Charter Financial Analysis

CASBO Presenters:
Debi Deal, CCAP Treasurer
Tom Hutton, CCAP Executive Director

Getting to know you...

School leaders
School governing board members
Staff for Operator / Network / CMO
Consultant
Authorizer
Others
Today’s Road Map

Introductions

Finance Basics

Overview of the Financial Framework

CCAP

- 2013: Founded by authorizers to advance quality public education for all students

- Now partnering with CDE and Santa Clara County Office of Education on Charter Authorizer Support Initiative (CASI)

- Awarded National Dissemination Grant for new national organization, National Network for District Authorizing (NN4DA)
Presenters

Debi Deal
• Retired FCMAT Intervention Specialist
• CCAP Treasurer

Tom Hutton
Executive Director

Are you measuring the right things?

If you can’t measure it, you can’t improve it.”
Peter Drucker
Themes For Today

How to fulfill your obligation to monitor the fiscal condition of the school – whether you are charter leader, board member, or authorizer

The Financial Health and Sustainability Framework is used to assess fiscal performance at each reporting period

Provides evaluation metrics for short-term fiscal health and long-term sustainability

Includes fiscal indicators and measures that reflect industry standards and best practices

CCAP Toolkits and Resources
CCAP Toolkits and Resources

- Developed with input from authorizers statewide, large and small
- Collaborative effort and research
- Can be customized by authorizer to suit local needs
- Meant to be usable by small authorizers: The essentials
- Will be updated, as the one we are discussing today has been
- Useful reference point for charter schools
- Related to authorizers but also for own fiscal oversight and planning

Authorizer Toolkits

- CA2.0 Core Performance Question
- Specific Toolkit Resource
  - Is the education program a success?
    - Academic Framework
  - Is the school financially viable?
    - Financial Health Framework
  - Is the school operating and governed effectively?
    - Operations and Governance Framework
  - Is the school advancing equity and access through serving public policy purposes?
    - Frameworks and narrative in the Annual Performance Report

## Financial Health & Sustainability Framework

### Financial Framework Overview

<table>
<thead>
<tr>
<th>Definition</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator</td>
<td>Categories of financial performance</td>
</tr>
<tr>
<td>Measure</td>
<td>Means to evaluate one aspect of an indicator</td>
</tr>
<tr>
<td>Metrics</td>
<td>Measure of quantifying a measure</td>
</tr>
<tr>
<td>Targets</td>
<td>Thresholds that signify success in meeting the standard of performance for a specific measure</td>
</tr>
<tr>
<td>Rating</td>
<td>Assignment of a school’s performance into a category, based on how the school performs against a target</td>
</tr>
</tbody>
</table>
Highlights of the Financial Health and Sustainability Framework

**Purpose**
Framework designed to assist the authorizer with monitoring the fiscal condition of each charter school under its authority.

**Detailed Examples**
Short-term Indicators, Sustainability Standards and Fiscal Controls provide detailed examples. References include Ed Code citations; FCMAT’s Charter School Accounting and Best Practices Manual; and Projection Pro.

**Templates**
Templates guide reviews through each section, provide reviewer comments and action items for the charter school, if needed.

Fiscal Health Measures

The CCAP Framework includes three measures to evaluate a school’s financial performance:

1. Short-term
2. Sustainability
3. Fiscal Controls
**Fiscal Health**

**Short-Term Indicators**
- **Days of Cash on Hand**
  - Does the school have the cash available to pay its bills?
- **Enrollment Variance**
  - Does the school’s actual student enrollment support the projected revenue?
- **Average Daily Attendance**
  - Are the year-over-year ADA trends steady?
- **Unduplicated Pupil Percentage (UPP) Variance**
  - Does the school’s actual UPP funding support the operating budget?
- **LCAP Represented in Budget**
  - Is the LCAP represented in the Budget?
- **Economic Reserve**
  - Does the school have resources to weather uncertainties?

**Fiscal Health**

**Sustainability Indicators**
- **Multiyear Projection**
  - Is the school living within its means?
- **Subsequent Years Cash Flow**
  - How much money the school has available to spend.
- **Debt Default**
  - Is the school meeting its debt obligations?
Fiscal Health
Other Indicators

Authorizer Reviews
Is the Charter Board receiving copies of a COE financial review, if any?

Audit Performance
Did the auditors provide a clean opinion?

Illustration

Formula

\[
\text{Days of Cash on Hand} = \frac{\text{Cash Received}}{\text{Budgeted Expenses}} \times 365
\]

Standard:
MEETS STANDARD: At least 90 Days of Cash on Hand
DOES NOT MEET STANDARD: 30 days or less of Cash on Hand
FAILS FAR BELOW STANDARD: Less than 30 Days of Cash on Hand

Note: This is the only indicator in the framework that includes a third option, for “Meets All Three Standards.”

Example:

\[
\begin{align*}
\text{Cash} & = \$588,400 \\
\text{Cash in Prior Year} & = \$41,874 \\
\text{Total Cash Available} & = \$546,576 \\
\text{Expenses} & = \$501,040 \\
\text{Revenue} & = \$1,725,447 \\
\text{Total Expenses} & = \$2,820,487 \\
\text{Days of Cash on Hand} & = \frac{\$588,400}{\$546,576} = 99 \text{ days}
\end{align*}
\]

Conclusion: Meets Standard – Cash on hand exceeds 90 days.
Illustration – Cash Flow Statement

(Original Content)

**Illustration – Cash Flow Statement**

(My Personal Favorite is Cash!)

**CASH FLOW PROJECTIONS**

**FISCAL YEAR 2022-23**

**Expenditures**

- Pupil Salaries: $5,000,000
- Books and Supplies: $4,000,000
- Employee Benefits: $3,000,000
- Classified Salaries: $2,000,000
- Certificated Salaries: $1,000,000

**Revenue**

- Local Income: $8,600,000
- State Income: $8,300,000
- Local Control Funding Formula Sources: $8,000,000

**Changes in Accounts**

- Change in Accounts Receivable: ($19,200)
- Change in Accounts Payable: $11,300
- Change in Prepaid Expenditures: $24,470

**Depreciation Expense**

- Total Depreciation: $4,200

**Cash Balance**

- Ending Cash Balance: $1,396,466

**Illustration – Cash Flow Statement**

(My Personal Favorite is Cash!)

**Beginning Cash Balance**

<table>
<thead>
<tr>
<th>activity</th>
<th>actual</th>
<th>projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash flow from operating activities</td>
<td>$1,500,000,000</td>
<td>$1,500,000,000</td>
</tr>
<tr>
<td>net income</td>
<td>$281,767</td>
<td>($25,095)</td>
</tr>
<tr>
<td>change in accounts receivable</td>
<td>($35,300)</td>
<td>$11,300</td>
</tr>
<tr>
<td>change in accounts payable</td>
<td>$11,247</td>
<td>$4,837</td>
</tr>
<tr>
<td>change in prepaid expenses</td>
<td>$24,470</td>
<td>$24,470</td>
</tr>
<tr>
<td>depreciation expense</td>
<td>$4,200</td>
<td>$4,200</td>
</tr>
</tbody>
</table>

**Ending Cash Balance**

Take ending cash of $1,396,466 divided by daily cash of $7,975 = 175 days of cash on hand. Equates to almost 6 months.

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*Image references and table content are placeholders for the actual content.*
Let’s dialogue about current challenges for authorizers with evaluating the financial condition of a charter school.

Please meet in groups of two or three to identify your top three issues.

Charter Authorizer Support Initiative (CASI)

CDE-funded
Implementation by CCAP and Santa Clara County Office of Education

Training, networking, emphasis on small & rural authorizers
  Monthly charter chats
  In-person onsite trainings

https://www.cde.ca.gov/sp/ch/casi.asp
California Charter Authorizers Conference

June 13-16, 2023
Palm Springs
Programming & hands-on training on fiscal oversight

Networking role-alike with fiscal staff
Announce recommendations on fraud prevention & detection

https://calauthorizers.org/2023-conference

Contact information
You have Questions? We have answers!

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www.calauthorizers.org
Thank you!