,000	140,000	10,000
Payroll Liabilities	75,000	20,000	75,000	15,000
Total Current Liabilities	265,000	125,000	255,000	30,000
Current Ratio	2.5	0.6	2.5	3.0

Same Current Ratio, but what's different?

Infusion of Cash Needed – Line of Credit?

Enviably ratio, but what if annual budget was \$10 million?
1.8 Days COH



ABC Charter School
Balance Sheet
Net Asset Trends 2009 to 2012

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
TOTAL ASSETS	9,165,000	9,100,000	8,350,000	8,150,000
TOTAL LIABILITIES	7,265,000	7,350,000	7,075,000	7,250,000
NET ASSETS				
Unrestricted Net Assets	450,000	500,000	150,000	-200,000
Temporarily Restricted Net Assets	350,000	150,000	25,000	0
Permanently Restricted Net Assets	1,100,000	1,100,000	1,100,000	1,100,000
TOTAL NET ASSETS	1,900,000	1,750,000	1,275,000	900,000
TOTAL LIABILITIES & NET ASSETS	9,165,000	9,100,000	8,350,000	8,150,000

•Stable Operations
 • Less Grants
 •Spending down Funds

•Loss of 350,000 in general operations
 •Less Grants
 •Spending down Funds

•No reserves
 •Structural problems

of Students: **School A** 420 **School B** 250

Revenue:

Per Pupil Tuition	3,360,000	8,000	3,000,000	12,000
State Grants	100,000		10,000	
Federal Grants	420,000	1,000	15,000	60
Food Program	125,000		-	
Program Fees	-		30,000	
Grants	200,000		15,000	
In-kind	30,000		30,000	
Contributions	400,000		75,000	
Total Revenue	4,635,000	11,036	3,175,000	12,700

Expenses:

Personnel				
Salaries	1,900,000		1,300,000	
Taxes	300,000		221,000	
Benefits	344,000		179,000	
Total Personnel	2,544,000	57%	1,700,000	50%

Operating				
Contracted Services	400,000		250,000	
Testing and Assessment	50,000		30,000	
Instruct Supplies & Materials	50,000		35,000	
Rent and Occupancy	50,000	1%	450,000	13%
Health services	60,000		60,000	
Transportation	70,000		70,000	
Expense Item 7-20	1,276,000		805,000	
Total Other Types of Expenses	1,956,000		1,700,000	

Total Expense	4,500,000		3,400,000	
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Net Income	135,000	3%	(225,000)	-7%
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•Wealthier District
•Facility Issue
•Structural Issue
•Less on Teaching

•Title I District
•Diverse Funding
•Owns Building
•More on Teaching
•Net Income

Your Responsibilities



- **FINANCIAL OVERSIGHT**

- Public Entity
- Scrutiny
- Closures due to finance



- **RECRUIT FOR FINANCIAL ACUMEN**

- **REGULAR REVIEW OF FINANCIAL DATA**

- Monthly

Your Responsibilities



- **AUDIT**

- Interview and Hire Auditor
- Meet independently with auditor

- **UNDERSTAND ECONOMIC PARAMETERS**

- Funding Formula for your state
- Resource Development Needs
- Salary and Benefits Structure
- Cash Position - Debt, Borrowing, Cash Flow
- Financial implications of Strategic Priorities

Q & A



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