Fiscal Health and the Audit

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Division of School Business
Objectives

• Identify several simple methods to effectively evaluate your school’s financial health
• Provide five Financial Principles you need to know before you can begin assessing your school’s financial health
• List 10 characteristics of financially health charter schools
• List 10 Red Flags to watch out for indicating financial distress
• Who else uses this information to assess your school?
Key Duties to Evaluate Charter School Financial Health

• Reading and interpreting your school’s financial statements
• Knowing if your school’s resources have kept pace with your expenses
• Tracking your school’s financial trends
• Spotting characteristics of both financial health as well as signs of distress
• Determining if your school is gaining or losing financial ground.
Financial Principle #1

*Financial health is necessary for your school to effectively deliver the intended educational services.*

- When to measure?
  - Application
  - Ongoing
  - Renewal
Financial Principle #2

*Anticipation is the key to financial stability.*

During the course of a charter term there are several financial “detours” that your school may encounter.

- Significant unplanned change in student enrollment
- Significant unexpected change in policy environment
- Sudden loss or sun-setting of a particular revenue stream
- Significant turnover in leadership at administrative or board level
Financial Principle #3

*Financial information is based on periods of time.*

- Know what you are looking at
- Core components
Know What you are Looking At

• Internal financial statements
  – Used by school staff or management
  – Not reviewed or prepared by outside professional
  – Detailed

• Financial statement compilation
  – Prepared by external CPA based on information provided by school without auditing

• Financial statement review
  – Limited examination of financial statements by CPA
  – Questions and some analysis, no testing
Core Components

• Independent Auditor’s Report – examination and testing by independent CPA using protocols established by governing standards boards
• Statement of Financial Position (balance sheet)
• Statement of Activities (income statement)
Financial Statements

The audited financial Statements:

• Provide significant information about the financial health of the school
• Request that the audit firm present the audit to the Board and administration and explain them in easy terms
• Use the audit findings to improve and develop and implement corrective action plans to resolve identified issues

If there is effective budget review, nothing in the audit should be a surprise
Financial Principle #4

Assets can be just as, if not more, important as income.

- Statement of Financial Position
- Statement of Activities
Financial Principle #5

Numbers are only *valuable* when compared.

• Key financial metrics
• Quantitative vs Qualitative
Key Financial Metrics

• Student data
• Staff data
• Financial performance and position
• Financial ratios and metrics
Financial Trend Analysis

Financial Performance Framework

- Gauges both near-term financial health, longer term financial sustainability and administration’s ability to adequately manage finances for each school.
- Annual utilization and reporting of the financial framework provides tools to recognize schools currently in or trending towards financial difficulty and to more proactively evaluate or address the problem.
- Aligns with NACSA’s Principles & Standards for Quality Charter School Authorizing (2012), which states that authorizers should, through a performance framework, set clear expectations for “financial performance and sustainability.”
What is the Financial Performance Framework?

The Financial Performance Framework is a monitoring tool that provides key data used to:

- Assess the financial health
  - Past financial performance
  - Current financial health
  - Potential financial trajectory
- Assess the fiscal viability of the school
- Determine whether deeper analysis or monitoring is required.
How is the Financial Performance Framework used?

• Assessment and General Monitoring
• Intervention
• Renewal
• Revocation
## Financial Information Used for Metrics

<table>
<thead>
<tr>
<th></th>
<th>2014 Audit</th>
<th>2015 Audit</th>
<th>2016 Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>763,285</td>
<td>553,025</td>
<td>763,861</td>
</tr>
<tr>
<td>Current Assets</td>
<td>851,372</td>
<td>716,488</td>
<td>958,820</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1,413,462</td>
<td>2,367,088</td>
<td>2,779,469</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>404,421</td>
<td>369,569</td>
<td>351,150</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>466,000</td>
<td>1,108,119</td>
<td>1,001,911</td>
</tr>
<tr>
<td>Deferred Inflows of Resources</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Assets / Fund Balance</td>
<td>947,462</td>
<td>1,258,969</td>
<td>1,777,558</td>
</tr>
</tbody>
</table>
## Financial Information Used for Metrics (continued)

<table>
<thead>
<tr>
<th></th>
<th>2014 Audit</th>
<th>2015 Audit</th>
<th>2016 Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue*</td>
<td>3,570,192</td>
<td>3,776,518</td>
<td>3,944,421</td>
</tr>
<tr>
<td>Total Expenses*</td>
<td>3,321,987</td>
<td>4,671,598</td>
<td>3,673,041</td>
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<tr>
<td>Expenditures Under (Over) Rev</td>
<td>248,205</td>
<td>(895,080)</td>
<td>271,380</td>
</tr>
<tr>
<td><strong>Other Financing Sources (Uses)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to other funds</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Loan proceeds</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Proceeds from capital lease</td>
<td>6,173</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Proceeds from notes payable</td>
<td>0</td>
<td>760,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Special Item:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance reimbursement</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Change in Fund Balance</strong></td>
<td>254,378</td>
<td>(135,080)</td>
<td>271,380</td>
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</table>
## Ratio Analysis

<table>
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<tr>
<th>m Indicators</th>
<th>2014</th>
<th>2015</th>
<th>2015</th>
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<tbody>
<tr>
<td>Current Ratio</td>
<td>2.11</td>
<td>1.94</td>
<td>2.73</td>
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<tr>
<td>Unrestricted Days Cash</td>
<td>83.87</td>
<td>43.21</td>
<td>75.91</td>
</tr>
<tr>
<td>ADM Variance (Increase or Decrease)</td>
<td>1.05</td>
<td>1.05</td>
<td>1.03</td>
</tr>
<tr>
<td>Default</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Revenue over expenditures</td>
<td>248,205</td>
<td>(895,080)</td>
<td>271,380</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>lility Indicators</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Margin</td>
<td>7%</td>
<td>-4%</td>
<td>7%</td>
</tr>
<tr>
<td>Debt to Asset</td>
<td>0.33</td>
<td>0.47</td>
<td>0.36</td>
</tr>
<tr>
<td>Debt Service Coverage Ratio</td>
<td>2.93</td>
<td>0.19</td>
<td>4.81</td>
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<tr>
<td>Unassigned Govt Fund Balance</td>
<td>17%</td>
<td>9%</td>
<td>19%</td>
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</tbody>
</table>
Summary Report based on Metrics

A report of financial concerns is created for each school with the following:

- Indicators of financial weakness
- Audit findings
- Student accounting concerns
- Other issues from other areas with financial implications e.g. EC non compliance
Qualitative Data

Financial health can be evaluated through many forms other than data (quantitative):

- Short and long term organizational plans
- Contingency plans
- Sustainability of current funding streams
- Management strength
- Adequately staffed financial systems supported by strong internal controls
- Engaged Board with a finance committee
10 Signs of a Financially Healthy Charter School

1. Committed to income-based spending
2. Possess sufficient financial resources to ensure stable educational programming.
3. Retain positive fund balance (net assets) at the end of the year
4. Have an established (or have plans to establish) reserve to finance cash shortfalls and/or program growth.
5. Deploy financial systems that are adequately staffed, ensure proper internal controls and support the school’s educational mission.
6. Maintain healthy relationship with outside financial entities such as bank or audit firm.
10 Signs of a Financially Healthy Charter School (continued)

7. Have a Board of Directors committed to the responsibility of the school’s financial stability.

8. Provide financial reports in a timely manner that include accurate information.

9. Utilize financial information that demonstrates accountability, provides for effective evaluation of the school’s mission, supports planning and allows the school to respond effectively to change.

10. Communicate short and long term goals with stakeholders and work with them to create and meet reasonable information commitments and proactively deal with issues and concerns.
10 Red Flags

2. Consistently spends more money than it receives.
3. Leadership cannot communicate financial information in a clear, understandable way.
4. Accounts payables remain consistent or increase.
5. Accounts receivables go uncollected.
10 Red Flags (continued)

6. Lack of money becomes main topic at staff or board meetings.
7. Absence of regular financial reporting at board meetings.
8. Irregular board meetings and minutes.
9. Absence of effective policies and procedures, use of metrics and reporting.
10. Excessive optimism – won’t acknowledge potential or current issues or changes
Questions?
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