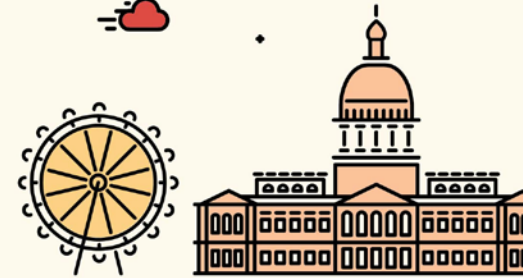
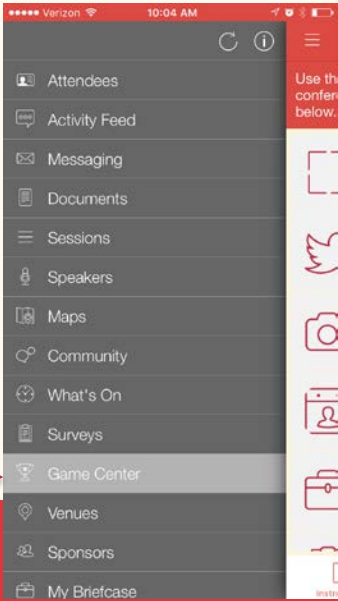




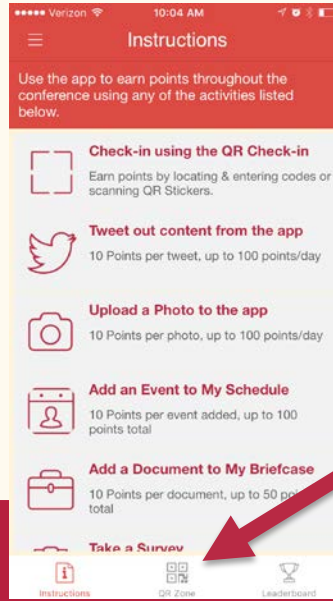
STAND TOGETHER TO FACE THE FUTURE



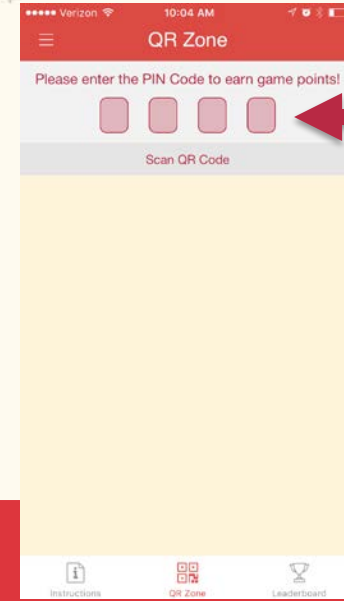
2016 NACSA LEADERSHIP CONFERENCE | ATLANTA, GA



**GO TO THE
GAME CENTER**



**CLICK "QR
ZONE"**



**ENTER YOUR
SESSION'S PIN**

**SESSION NAME: The Financial Basics Every Staffer
Should Know...Even Non-Finance Folks!**

**LET YOUR
PRESENTERS
KNOW YOU'RE
HERE, AND EARN
POINTS!**

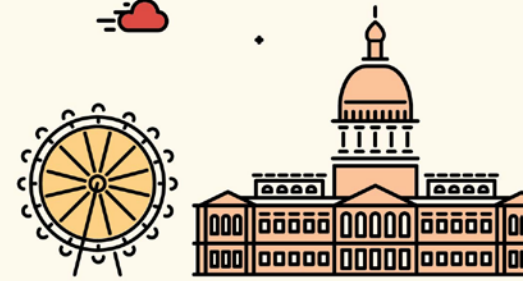
**SESSION PIN:
#NACSAcon**

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FINANCE 101

THE FINANCIAL BASICS EVERY STAFFER
SHOULD KNOW...EVEN NON-FINANCE
FOLKS!



BRIAN DICKEY – INDIANAPOLIS MAYOR’S OFFICE
SARAH CURFMAN – CLIFTONLARSONALLEN
WHITNEY SPALDING SPENCER – NACSA

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ICE BREAKER

What is your understanding of, comfort with, or feelings toward finance/financial statements?

Line up from one side of the room to the other, with one side representing “finance novice” and the other side “feeling like a pro.”



GOALS

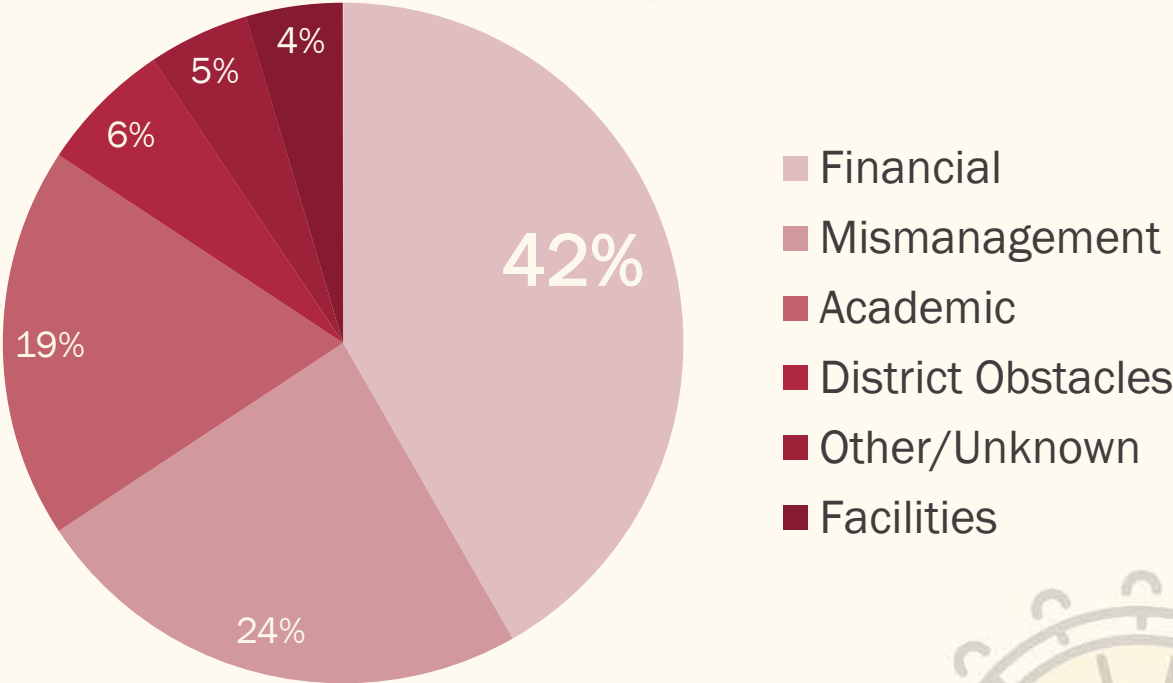
At the end of this session, you will be able to:

- Understand basic financial terms and statements.
- Understand how financial statements and information can be used to understand historical, current, and future performance.
- Identify red flags and better understand the financial health and performance of your schools, as well as how schools can address any red flags.



WHY DO I NEED TO UNDERSTAND FINANCE?

According to the Center for Education Reform, **42%** of charter school closures can be attributed to **financial deficiencies**.

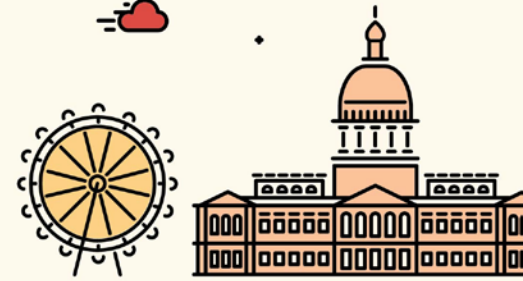


WHEN DO I NEED TO UNDERSTAND FINANCE?



FINANCIAL TERMS AND STATEMENTS

FINDING MEANING IN SCHOOL FINANCIAL STATEMENTS



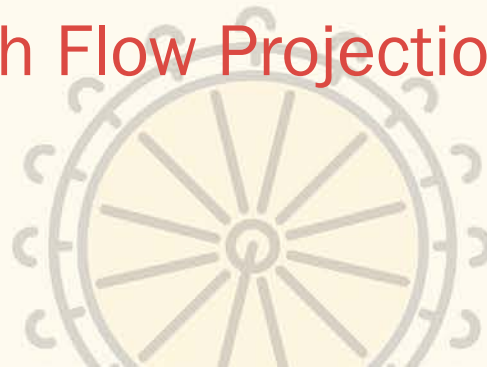
FIVE FINANCIAL BASICS #1-2

1. There are two basic types of income

- **Revenue** – Self-generated fees for service/sales
- **Support** – Charitable contributions and grants

2. Financial information is based on periods of time

- Past.....**Financial Statements**
- Future.....**Budget**
- Present Reality.....**Cash Flow Projections**



FIVE FINANCIAL BASICS #3-5

3. Numbers are meant to be compared

- Actual vs. budget
- Current year to date vs. prior year to date
- Current month vs. prior month
- Budget vs. historical averages

4. Anticipation is the key to financial stability

- Managers need **TIME** to adjust if revenues are not coming in according to plan.

5. Financial health is **essential** for the effective delivery of services



KNOW WHAT YOU ARE LOOKING AT

Organizations produce various types of financial reports, which provide different types of information to readers, and are used for varying purposes.

- Audited Financial Statements
- Internal Financial Statements
- Budget
- Other Financial Reports



AUDITED FINANCIAL STATEMENTS

This type of statement **has been examined and tested by independent certified public accountants**, using protocols established by the Financial Accounting Standards Board.

Issued once a year and are accompanied by an **“Independent Auditors’ Report”** which expresses an opinion as to whether the financial statements have been presented fairly by the organization’s management.



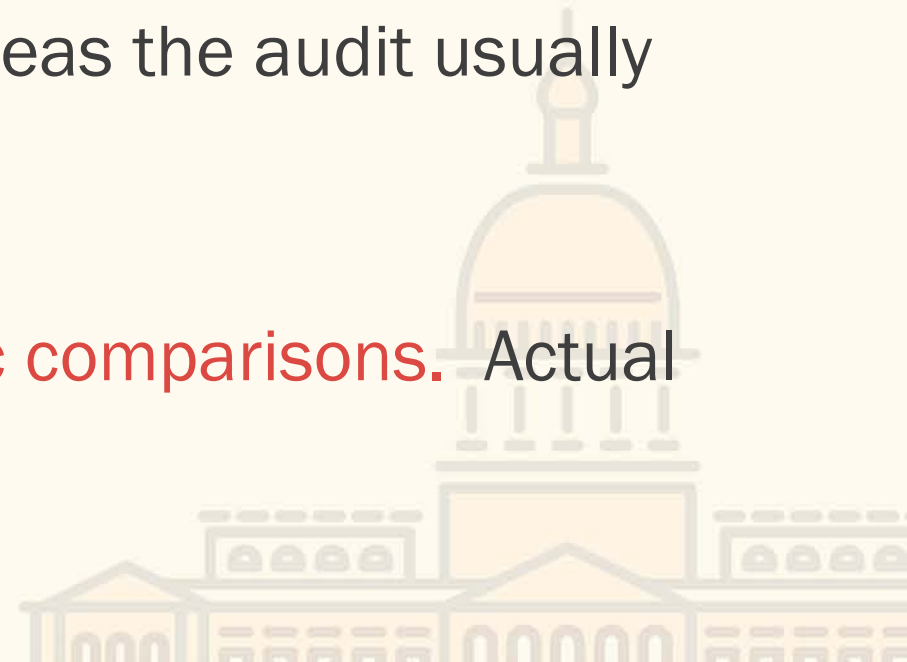
INTERNAL FINANCIAL STATEMENTS

This type of statement is what the organization uses on a **monthly basis** to track revenues and expenses.

Internal statements **should include more detail than the audit.**

Should reflect program-based accounting, where readers can see both revenues and expenses by program, whereas the audit usually shows only expenses by program.

Internal statements should include some **basic comparisons.** Actual vs. budget, current year vs. prior year, etc.



FINANCIAL STATEMENTS INCLUDE

Generic (For Profit)	Nonprofit	Governmental
Balance Sheet	Statement of Financial Position	Statement of Net Assets
Income Statement	Statement of Activities and Changes in Net Assets	Statement of Activities



BUDGET

Reflects **PLANNED** revenues and expenses, **NOT ACTUAL** revenues and expenses.



OTHER FINANCIAL REPORTS

Could include:

- Cash Flow
- Enrollment Variance Reports
- Rolling Financial Projections



THE STATEMENT OF FINANCIAL POSITION

(AUDITED AND INTERNAL)

Shows the organization's financial position at a particular point in time.

ASSETS: Economic resources the organization owns or has been promised.

LIABILITIES: Financial obligations; what the organization owes to others.

NET ASSETS: The difference between total assets and total liabilities.



ASSETS = LIABILITIES + NET ASSETS

- This is the equation that gives the “**balance sheet**” its title.
- **NET ASSETS** represent the accumulation of surpluses or deficits the organization has achieved since it began operating.



THE STATEMENT OF ACTIVITIES

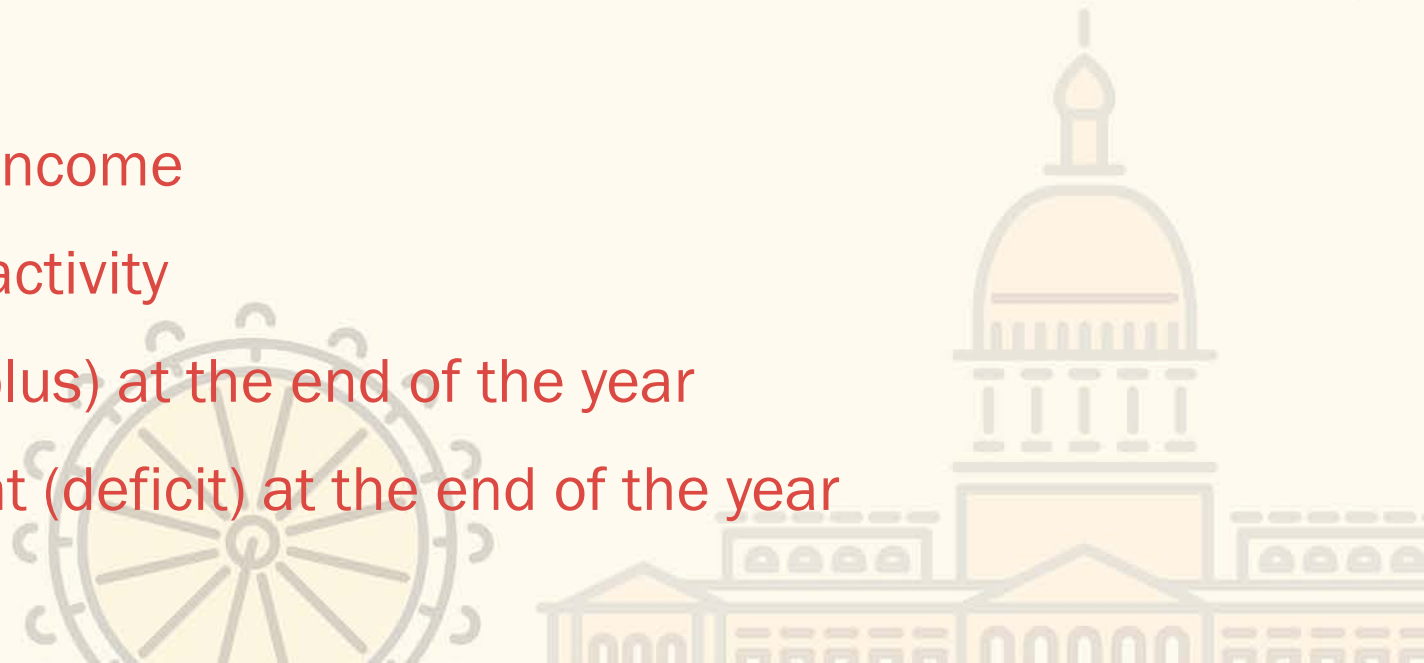
(AUDITED AND INTERNAL)

Shows all of the organization's financial activities from one point in time to another.

- From the beginning to the end of the fiscal year.
- From the beginning of the fiscal year through current month (YTD)

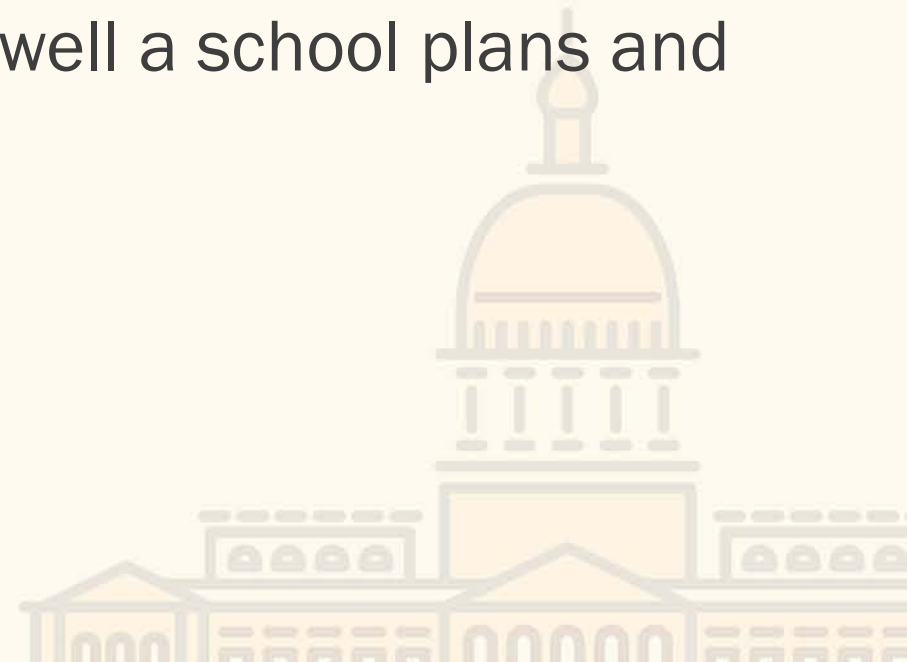
Also called income statement:

- Shows sources and amounts of income
- Shows expenses by category or activity
- How much income was left (surplus) at the end of the year
- How much income was overspent (deficit) at the end of the year

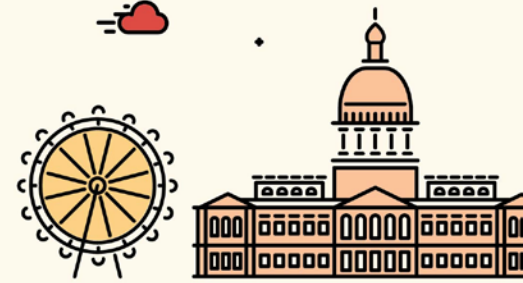


DISCUSSION

1. What documents would you look at to understand if the school has historically been financially stable?
2. What documents would you look at/request if you thought the school may be in immediate financial distress?
3. What would you look at to understand how well a school plans and executes against that plan?

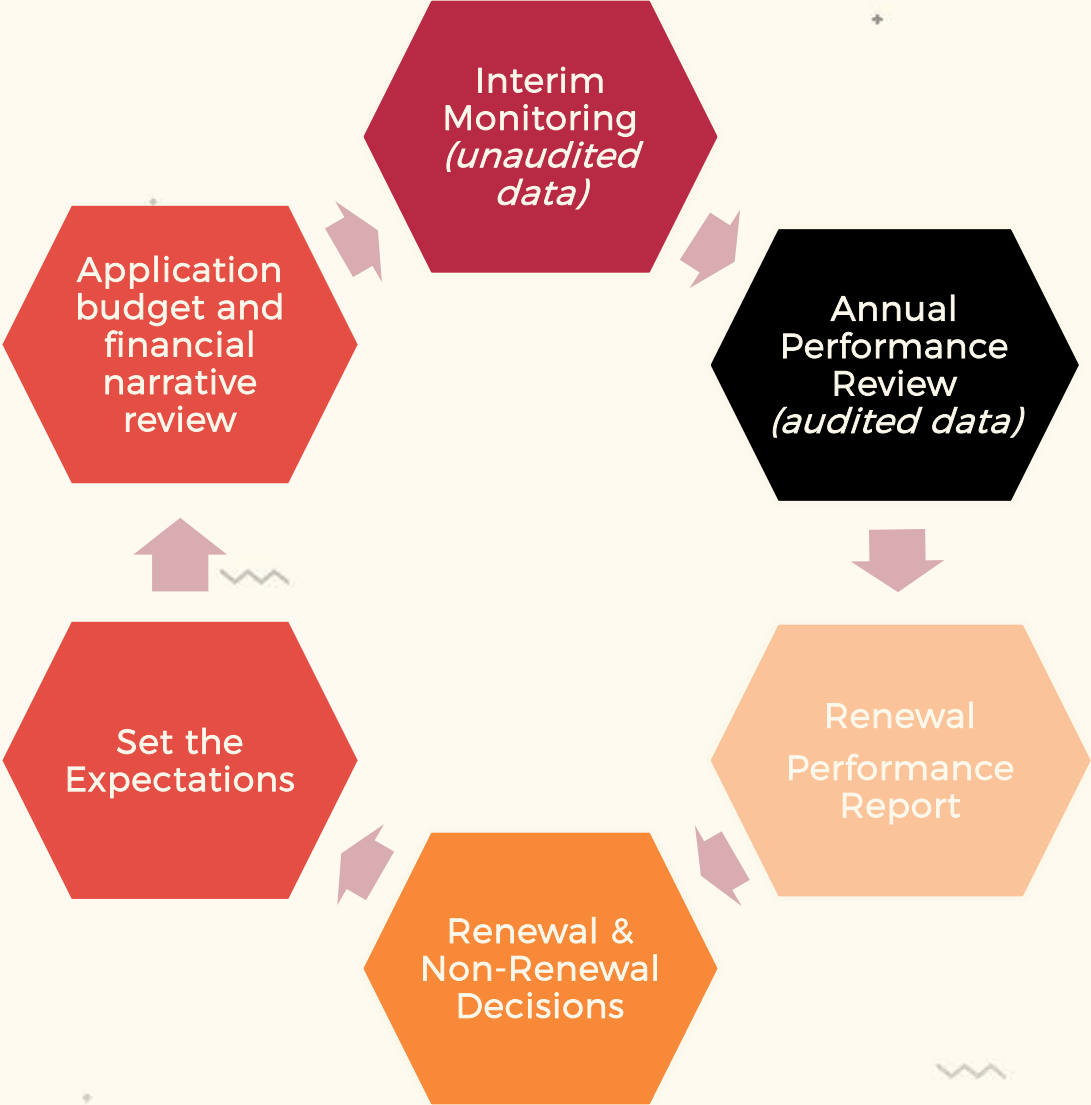


MEASURES FOR UNDERSTANDING FINANCIAL HEALTH



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WHEN DO I NEED TO UNDERSTAND FINANCE?



PERFORMANCE FRAMEWORK COMPONENTS

Academic

Is the academic program a success?

Financial

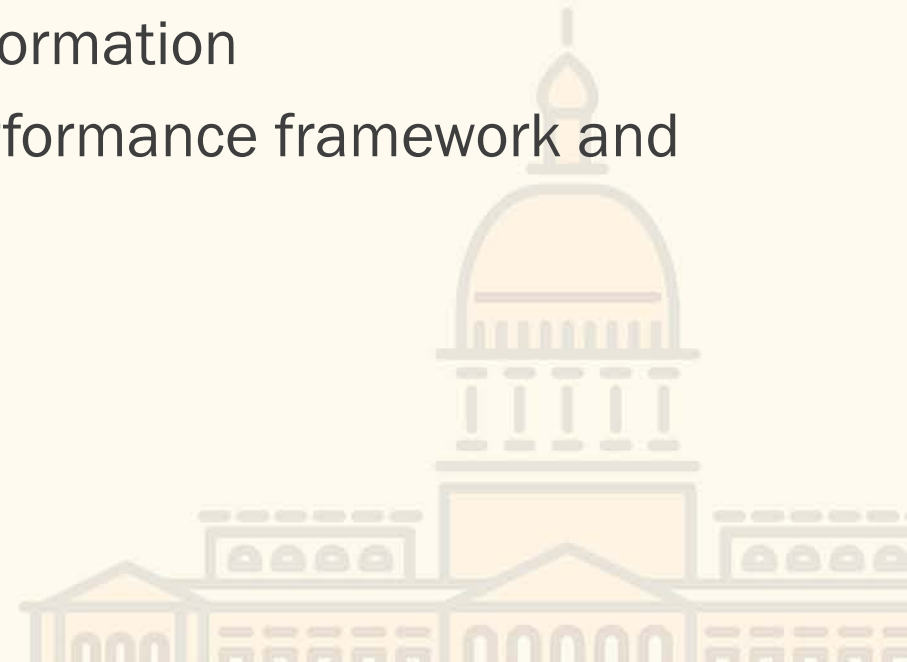
Is the school financially viable?

Organizational

Is the organization effective and well-run?

FINANCIAL PERFORMANCE FRAMEWORK HIGHLIGHTS

- Targets based on best practices in non-profit finance
- Focused on dollars and cents; not process. The organizational framework looks at financial management and GAAP.
- A school that does not meet the target on a measure may or may not be at risk of financial failure; authorizers **MUST** do follow-up investigation
- Primarily used once a year with audited financial information
- **Must** be used in conjunction with organizational performance framework and ongoing financial monitoring



CORE FINANCIAL FRAMEWORK MEASURES

Measure	Metric
Near Term Measures	
1.a	Current ratio
1.b	Unrestricted days cash on hand
1.c	Enrollment variance
1.d	Default
Sustainability Measures	
2.a	Total margin
2.b	Debt to asset ratio
2.c	Cash flow
2.d	Debt service coverage ratio

NEAR-TERM MEASURES

Current Ratio = Current Assets/Current Liabilities

- Measures the school's ability to pay its obligations over the next 12 months
- Target: Ratio of 1.1 OR ratio between 1.0 and 1.1 and one-year trend is positive

Unrestricted Days Cash = Unrestricted Cash/((Total Expenses – Deprecation Expense)/365)

- How many days a school can pay its expenses without another inflow of cash.
- Target: 60 days or 30-60 days and the one-year trend is positive

Enrollment Variance = Actual Enrollment/Budgeted Enrollment

- How accurately (or conservatively) does a school project its enrollment/how close is the school's revenue going to be to budgeted projections
- Target: Enrollment equals or exceeds 95% of budget

Debt Default

- If a school is current on debt obligations
- Target: School is not in default and is not delinquent on any debt service payments.

SUSTAINABILITY MEASURES

Total Margin = Net Income/Total Revenue

Aggregated Total Margin = Total 3 Year Net Income/Total 3 Year Revenues

- Whether a school operates with a surplus or deficit during a given time period
- Target: Aggregated three-year margin is positive OR aggregated three-year margin is better than -1.5 and the two year trend is positive.

Debt to Asset Ratio = Total Liabilities/Total Assets

- The extent to which the school is leveraged (i.e. relies on borrowed funds to finance operations).
- Target: Debt to asset ratio of less than 0.90

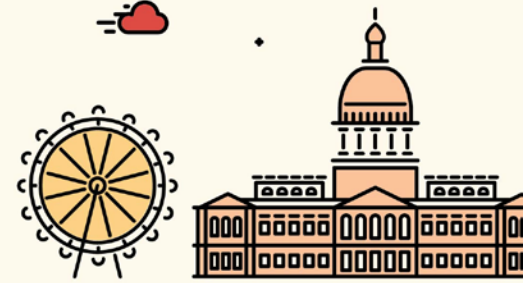
Cash Flow = Prior year cash – current year cash

- The trend of a school's cash balance over time
- Target: Multi-year cash flow is positive and cash flow in most recent year is positive

Debt Service Coverage Ratio = (Net Income + Depreciation + Interest Expense)/(Annual Principal, Interest, and Lease Payments)

- Whether a school can produce enough cash to cover its debt, including lease payments, in a given year
- Target: Debt to asset ratio equal to or greater than 1.1

INDIANAPOLIS MAYOR'S OFFICE APPROACH



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SCENARIO



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SCENARIO INSTRUCTIONS

- **Gather into groups of 4+**

- Review Scenario
- Complete Question 1 as a group

- *Whole Group Discussion*

- Complete Questions 2 and 3 as a group

- *Whole Group Discussion*

KEEP IN TOUCH


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