Monitoring Financial Performance

March 14, 2023
A Fiduciary Duty is the **obligation** to act for **another’s** benefit.

The Fiduciary is one whom another has placed the **utmost trust** and **confidence** to manage and protect interests, property, or money.
Duty of Care
- Act in Good Faith
- Exercise Due Diligence
- Exercise care and skill of a reasonable, prudent person

Duty of Loyalty
- Act in the Interest of:
  - The Charter School
  - its Students
  - the Public

Duty of Obedience
- Ensure Actions Meet:
  - The Charter Contract
  - Applicable Rule and Law
  - Mission and Vision
  - Ethical Obligations

Upholding Fiduciary Duties
Starting Strong: Best Practices in Starting a Charter School
Marisa Cannata, Grant Thomas, Zaia Thombre
Financial Priorities Throughout the Year

**January - March**
- Develop budget assumptions
- Draft budget
- Present to Finance Committee

**April - June**
- Update budget (ongoing)
- Present to Board
- Post to website and hold public hearings

**July - September**
- Board approves
- Close books, begin audit
- Approval of audit report by Finance Committee & Board

**October - December**
- Submit DE46
- Submit audit & annual charter report
- Update financial policies (timing may vary)
- Renew insurance (timing may vary)

Ongoing budget vs. actual analysis & corrective action steps
Evaluate and Oversee Budget and Current Financial Health

Establish and Adhere to Financial Systems and Controls

Plan and Prepare for Long-Term Financial Sustainability

Hire Skilled and Capable Staff and hold them Accountable

Governing Board Financial Oversight
Ongoing Budget Management

- Communication
- Training
- Ongoing Forecasting
- Monthly Check-Ins
- Monthly Reporting
Monitoring Your Budget

- Adopted in Accordance with Law and School Policy (O.C.G.A. 20-2-167.1)
- Reviewing Monthly Reports:
  - Budget to Actuals Variance
  - Cash Flow
  - Balance Sheets
- Accuracy of Assumptions and Estimates
- Need for Credit or Fundraising
Monitoring Your Budget Monthly

- Monthly Financial Packet for Board May Contain: Income Statement, Balance Sheet, Cash Flow Statement, Credit Card Register, Check Register, Budget Vs. Actual Analysis, Cash Flow Projections, Financial Analysis
- Recommended focus on Budget vs. Actual Revenues, Expenses – identify areas for intervention, adjustments to spending plans, timing, hiring plans
- Consider also: Executive Director Credit Card Expenses for Approval (depending on financial policies)
- Dashboards – Enrollment, unrestricted days cash, authorizer/CPF indicators, enrollment, other strategic priorities
- Forecast Updates – Changes affecting bottom line from approved budget
Monitoring Your Budget Annually: Budget Calendar

- Interim and Final Review and Submission Dates:
  - Operating Budget
  - DE046
  - Audit
  - Yearly/Quarterly Tax Filings
  - Other (Debt Covenants; MOE Reporting)
- Policy Review
- Compliance Reports
- Annual Account/Program Review
  - TRS
  - Benefits
From the State Charter Schools Commission
Monitor Your Budget: Common Issues

- Overestimating Funding
- Underestimating Expenses
- Including Donations as a Guaranteed Source of Revenue
- Budget Deficits w/o Deficit Reduction Plan
- Negative Ending Cash Amounts

State Charter Schools Commission

scsc.georgia.gov
Monitor Your Financial Performance

• Establish performance goals
  • Should align with the school’s strategic goals

• Monitor monthly
  • Create a tool (or dashboard) to assess performance
  • Don’t forget to align with SCSC Performance Framework

• Hold Staff Accountable
Important Near-Term Financial Measures

- **Current Ratio:**
  - Current Assets/Current Liabilities

- **Unrestricted Days Cash**
  - Unrestricted Cash/(Total Expenses/365)

- **Annual Debt to Income**
  - Annual Debt Service/Annual Revenue

- Credit Timeliness and STUDENT ENROLLMENT
Important Long-Term Financial Measures

- **Fund Balances**
- **Debt to Asset Ratio**
  - Total Liabilities/Total Assets
- **Efficiency Margin**
  - Change in Net Assets/Total Revenues. Calculated over time
- **Be Careful of Pension Liabilities**
A Note on Fund Balances

• School Districts are limited to 15% annual reserves (in theory).
• Your Students, Families, and Communities expect your revenue to be expended for public education.
• Adopt a policy regarding the planning and use of budget surplus and deficits.
• (Deficits should rarely be planned.)
Where can you find this information?

Financial Performance:

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<th>Indicator</th>
<th>Data Source</th>
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<td>Near-Term Measures</td>
<td>School Audit Report: Governmental Funds-Balance Sheet</td>
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<td>School Audit Report: Statement of Revenues, Expenditures, and Changes in Fund Balance</td>
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<td>SCSC Annual Enrollment Projection Form</td>
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<td>GADOE: Data Collections, Student Enrollment by Grade Level</td>
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<td>School Audit Report: Statement of Activities/Change in Net Position and Audit Notes</td>
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<td>School Audit Report: Statement of Net Position</td>
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GCSA
Financial Monitoring: Staff Accountability

- Ensure CFO, Business Manager, Director of Operations, Bookkeeper, Data Coordinator are Skilled and Trained
- Consider Credit Checks for Key Staff
- Ensure Staff are Experienced
- Ensure Staff Receive Internal and External Training
- Address Noncompliance
Financial Monitoring: Engaging Discussion

- Why are revenues behind?
  - Is this a timing issue or a true variance?
  - If true variance, what expenses will be cut (or revenues increased) to cover revenue the shortfall?
- Why are expenses ahead?
  - Is this a timing issue or a true variance?
  - If true variance, what expenses will be cut (or revenues increased) to cover revenue the shortfall?
- Do we have enough cash on hand to meet monthly expenses? How many months?
  - If not, what can we delay or not spend?
  - Are we up-to-date on grant drawdowns?
- Have we met / are we on-track to meet enrollment targets?
- If assessed today, how would we score on all authorizer financial indicators?
- Are accounts receivable asset accounts changing/decreasing month-to-month?
  - What type of monthly follow-up is happening?
  - Are there uncollectable amounts that need to be written off?
- Are accounts payable and payroll liability accounts changing/decreasing month-to-month?
  - Are we staying on top of bills and in good standing with vendors?
  - Are withholds from employee paychecks being remitted in a timely manner to taxing authorities, TRS, insurance companies, etc.?
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Following School Policies

- Failing to Follow Adopted Board Policies is FREQUENTLY found through state monitoring.
- Establish a Culture of Compliance
- Review Monitoring Preparation, Findings, and Response
- Establish Compliance Log:
  - Activity, Date, Citation, Documentation
  - Review and Verify
Long-Term Spending Plans

- Ensure Budgets and Expenses Align to Long-Term Spending Plans
- Long-term forecasting involves planning for multiples years (5 or more)
- Promotes efficient use of current resources
- Required for strategic planning, creditors, and donors.
- Allows you to predict break-even timeline
Be Aware of Budget Amendments

- A pattern of budget amendments may indicate underlying problems.
- Charter Funding depends on a lot of factors and can change during the year.
- Frequent changes to assumptions, estimates of revenue or expenses, or necessary staff is indicative of greater systemic issues.
  - Underlying Staff Experience, Capacity, Efficiency, Redundancy
The Importance of Board Policies

- Board Policies are Actions by that provide Clear Directives for the future.
- Policies:
  - Direct Implementation of Mission, Vision, Charter
  - Ensure Actions and Application of Rules are Consistent
  - Promotes Compliance, Equity, and Confidence
  - Preserves Knowledge and Continuity
  - Mitigates Risk
- Effective Policies are **Clear, Specific, and Implemented**
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