

Mastering Revenue, Forecasting & Accounting for Sustainability

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Who is ExED?

A Nonprofit, Mission-Driven Business Partner for Southern California's Leading Charter Schools

Results-focused:

As the full-service "CFO" for each school, ExED creates efficiencies and sound business practices that direct more resources to the classroom.

A Charter School Pioneer:

20 years of experience supporting some of the region's most dedicated and effective charter schools



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ExED By The Numbers



Charter
School
Clients

91



Students
Served by
ExED Clients

31,600



ExED
Financed
Facilities

29



Facility
Financing
Secured

\$175M



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Who is Vicenti, Lloyd & Stutzman (VLS)?

A charter school audit firm that works proactively with clients throughout the year to:

- Identify issues
- Resolve challenges early
- Recommend improvements to charter school systems



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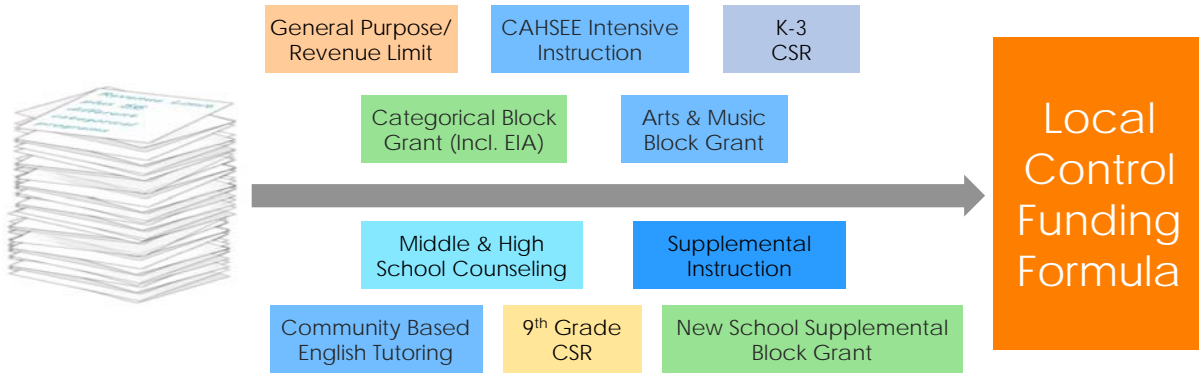
Topics for today

- Local Control Funding Formula (LCFF):
What it is and how do you calculate your expected revenue?
- How CALPADS and ADA reporting impact your funding
- Overview of other revenue sources and how you can access them
- Cash flow basics
- Budgeting for Sustainability
- Annual audit preparation



The changing landscape of charter school finance

The new K-12 finance system aims to reduce complexity



The Revenue Limit and 56 categorical programs were phased out and replaced by the new Local Control Funding Formula.



The Local Control Funding Formula has 3 main elements

Base grants

Same rate for every California student (by grade span)

- Adjustments to the K-3 base grant for Class Size Reduction (10.4%) and to the 9-12 base grant for Career Technical Education (2.6%)

Supplemental grant

Equal to 20% of adjusted base grant for English Learners, students eligible to receive free or reduced price meals, or foster youth

Concentration grant

Equal to 50% of the adjusted base grant for targeted students exceeding 55% of a charter school's enrollment (but capped at the eligible student enrollment of the district in which the charter school is located)



Calculating your LCFF

- Full implementation of LCFF is scheduled to take 8 years
- The coming fiscal year marks the 4th year of implementation— and we will be well over half of the way to full implementation
- The calculation to determine your revenue is complex, requiring three steps:



Let's Calculate Next Year's LCFF For A Sample School!

Excellent
Charter
School



Part 1: Calculating Excellent Charter School's LCFF Target

The first step is to determine base grant rates.

	A	B (A x COLA)	C (B x 10.4% for K-3; B x 2.6% for 9-12)
Grade Span	Start with the FY 2015-16 LCFF Base Rate Targets (A)	Apply the COLA - .47% based on the Governor's 16/17 Budget Proposal	Apply Grade Span Add-Ons 10.4% for K-3 2.6% for 9-12
TK-3	\$7,083	\$7,116	\$7,856
4-6	\$7,189	\$7,223	\$7,223
7-8	\$7,403	\$7,438	\$7,438
9-12	\$8,578	\$8,618	\$8,842



We'll apply these rates to the grade span ADA to calculate Excellent Charter School's Target Base Grant

Tip: In each new year, COLA is applied to the prior year's rate before the add-ons.

Part 1: Calculating Excellent Charter School's LCFF Target

Now that we know the base grant rates, let's apply them.

	C	D	E (C x D)
Grade Span	Adjusted Base Grant Rate	P2 ADA	ADA x Rate
TK-3	\$7,856	100	\$785,638
4-6	\$7,223	100	\$722,300
7-8	\$7,438	100	\$743,800
9-12	\$8,842	100	\$884,200



Excellent Charter School's Total Base Grant Target is **\$3,135,900.**

Part 1: Calculating Excellent Charter School's LCFF Target

Next, let's calculate the Supplemental Grant Target.

	C	F (C x 20%)	G (F * School's UPP*)	D	H (G x D)
Grade Span	Adjusted base grant rates	The supplemental grant rate is 20% of the adjusted base grant	ECS' Supplemental Grant Rates based on a 90% UPP	P2 ADA	Supplemental Grant
TK-3	\$7,856	\$1,571	\$1,414	100	\$141,400
4-6	\$7,223	\$1,445	\$1,301	100	\$130,100
7-8	\$7,438	\$1,488	\$1,339	100	\$133,900
9-12	\$8,842	\$1,768	\$1,591	100	\$159,100



Excellent Charter School's Total Supplemental Grant Target is **\$564,500.**

*UPP = Unduplicated Pupil Percentage. Starting in FY 15-16, the UPP is a 3 year average of the unduplicated count reported in CALPADS (Fall 1) divided by total Fall 1 enrollment.

Part 1: Calculating Excellent Charter School's LCFF Target

Then, let's calculate the Concentration Grant Target.

- The concentration grant kicks in for schools with a UPP of 55% or more, but it's capped at the UPP of the district in which the charter school resides.
- ECS resides in a district with a UPP of 80%.
- It will receive the concentration grant for 25% of its students (District UPP of 80% - 55% concentration grant threshold.)



Part 1: Calculating Excellent Charter School's LCFF Target

Then, let's calculate the Concentration Grant Target.

	C	I (C x 50%)	J (F * School's UPP*)	D	K (J x D)
Grade Span	Adjusted base grant rates	The concentration grant rate is 50% of the adjusted base grant	ECS' Concentration Grant Rates based on a 25% Concentration Grant UPP	P2 ADA	Concentration Grant
TK-3	\$7,856	\$3,928	\$982	100	\$98,200
4-6	\$7,223	\$3,612	\$903	100	\$90,300
7-8	\$7,438	\$3,719	\$930	100	\$93,000
9-12	\$8,842	\$4,421	\$1,105	100	\$110,500



Excellent Charter School's
Total Concentration
Grant Target is
\$392,000.



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However, you should **not** structure your budget according to your LCFF target.

Why?







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Part 2: Calculating Excellent Charter School's LCFF Floor

Now that we know ECS' target, we also need to calculate its starting point or "LCFF floor." To calculate the floor, we need to know:

-  FY 12/13 Base Rate: $\text{FY 12/13 General Purpose} \div \text{FY 12/13 P2 ADA}$
-  FY 12/13 Non-Frozen Categorical Rate (e.g. charter school categorical block grant): $\text{Non Frozen Categorical Funding} \div \text{FY 12/13 P2 ADA}$
-  FY 12/13 Frozen Categorical Funding Total (e.g. Supplemental Hours, CSR, Arts & Music Block Grant)
-  FY 14/15 & FY 15/16 Gap Funding Rate: $\text{FY Gap Funding} \div \text{FY P2 ADA}$ (In FY 17/18, we'll add the 16/17 Gap Funding Rate and so on.)



Part 2: Calculating Excellent Charter School's LCFF Floor

Multiply ECS' 12/13 Base Rate (\$5,000) by FY 15/16 ADA (400)	Multiply ECS' Non Frozen Categorical Base Rate (\$500) by FY 15/16 ADA	Add in the Frozen Categorical Amount (for ECS it was \$250,000)	Multiply the Prior Year's Gap Funding Rate to this year's ADA. For ECS, the gap funding rate was \$1,000.	Total LCFF Floor
\$2,000,000	\$200,000	\$250,000	\$400,000	\$2,850,000



The gap between Excellent Charter School's LCFF Floor (\$2,850,000) and its target (\$4,092,400) is **\$1,242,400.**

In his FY 16/17 Budget, Governor Brown proposes closing 49.08% of this gap.



Part 3: Calculating Excellent Charter School's LCFF Entitlement

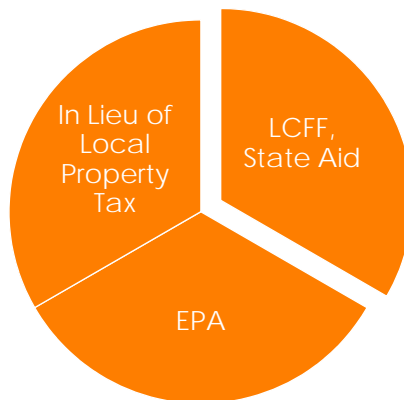


LCFF Target	LCFF Floor	Difference (Target - Floor)	Apply Gap Closing % to get Gap Funding	Total LCFF Entitlement (Floor + Gap Funding)
\$4,092,400	\$2,850,000	\$1,242,400	\$609,770	\$3,459,770

In FY 16/17, ECS' total LCFF entitlement will be **\$3,459,770**

LCFF will come via multiple funding streams.

Proportions will vary based on your school and your local district



Calculating LCFF for new schools

Instead of using FY 12/13 rates, new schools use the prior year rate from their school district. ECS #2 plans to open in FY 16-17. To approximate its prior year district rate, it can look up its district's FY 15-16 LCFF snapshot at <http://ias.cde.ca.gov/lcffsnapshot/>.

From the snapshot data, ECS #2 will find the transition entitlement and divide by the total ADA to get the FY 15-16 district rate.

Important: if the district's floor rate is higher than ECS #2's target rate, ECS #2's LCFF funding will be based on its target.

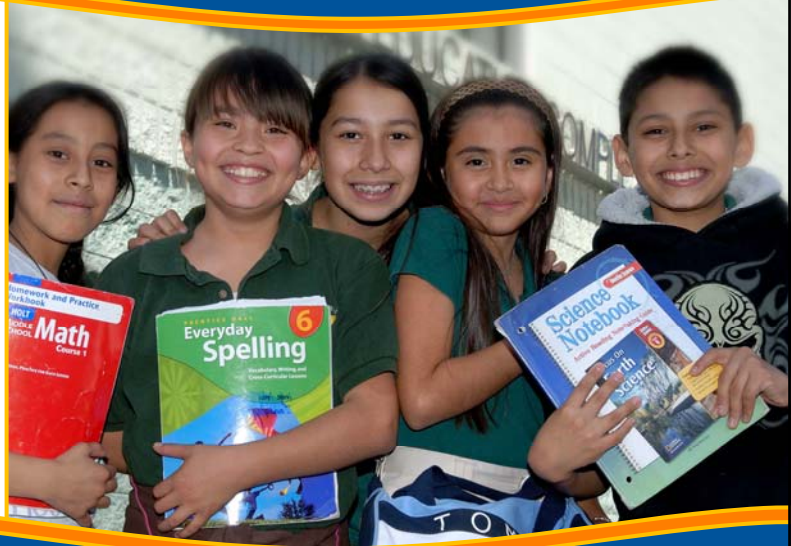
Targeting Supplemental and Concentration Grant Funds to High Need Students



While LCFF is an unrestricted revenue source, you are required to expand or improve services for high-needs students in proportion to the additional funding that these students bring to your school.

Tip: LCFF Calculators are available. Find one at <http://fcmat.org/local-control-funding-formula-resources/>

Accurate Data Reporting for LCFF



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Accurate Data Reporting is Critical

CALPADS

1. FALL 1 reports your Unduplicated Pupil Count (UPC)

- Meal Applications must all be collected, verified
- Report data submitted in December

2. Potential for error

- Not collecting all applications
- Not verifying
- Data entry errors
- Missing direct certification data
- CALPADS-SIS reporting issues

What if you underreport

by 40 free/reduced eligible students out of 300 eligible students with 400 enrolled?

- UPC rate reduced by 10%
- Reduce your LCFF rate by \$80/ADA OR loss of \$32,000

Note: Actual impact will vary by LCFF implementation, grade levels, etc.



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Accurate Data Reporting is Critical

Average Daily Attendance (ADA)

1. **Period 2 (P-2) report sets your ADA total for the year:** this represents the first 7 or 8 months' average daily attendance
2. **Attendance must be taken daily and accurately:** a single day missed throws off your whole report

What if you underreport by just 5 ADA?

- Reduce your funding by 5X your LCFF rate
- Example LCFF rate of \$9,500 – total loss of \$47,500



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Moral of the story...

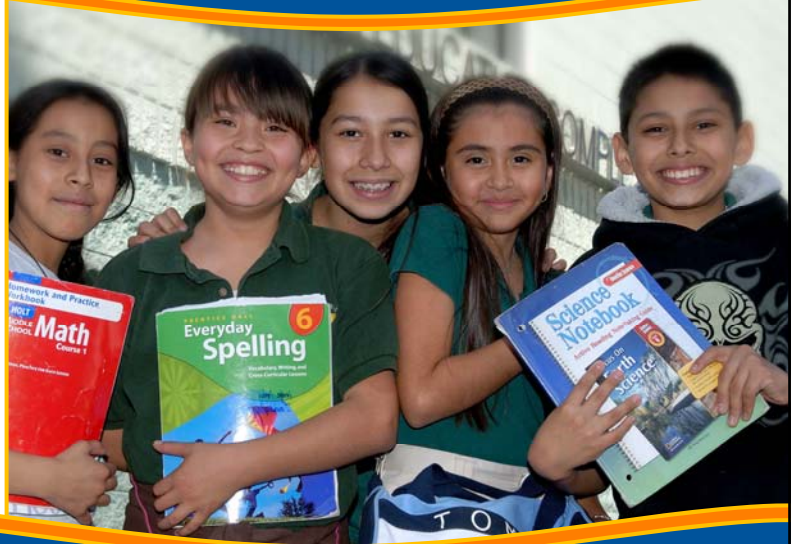
Accurate calculations
are important.



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Other Sources of Revenue



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Key Charter Revenue Sources

I. State Funding

- LCFF (Base + Supplemental + Concentration)
- State Programs – Mandate Block Grant, Special Ed, Lottery, SB 740, ASES

II. Federal Funding

- Title I, II, and III
- Special Education
- Child Nutrition
- Title V – Public Charter School Grant Program
- Facilities Incentive Grant

III. Local Funding

- Grants
- Fundraising
- Food and other sales



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What revenue is generated by ADA?

Revenue Source	Rate	CALPADS Requirement
LCFF	Varies	Yes!
Special Ed*	Varies	No
Lottery	\$181/ADA	No
Mandate Block Grant**	\$14/K-8 ADA \$42/HS ADA	No



*Special Ed rates/applications vary by SELPA.
**Must opt in each year.

How are other revenue sources generated?

Revenue Source	Rate	Application Type	CALPADS Requirement
Nutrition	Meal rates updated annually	Meal Claims and SFA set-up	No
SB 740	\$750/ADA or 75% Facility Costs, whichever is less	Forms at least 2x per year	Yes (FRPM Data)
Title Funds	Varies (Calculated by the CDE)	ConApp, LEA Plan, other reports	Yes (FRPM Data)
Special Ed*	Varies	Varies by SELPA	No
ASES	Typically \$150K for MS, \$112,500 for ES	Application every 3 years	No
Other Federal	Varies	Varies	Possibly FRPM

Cash Flow Schedules

Refer to the **Government Revenue Streams** handout

Some funding sources will always be partially deferred to following year

- Nutrition reimbursement
- SB 740 (facility grant)
- Public Charter Schools Grant Program (PCSGP)
- Some Title funds
- Lottery

Growing schools experience more cash flow impacts.



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Cash Flow: Helpful Tips

- Specific dates and funding amounts can be found on CDE website: www.cde.ca.gov/fg/aa/pa/index.asp
- Set up direct deposit with local district and county education
- Pick up checks when timing is of the essence
- Ensure you are preparing monthly cash flow forecasts
- Understand State Revenue Payment Schedule, including Special Advanced Apportionments for growing schools
- Plan for "hard times" during "good times"
- Establish strong communication between finance staff, finance committee and Board of Directors



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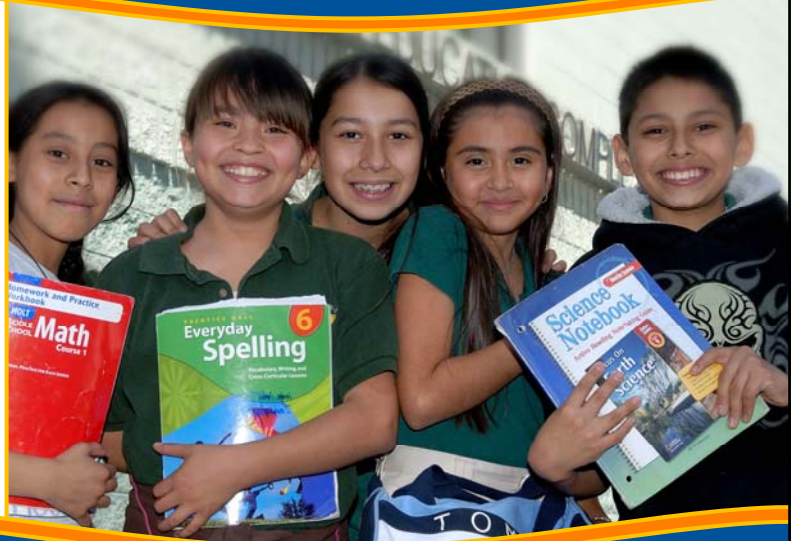
Cash Flow: Why Maintain Strong Reserves?

Even with fewer deferrals, it's critical to protect against:

- Economic downturns and budget cuts
- **Volatility in LCFF gap closure funding (especially if you have high unduplicated count)**
- Not reaching enrollment targets
- Unplanned/emergency expenses (i.e. STRS increases)
- Cash shortages due to payment schedules, school growth and other deferrals



Budgeting for Sustainability



Expenses are revenue dependent – you can't spend what you don't have...

...and budgeting for sustainability means having a long term view of both your revenues and expenses.



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Sustainability Check List

Revenue

I use one-time revenues for one-time expenses. I will be able to sustain current expenditures in the out years.

Enrollment

I understand the enrollment trends in my neighborhood including birth rates, immigration/emigration patterns/new school openings and their impact on my school's enrollment.

Demographics

I understand the impact a change in my Unduplicated Pupil Percentage could have on my funding.

Facilities

I have enough space or a plan to acquire space to accommodate my growth plan. I include deferred maintenance costs/remodeling costs in my budget plan.

Staffing

I have the right staffing to support my program and to address ongoing compliance needs. I have built salary increases into my budget plan.

Benefits

I have built in benefits increases into my budget plan.



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Preparing for your Annual Audit



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Planning for Sustainability

- Financial ratios can be useful tools in achieving financial sustainability.
- Strong internal controls are important to success.
- Auditors are required to analyze your ability to continue as a going concern.



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Charter School Audit Reports

- Charter schools operating as a 501(c)(3) typically use not-for-profit accounting model (FASB) and accrual basis of accounting
- If the corporation has over \$750,000 in federal expenditures, a federal Single Audit is required.
- Charter CMOs and charters with related organizations should consolidate all entities into financial statements



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K-12 Audit Guide – Charter Schools

2015-16 Audit Guide Requirements

- Educator Effectiveness
- Local Control Funding
- Education Protection Account Funds
- Energy Grant Funds if applicable
- Unduplicated LCFF Pupil Counts
- Charter School Facility Grant Program
- Contemporaneous Records of Attendance
 - Matching School Calendar to Attendance Records



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K-12 Audit Guide – Charter Schools

Continued Requirements for 14-15

- After School Education and Safety Program
- Instructional Minutes
- Mode of Instruction
- Non-classroom-Based Instruction/Independent Study
- Determination of Funding for Non-classroom Based Instruction
- **No Common Core Implementation Funds Procedures**



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Unduplicated LCFF Pupil Counts

- Auditor will test CALPADS Certified 1.18 – FRPM / English Learner / Foster Youth – Student List Report
- Census Day Data - October 7, 2015
 - Free or Reduced Priced Meal (FRPM) eligible
 - English Learner (EL) eligible
 - For students listed as both, the auditor will need to review either FRPM or EL supporting documentation

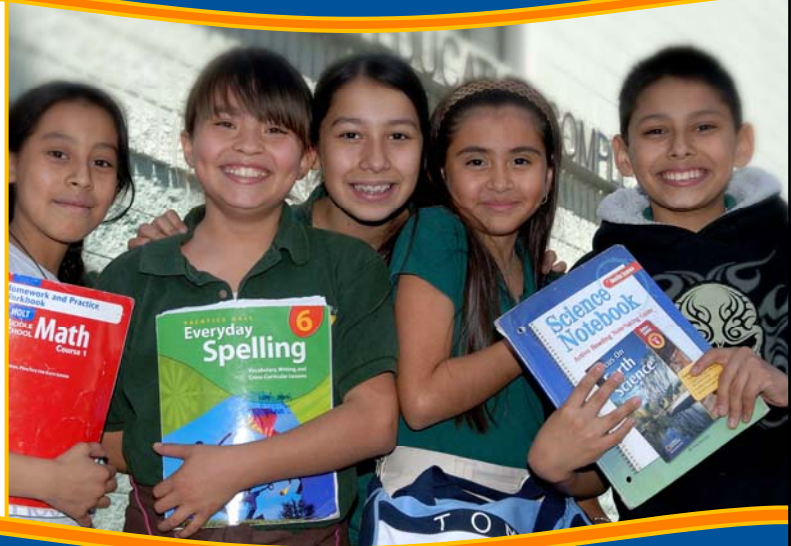


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Questions?

For more information,
please visit the ExED Booth
and VLS Booth located in
the California Charter
School Exhibit Hall



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