



*Investment Partner in Renaissance 2010*

2009 New Ventures in Education Seminar:  
**Financial Planning and Management**

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*Creating a New Market of Public Education*

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## Session Goals

- ▶ Overcome “The fear”
- ▶ Become a More Educated Consumer of Financial Information
- ▶ Learn Best Practices
- ▶ Understand money/mission alignment

# The ultimate goal is to build a fiscally prudent and healthy operation that supports a high-quality school

## Features of a Fiscally Well-Managed School

- ▶ Funding priorities align with school mission and priorities
- ▶ Finances are integrated into daily business
- ▶ Finances are integrated into programmatic and strategic decisions
- ▶ Business and operations leadership/staff understands programs
- ▶ Grant expectations are within a reasonable range (No more than 5%-10% of your operating budget)
- ▶ 5-year plan updated on regular basis
- ▶ Clean year-end audits
- ▶ High achievement!

# Anyone considering opening a school must address three key components in their financial plan

- ▶ **BUDGETING:** the plan
- ▶ **SYSTEMS:** the mechanisms for executing and managing the plan
- ▶ **CONTROLS:** levers to ensure proper function of mechanisms and fidelity to plan

# Every charter and contract school leader needs to be familiar with four financial statements

Statements	Purpose	Key Components
<b>Budget</b>	<ul style="list-style-type: none"> <li>▶ Operations and program plan</li> <li>▶ Forecast of revenues and expenditures</li> <li>▶ Enables comparison with actuals</li> </ul>	<ul style="list-style-type: none"> <li>▶ Revenues: per pupil \$, fundraising</li> <li>▶ Expenses: FTEs, supplies, facilities</li> </ul>
<b>Income Statement (P&amp;L)</b>	<ul style="list-style-type: none"> <li>▶ Shows how revenue (top line) transforms into net income (bottom line) over a period of time.</li> </ul>	<ul style="list-style-type: none"> <li>▶ <math>\text{Revenues} - (\text{Expenses}) = \text{Net Income}</math></li> </ul>
<b>Balance Sheet</b>	<ul style="list-style-type: none"> <li>▶ Summary of organizations balances, at a single moment in time</li> <li>▶ Snapshot of financial condition</li> </ul>	<ul style="list-style-type: none"> <li>▶ <math>\text{Assets} = \text{Liabilities} + \text{Equity (net worth)}</math> or</li> <li>▶ <math>\text{Assets} - \text{Liabilities} = \text{Equity (net worth)}</math></li> </ul>
<b>Cash Flow Statement</b>	<ul style="list-style-type: none"> <li>▶ Statement of liquidity or solvency for recent past and foreseeable future</li> </ul>	<ul style="list-style-type: none"> <li>▶ <math>\text{Current Cash} + \text{Expected Cash} - \text{Expected payments} = \text{Expected Cash}</math></li> </ul>

# Every school leader should be fluent in key financial terminology

**Assets vs. Liabilities**

- ▶ Assets: \$ + other valuables owned by organization
- ▶ Liabilities: financial obligations
- ▶ *What you have vs. what you owe*

**Capital vs. Operations**

- ▶ Capital: expenditures for property (fixed assets) (e.g. equipment, real estate)
- ▶ Operations: day to day, ongoing expenses (e.g. payroll, food, chalk)

**Revenue vs. Expenses**

- ▶ Revenue: \$ coming in
- ▶ Expenses: \$ going out

**Budgets vs. Actuals vs. Projections**

- ▶ Budget: the plan
- ▶ Actuals: the reality
- ▶ Projections: revised forecast

**Restricted vs. Unrestricted**

- ▶ Restricted: \$ with strict rules for use (e.g. grant for specific program)
- ▶ Unrestricted: flexible \$ (e.g. general operating grant)

**Cash Flow vs. Budget**

- ▶ Cash Flow: actual \$ available over time
- ▶ Budget: the plan of expenses and revenue over time

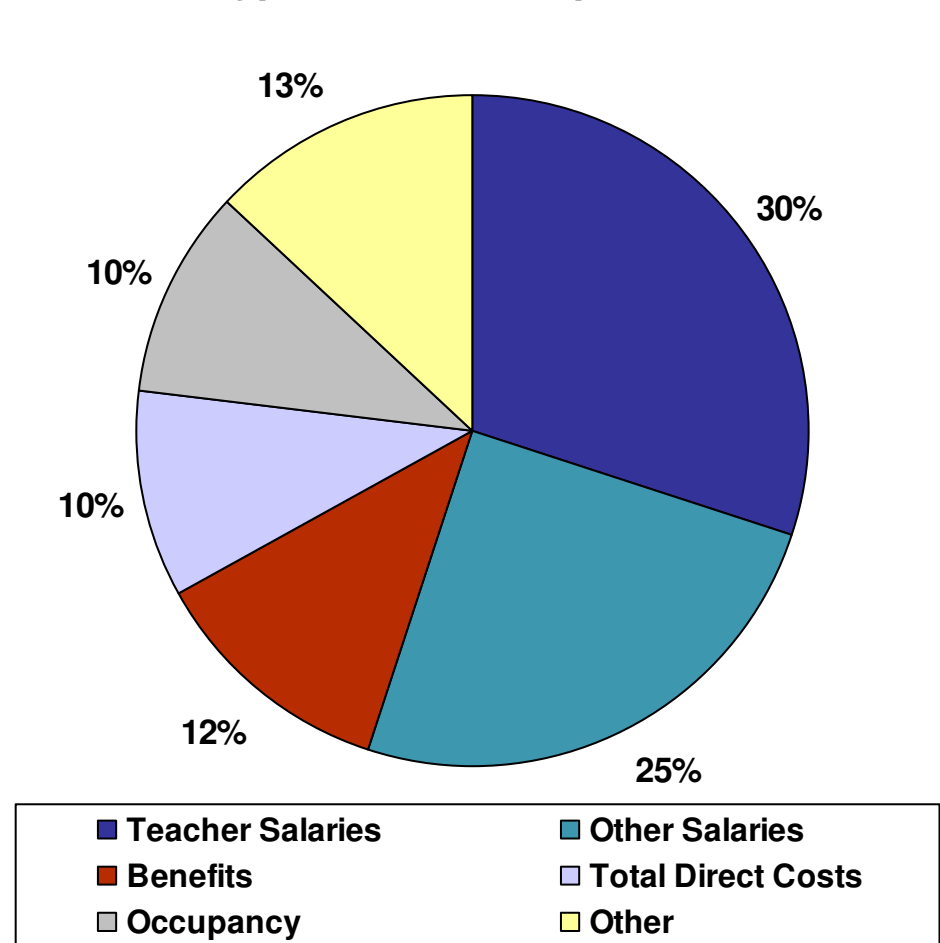
**Cash Basis vs. Accrual**

- ▶ Accrual: transactions recorded when earned or owed
- ▶ Cash Basis: transactions recorded when received or spent

# To build a strong budget, school leaders must have a handle on expense categories and their drivers

Typical Components	Drivers
Leadership	▶ School Model
Teachers	▶ Students per grade ▶ Teacher student ratio
Specialized Staff	▶ School Model ▶ Student needs/population
Direct Student Costs	▶ # of students ▶ Curriculum costs
Overhead	▶ Facility
Professional Development	▶ School Model ▶ Induction Program ▶ Staff
Specialty programs	▶ Programs

Typical School Expenses

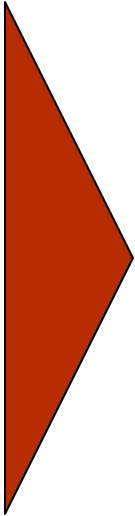


## The following tips can help in the development of a strong budget

- ▶ Use conservative projections
  - Be realistic and base numbers on reality, not on what you “hope” will happen
  - Be conservative with revenues and liberal in estimating expenses – you may find yourself pleasantly surprised with surplus
  - Be as detailed as possible, even though it is projection and estimation
- ▶ Mind the critical costs and revenue drivers
  - Enrollment
  - Compensation
  - Benefits
- ▶ Align budget to mission
  - Use \$\$ to think strategically about your mission and prioritize accordingly
  - Where will dollars bring the greatest return in terms of achievement?
- ▶ Build an informed and actively engaged team
  - Ask lots of questions to get your head around it – especially ones you think might be stupid!
  - Business and operations need to understand programs
  - An effective school leader MUST understand operations

# Budget Scenario 1: Balance emerging need against planned expenses

Situation
<ul style="list-style-type: none"><li>▶ Incoming student performance is significantly below those predicted in the school design</li><li>▶ A new, more expensive remedial curriculum is needed to meet their needs</li><li>▶ Budget is tight and additional funding sources are tapped out</li></ul>

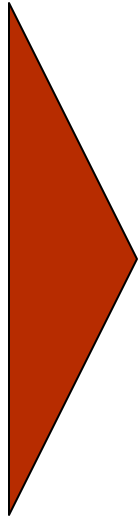


What do you do?

Key Questions
<ul style="list-style-type: none"><li>▶ What is the added cost?</li><li>▶ When does it have to be paid?</li><li>▶ How critical is this to your mission?</li><li>▶ What budget costs are discretionary?</li><li>▶ Are any discretionary expenses less critical?</li><li>▶ If so, is there enough funding to cover this cost?</li><li>▶ What is the impact of reallocating the funding?</li><li>▶ Is there a way to minimize this impact?</li></ul>

# Budget Scenario 2: Adjust to reduced student enrollment

Situation
<ul style="list-style-type: none"><li>▶ July 1<sup>st</sup>, 100 students have committed to enroll; school opens September 1<sup>st</sup></li> <li>▶ School's budget based on projected enrollment for year one of 150 students, creating a 33% shortfall</li></ul>



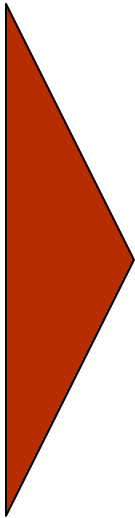
What do you do?

Key Questions
<ul style="list-style-type: none"><li>▶ Are supplemental funds available to lessen shortfall?</li> <li>▶ What are the most effective strategies for increasing enrollment on a tight timeline?</li> <li>▶ Are there discretionary resources available to employ these recruitment strategies?</li> <li>▶ Does the shortfall necessitate program/personnel cuts?</li> <li>▶ Which programs/personnel are essential? Which are expendable?</li> <li>▶ Which programs/personnel might be added later as school and enrollment grow?</li> <li>▶ What lessons can be learned?</li></ul>

# Budget Scenario 3: Make decisions/trade-offs between competing initiatives

## Situation

- ▶ School’s program plan includes both outsourced healthy food and after school enrichment programs
- ▶ The food provider increases their estimate 50% due to high food costs, constricting budget and endangering the after school program
- ▶ Students have been recruited with the promise of both services.



What do you do?

## Key Questions

- ▶ What is the quality of each program and what value do you anticipate it will provide?
- ▶ What are intended benefits of each relative to cost?
- ▶ Which program is more central to mission?
- ▶ Are there alternative, cheaper providers?
- ▶ Could either service be rendered well in-house?
- ▶ Would it be possible to postpone either program to a later date? Will there be money down the line?
- ▶ What are risks of changing, eliminating or postponing either program?
- ▶ What lessons can be learned?

## Negotiating tradeoffs requires prioritization within the budget

### What's most important?

Two trusty considerations to revisit routinely for guidance:

- 1) **Bang for your buck** - Is the expected ROI predictable or measurable? Is there data to inform this estimation/calculation?
- 2) **Centrality to mission** – Which of options is a greater driver of our mission? (Consider both principle and practice, but keep in mind that practice trumps principle)

## Reality may require cutting some programs – make sure critical programs are funded first

- ▶ Ask yourself, “What positions/programs are critical to implementing our mission?”
  - Allocate funds to these areas first
  - Fund other programs in decreasing order of priority
- ▶ Determine what programs and positions can be rolled-out over time
  - Build these into your 5-year plan
  - Leverage partnerships to provide services
- ▶ Be creative, as you may have to do more with less
  - Full positions with benefits vs. contract work
  - Split positions
  - Community partnerships
  - Supplemental funding

## Structure incentives for staff into the financial plan

- ▶ Find ways to build in rewards
- ▶ Professionals respond to financial incentives
- ▶ A pleasant work environment
  - Celebrations
  - Monetary rewards
- ▶ **Examples**
  - Work with staff to create a set of goals with benchmarks set to a timeline with specific assigned responsibilities
  - Tie stipends to successful enactment of plan and achievement of goals
- ▶ Sometimes a \$500 thank you note tied to a specific challenge is a greater motivator than \$1000 in added salary

**To get the most out of a school budget, each school needs a business manager role – someone to manage finances and evaluate trade-offs**

### Typical Finance Related School Roles

- ▶ Data entry and bill paying
- ▶ Accounting/Audit preparation
- ▶ Strategic budgeting
- ▶ Fiscal reporting
- ▶ Oversight of financial systems
- ▶ Revenue tracking

## **School Leaders and Board Members must ensure strong financial systems and controls and academic programs**

- ▶ The responsibility is yours:
  - The taxpayers
  - The community
  - Your staff
  - Your students
  
- ▶ Make sure you understand and your financial position
  - How much money do you have?
  - How much flexibility is in your budget?
  - Worst-case scenario, how much money will you have next week? Next month? Next year?

## It is important to develop Financial Systems & Controls in the planning phase to drive ongoing success

- ▶ There should be a PROCESS and PROTOCOL for authorizing and capturing expenses
- ▶ Accurate capture of each financial transaction in your accounting system enables:
  - Precise Monthly Financial Statements
  - Seamless Annual Financial Audits
- ▶ Critical reports should be developed early
  - Chart of Accounts that is organized in a way that is comprehensible and reflects accurately how you actually spend and operate
  - Cash flow report with entire chart of accounts and projection for one year into the future
- ▶ Financial Policies and Procedures Manual should be established
  - Describes how financial transactions are initiated and captured
  - Created by the business manager with input from school leader and Board
  - Ultimately approved by the Board

## Clear, comprehensive, and transparent financial systems must be established prior to school opening

System	Brief Description
<b>Accounts Payable (A/P)</b>	<ul style="list-style-type: none"> <li>▶ Clear and transparent system for processing invoices.</li> <li>▶ One page expense approval form with categories for booking information. Who processes? Who approves? Who cuts check? When does this all happen?</li> </ul>
<b>Financial Filing</b>	<ul style="list-style-type: none"> <li>▶ Very organized, color-coded paper filing system for <u>all</u> financial information               <ul style="list-style-type: none"> <li>– Location</li> <li>– Back-ups</li> <li>– File by vendor</li> </ul> </li> </ul>
<b>Oversight and reporting</b>	<ul style="list-style-type: none"> <li>▶ Schedule for review of all financial information and reports</li> <li>▶ What reports are generated? By whom? When? Who creates management narrative? Who participates in conversation?</li> </ul>

## A strong school leadership team should actively review the following financial reports

Reports	Time to Complete	Producers	Reviewers	Frequency & Timeline
<ul style="list-style-type: none"> <li>▶ Audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ 10 days – 6 weeks</li> </ul>	<ul style="list-style-type: none"> <li>▶ Licensed, well regarded auditing firm</li> </ul>	<ul style="list-style-type: none"> <li>▶ School leadership team</li> <li>▶ Board</li> <li>▶ Funders</li> <li>▶ Charter-granting entity</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annually</li> </ul>
<ul style="list-style-type: none"> <li>▶ Budget v. Actuals - Current</li> <li>▶ Cash flow</li> </ul>	<ul style="list-style-type: none"> <li>▶ Templates take a few weeks to develop, with board input</li> <li>▶ Ongoing updates take an hour</li> </ul>	<ul style="list-style-type: none"> <li>▶ Business Manager</li> </ul>	<ul style="list-style-type: none"> <li>▶ School leadership team</li> <li>▶ Board Finance Committee</li> </ul>	<ul style="list-style-type: none"> <li>▶ Generated weekly</li> <li>▶ Reviewed weekly with school leadership</li> <li>▶ Shared with Board Finance Committee at least monthly</li> </ul>
<ul style="list-style-type: none"> <li>▶ Balance sheet, P&amp;L, Budget v. Actuals</li> </ul>	<ul style="list-style-type: none"> <li>▶ Requires closing fiscal year. May take a few weeks.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Business Manager</li> </ul>	<ul style="list-style-type: none"> <li>▶ School leadership team</li> <li>▶ Board finance committee</li> </ul>	<ul style="list-style-type: none"> <li>▶ Quarterly and annually</li> </ul>

## Critical controls and oversight must be established

### Critical Controls

Controls	Description
<b>Signature Authority</b>	<ul style="list-style-type: none"> <li>▶ Leader &lt; \$10K</li> <li>▶ Board Chair &gt;\$10K</li> </ul>
<b>Budget Adjustment Authority</b>	<ul style="list-style-type: none"> <li>▶ Board Finance Committee approval</li> <li>▶ Review all adjustments at full board meeting</li> </ul>
<b>Contract Signature Authority</b>	<ul style="list-style-type: none"> <li>▶ Leader with documented approval of Board Chair</li> </ul>
<b>Expense Authority</b>	<ul style="list-style-type: none"> <li>▶ Leader &lt; \$10K</li> <li>▶ Finance Committee &gt; \$10K</li> </ul>

### Oversight

Group	Role
<b>Board Finance Committee</b>	<ul style="list-style-type: none"> <li>▶ Regular review of financials- monthly</li> <li>▶ Advisement</li> <li>▶ Intermediary to board</li> </ul>
<b>Auditors</b>	<ul style="list-style-type: none"> <li>▶ 3<sup>rd</sup> party, disinterested review, evaluation and judgment</li> </ul>
<b>School Leadership Team</b>	<ul style="list-style-type: none"> <li>▶ Appraisal of alignment of money and mission</li> </ul>