

Budget Workshop

GCSA Conference Governance Training

March 14, 2023



Objectives

Participants in the Budget Workshop will:

Learn how to prepare for a successful annual budgeting process

Understand how to work with your school leaders in preparing for state, local, federal and grant revenue

Gain an understanding of how to budget for personnel and non-personnel expenses

Develop an understanding of how to manage budget performance throughout the fiscal year

Distinguish the role of the Finance Committee/Governing Board from that of school management in accountability and compliance

Topics

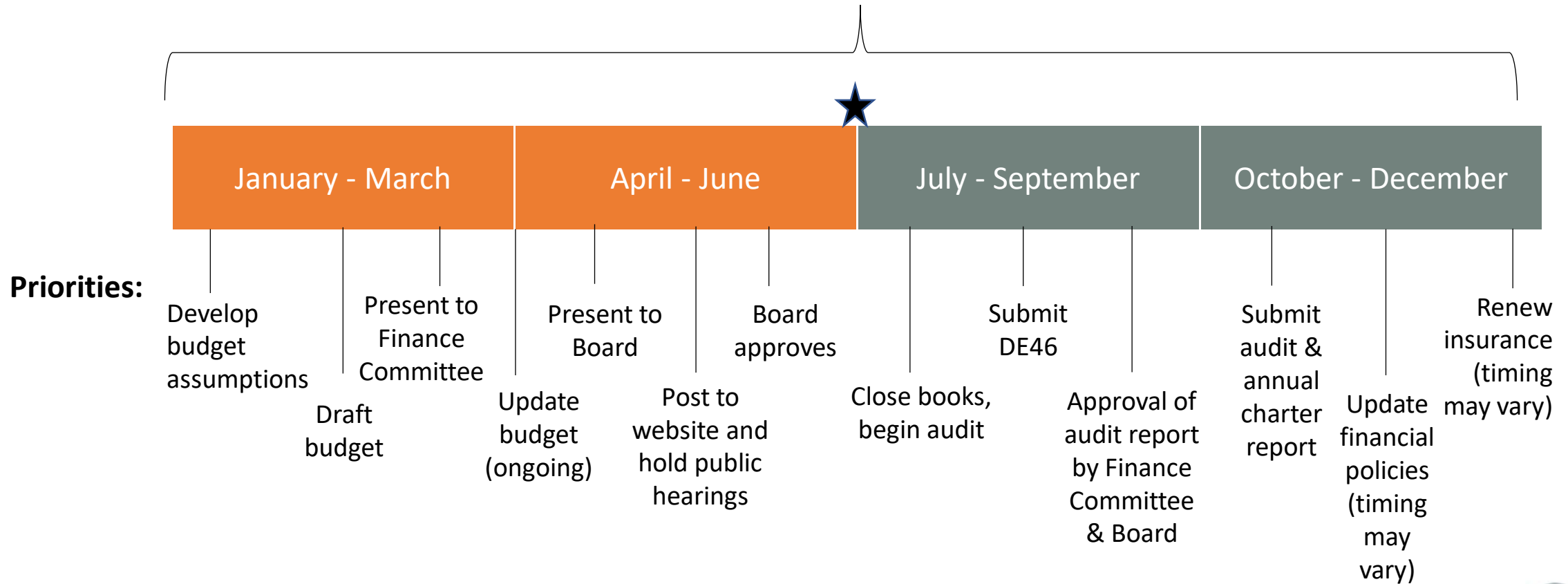
Board Perspective On...

- Annual Budgeting Process
- Revenue Sources
- Budgeting for Expenses
- Ongoing Budget Monitoring
- Management and Governance Role in Budgeting

Annual Budgeting Process

Financial Priorities Throughout the Year

Ongoing budget vs. actual analysis & corrective action steps



Budget Adoption

- Goal: Informed budget with well thought-out assumptions, informed by current year spending and future plans, context
- Finance Committee should review drafts several times and discuss at 1-3 meetings before going before the full Board for review
- Finance Committee should recommend budget approval to full Board (by-law dependent)
- Full Board vote in spring



Budget Requirements

- O.C.G.A 20-2-167.1 covers budget approval requirements and carries three main requirements:

Public Advertisement	Posted Budget	Public Hearings
<ul style="list-style-type: none">• Advertise in a local newspaper of general circulation in which other Board of Education legal announcements are made• Advertise when budget hearings will occur (not in the same week) so community members can attend/provide input	<ul style="list-style-type: none">• Post a copy of school's proposed budget summary in a public-facing area of school website• Provide line-item budget detail upon request	<ul style="list-style-type: none">• Hold two public hearings prior to putting budget up for approval by Board (can coincide with Board meeting)• Public hearings cannot be held in the same week• Special rules apply for schools with statewide attendance zones



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Short & Long-Term Spending Plans

While Board-approved school budgets span the fiscal year, long-term forecasting should also be done to ensure long-term sustainability.

- Long-term forecasting involves planning for multiples years (5 or more – difficult to go beyond that)
 - Staffing plans and scenarios will comprise the bulk of expenses & require assumptions around new positions, COLA, healthcare coverage, TRS increases/decreases, etc.
 - Enrollment scenarios will drive per-pupil revenue predictions and long-term sustainability
 - Build-in assumptions re: growth (grade levels, class sizes, staffing)
 - Allows you to predict break-even timeline; may set goals around X% surplus annually and adding to fund balance over time
- Banks and funders will want to see a multi-year budget



Budget Amendments

- Within-year changes to budget
- May adopt financial policy re: when a budget amendment is required (e.g., X% revenue or expense variance)
- Large districts may approve amendments on a monthly basis
- Charters typically only approve budget once per year, but may seek amendment in spring to bring budget in-line with actuals
- Amendments are subject to same requirements as budget adoption process

Revenue Sources

School funding is derived from three main sources.

Federal

- Based on programmatic eligibility and appropriation
- Report student demographics to determine funding
- Title funding, IDEA (Special Education), etc.
- Approximately 9% of K-12 funding in Georgia from this source
- Budget allotments ~May based on CY student population

State

- Based on students and program costs
- Often referred to as Quality Basic Education (“QBE”)
- Approximately 47% of K-12 funding in Georgia from this source
- All charter schools receive regardless of authorizer
- Allotment sheets available on GADOE Financial Review website (bookmark!) – initial and mid-term

Local

- Based on mills (\$1 per \$1,000 of taxable value)
- For SCSC charters, SCSC supplement in lieu of this (visible in allotment sheet)
- Approximately 44% of K-12 funding in Georgia from this source, but varies widely

Critical to re-forecast budget once count is taken in October!



Budgeting for Revenues – Be Conservative!

Federal	State	Local	Private
Award Letter or notification from authorizer	Determine based on financial model, planned changes to enrollment, updates to funding (e.g., austerity reduction) Use historic allotment as starting point and layer in growth Discuss local funding model/changes with authorizer		Based on historic trends, priority/investment, discount amount based on likelihood of award(s) Requires resource investment to realize fundraised \$\$\$ Don't use fundraised dollars to plug deficits!

Planning for Under-Enrollment

Various enrollment scenarios should be developed as part of your annual budgeting process – as enrollment can make or break your budget.

Create contingency plans –
Talk early/often about
embedded assumptions, build
in attrition

Action plan for each scenario –
Best, Worse, Most Likely Cases

Assign owners, timelines, and
detailed steps – earlier
known/implemented = less
severe

Order actions by level of
severity – try to delay hiring if
possible

Expense Budgeting

Personnel Expense Considerations – Be Conservative!

- Salaries & Benefits must be fully loaded in your budgets
 - TRS is a huge driver of annual staff expenses – primarily from employer (track via TRS website)
 - Medical benefits (consider structure, if opt out of SHBP)
 - FICA – Medicare even if opt out of Social Security; Social Security for non-TRS
 - State unemployment, worker’s compensation, payroll service fees
 - Bonuses (if applicable)
 - Overtime for part-time staff
 - Other fringe such as paid time off (coverage costs), cell phone reimbursement, health/wellness subsidy, etc.
 - Given extent of expenses and ongoing assumption, need for both short and long-terms

Salary Increases – Consider Strategically!

Salary Increases

- Follow the state salary schedule?
- Some charters tie annual salary increase to per pupil funding increases or increases in state salary schedule

Proceed With Caution

- Funding increases at any level – federal, state, local – are never guaranteed; try to avoid guaranteed compensation increases (based on budget availability)
- In fact, funding may decrease depending on Austerity reductions in COVID times, Great Recession

Strategic Pay Bumps

- Consider building in bumps in pay at points in time when likely to lose teachers

Budgeting for Non-Personnel Expenses

- Functional Instructional Expenses (Majority of expenses - including personnel)
 - Some overlap with above
 - Supplies, software, personnel, testing, textbooks, laptops, classroom furniture etc.
- Facilities & Maintenance (Not to exceed 15%)
 - Rental, acquisition, ongoing maintenance, planned renovations, etc.
- Food Services – in-house or outsourced, including POS software
- Contracted Services – SPED, ASP, technology, substitutes, bookkeeping, audit, legal, etc.
- Supplies – instructional, marketing, extracurricular, janitorial (if not part of contract)
- Other – membership fees, authorizer fees, recruitment, equipment (copiers, whiteboards, etc.)

Identify expense drivers wherever possible and use those to inform budgets
(e.g., # of new students, # full-time staff, # classrooms, etc.)

Surplus / Deficits

- Excess of revenues over expenses or vice versa
 - Also known as change in net assets
- Will likely be a part of your financial policies
- Some school may never allow a budget to be passed with a deficit
- Other schools may permit within-year deficits for specific purposes if sufficient reserves/fund balances are available to cover the deficit

Best Practices

Begin Budgeting Early!	Prioritize Instruction	Budget with Long-Term Sustainability in Mind	Set Goals and Align to Strategic Plan
Create a Sustainable Staffing Model	Benchmark & Fully-Load Salaries	Include Item/Service Quotes	Identify Expense Drivers
Proactively Plan for Various Enrollment Scenarios	Under-estimate Revenues	Over-estimate Expenses	Have Contingency Fund/Surplus
Build in Replacement Cycles	Monthly Deficit OK...	...But No Negative Ending Cash	Bring along gradually over multiple sessions

Budget Monitoring

Ongoing Budget Management



Monthly Reporting

- 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

Sample Financial Questions

- 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.?

Board Vs. Committee

Role of the Board	Role of the Finance Committee
<ul style="list-style-type: none">• Vote to approve	<ul style="list-style-type: none">• Vote to recommend
<ul style="list-style-type: none">• Review financial statements at an even higher level	<ul style="list-style-type: none">• Review financial statements at a high level
<ul style="list-style-type: none">• Challenge only the biggest assumptions	<ul style="list-style-type: none">• Challenge all major assumptions
<ul style="list-style-type: none">• Meet (minimally) quarterly or bi-monthly/monthly	<ul style="list-style-type: none">• Meet monthly
<ul style="list-style-type: none">• Works closely with the school leader	<ul style="list-style-type: none">• Works closely with the CFO

Board & School-Level Financial Management Training

- Consider enrolling in an upcoming SBOE approved financial training course – or encourage those at your school to apply!

Government Accounting 101	QBE Funding & School Budget Development	Foundational & Strategic Fiscal Policy Development, Implementation & Evaluation
Tuesday, Feb. 21 & Wednesday, Feb. 22	Monday, Feb. 27 & Wednesday, March 1	Monday, March 20 & Wednesday, March 22
Procurement, Payroll & Compensation	Internal Controls & Effective Financial Oversight	Audit Preparation & Best Practices
Summer – Dates TBD	Summer – Dates TBD	Summer – Dates TBD

Appendix

Budgeting Methodologies

Incremental	Zero-Based
Start with last year's budget and add some incremental percentage adjustment + / -	Start from scratch and justify every line item

Budgeting Process

- Identify steps in budget process
- Align steps to calendar, working backward from target(s)
 - Including pre-existing meetings for various stakeholders
- Assign roles and responsibilities to activities
- Develop communication and stakeholder engagement plans
- Set goals/metrics
- Utilize tools to reach consensus

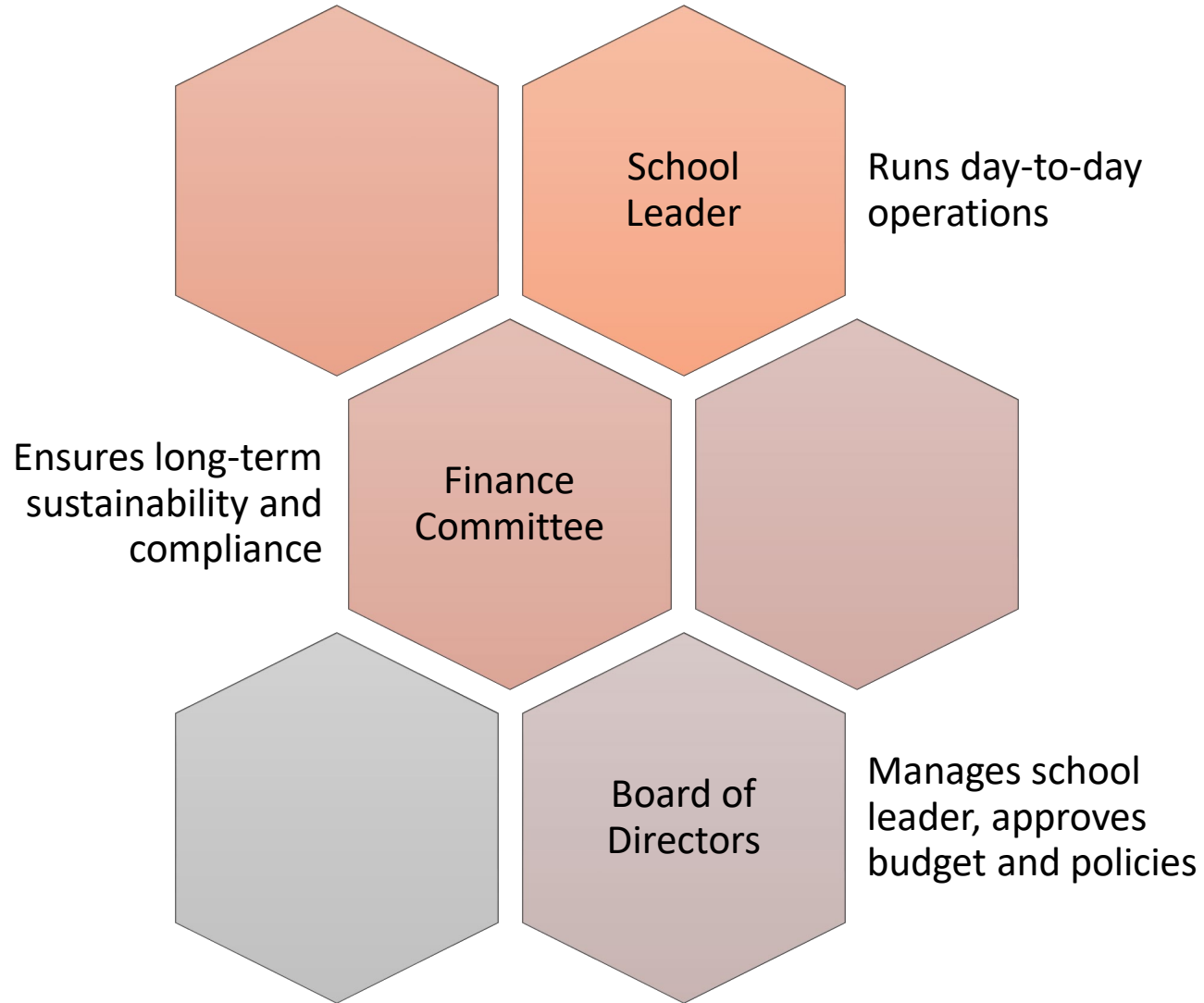
Throughout process, check to ensure budget aligns to strategic plan



Budget Training

- Who are the budget owner(s) at your school?
 - What authority do they have?
 - How experienced are they with budgets?
 - What training do they require?
 - How will training be provided?
 - How often will budgets be reviewed? By whom?
 - Who is responsible for managing variances?
 - Are these responsibilities explicit parts of their job description/performance review?

Key Stakeholders



GADOE Standards for Effective Financial Governance

The board provides guidance to the School Leader and sets sound fiscal policy so that the charter school is an effective steward of all resources to support student achievement and organizational effectiveness.

Standard A: The governing board upon recommendation of the School Leader **adopts a budget** that adheres to State law provisions and is consistent with its strategic

Standard B: The governing board adopts **policy for sound fiscal management and monitors the implementation of the budget** in accordance with state laws and regulations.

Elements:

1. The board **provides guidance** to the School Leader, who develops and manages the budget in accordance with the school's strategic plan, and **adopts fiscal policies** that assure improved student achievement and organizational effectiveness.
2. The board **conducts budgeting discussions** with the School Leader and establishes specific budget parameters where deemed necessary or appropriate.
3. The governance leadership team **seeks community and stakeholder input, review, and feedback** on the budget.
4. The board **approves**, after careful consideration of sound business and fiscal practices, the **school's budget reflecting the strategic plan**.

Elements:

1. The board **develops policies to ensure sound fiscal management**, including but not limited to: balanced budget requirements, spending level authorizations and permissions, deficit spending restrictions, establishment of special funds, and reserve maintenance requirements.
2. The board **holds the School Leader accountable for the implementation of the budget** in a manner consistent with the strategic plan.
3. The board establishes, through policy, the level of spending beyond the budget for which the School Leader must seek board approval.
4. The board **monitors the school's audits, monthly financial reports, and additional financial reports** needed to make informed decisions and to ensure execution of the budget in a manner consistent with the strategic plan and strategic goals of the school.
5. The board **reviews and addresses annually audited financial records** and audit findings, with a goal of proactively preventing audit exceptions.
6. The board addresses fiscal matters in a manner consistent with **law, sound business practice, and ethical principles** regarding conflicts of interest in Domain VIII - Ethics.
7. The board operates in a manner such that the board's financial decisions and actions **do not provide unfair financial or other opportunistic advantages** to any member of the governance board, their family members, associates, or individual constituents.

Source: <https://www.gadoe.org/External-Affairs-and-Policy/Charter-Schools/Documents/1%20-%20Standards%20for%20Effective%20Governance%20of%20Georgia%20Nonprofit%20Charter%20School%20Governing%20Boards.pdf>

Financial Oversight

What is it and why does it matter?

- The action of **overseeing or supervising** something.
 - A charter school board provides "effective **oversight** of the financial reporting process."
- To be **effective** is to be successful in producing a desired or intended result.
 - A charter school board recommends "**effective** solutions to problems."
- Board Basics:*
 - A non-profit governing board holds the charter for a given school
 - Board responsibilities include ensuring academic goals met, as well as fiscal management and overseeing school-level decision making
 - By-laws written to determine composition of Board, general operations, elections, terminations, vacancies, conflicts of interest, meeting expectations
 - Principal/ED may serve as an ex-officio Board member but cannot vote

