

Demystifying Financial Statements

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About the Presenters



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1. Why Do Financial Statements Matter?
2. Meet the Statements
3. Statements & Fiscal Health
4. Q&A



"We're in good shape.
Nobody understands our financial statement."

Why Do Financial Statements Matter?



Why Do Financial Statements Matter?



Financial Literacy → Evaluating Fiscal Health

- Numbers tell a story
- Provide critical information about an organization's growth and trends
- Help you evaluate financial health and develop strategies for the future
- Other organizations require them to evaluate your performance
- Ensure your school's goals can be sustainably achieved

Strong financials = bigger mission impact

Who Uses Financial Statements?



Both internal and external partners

Governance

- The school's board needs them to make informed decisions

Oversight

- Authorizers use them to evaluate fiscal position
- Lenders analyze trends and ability to repay debt

Reporting

- Reporting out to the board, authorizer, lenders, other stakeholders
- Sharing schools' stories, public facing documents!

Planning

- Scenario analysis
- Required budget submissions
- Long-range planning

Operations

- Internal operational budgets
- Delegating spending authority

Reporting for Charter Schools



The important role in informing a wide range of stakeholders

Monthly

Board & Leadership

- Income Statement
- Cash Flow
- Balance Sheet
- Forecast/Projections

Quarterly & Interim

1st and 2nd Interim

- Authorizer & State

Grant Reporting

- Restricted Funds
- Private Funding

Loan requirements

Annual

Audit Requirements

- Unaudited Actuals
- Audited Financials
 - Income Statement
 - Balance Sheet
 - Cash Flow

LCAP & Budget Submission

Meet the Statements



Three Standard Financial Statements



Income Statement



What

Revenues and expenses over a specific time period



Why

Financial Performance



Cash Flow Statement



Cash inflow and cash outflow over a given time period



Cash Management



Balance Sheet



What the school owns and owes at a specific point in time



Financial Health

What Does the Income Statement Tell Us?

Money In

Money Out

Profit/Loss

Sustainability

Revenue	Amount
State Revenue	\$2.5M
Federal Revenue	\$0.4M
Local Revenue	\$0.1M
Total Revenue	\$3.0M

Expenses	Amount
Salaries & Benefits	\$2.0M
Supplies	\$0.5M
Services	\$1.0M
Total Expenses	\$3.5M

Bottom Line	Amount
Net Income	-\$0.5M

What Does the Cash Flow Statement Tell Us?



Start

Profit/Loss

**Balance
Changes**

Finish

Beginning Cash	+\$0.6M
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Operating Activities	
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Revenues	+\$2M
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Staff salaries and bill payments	-\$2.5M
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Subtotal: Operating	-\$0.5M
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Other Activities	
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Line of Credit	+\$0.5M
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Mortgage loan	+\$0.8M
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Mortgage payment	-\$0.1M
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Subtotal: Financing	\$1.3M
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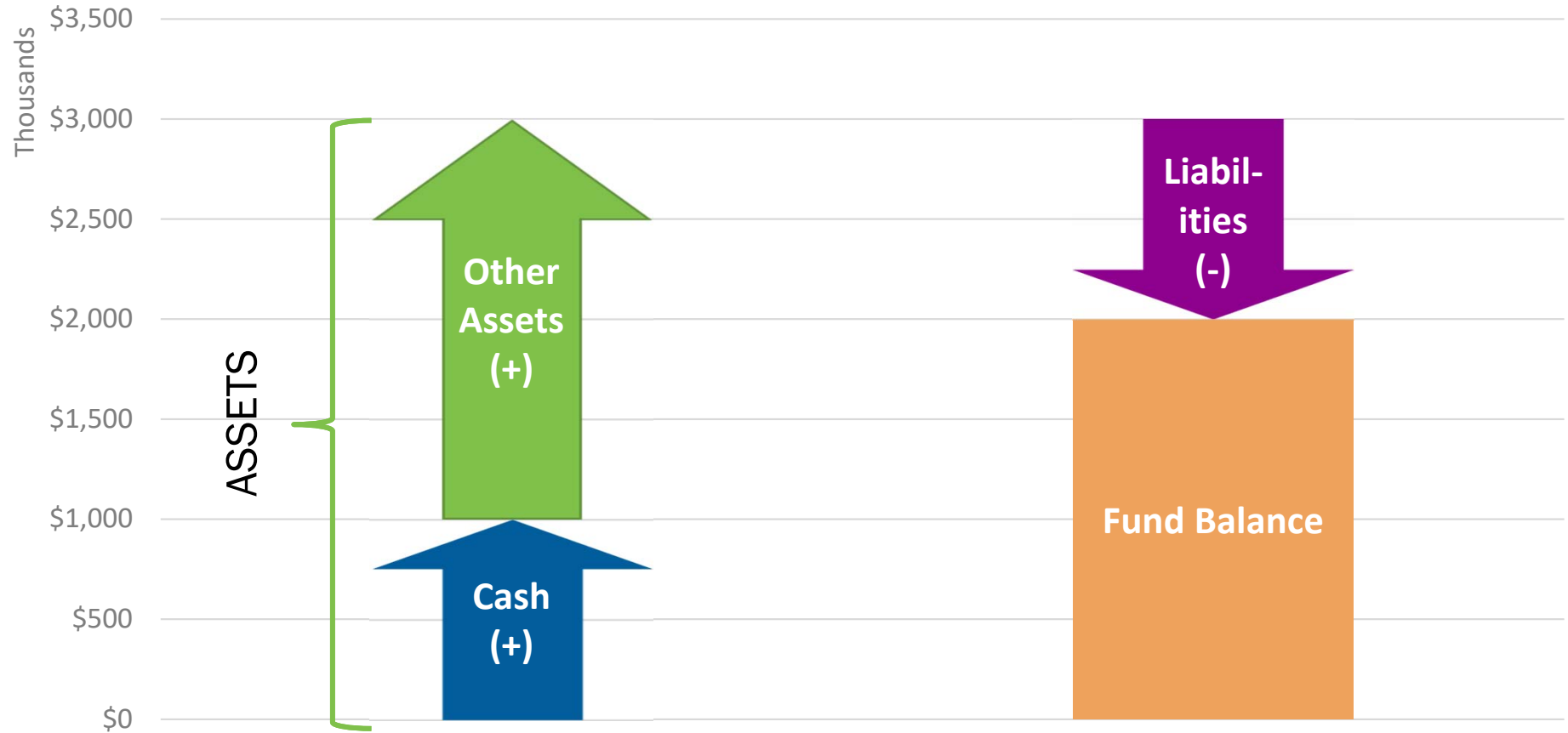
Ending Cash	+\$0.8M
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What Does the Cash Flow Statement Tell Us?

Month	January	February	March
Beginning Cash	+\$0.6M	+\$0.8M	+\$0.7M
Operating Activities			
Revenues	+\$2.0M	+\$2.0M	\$0
Staff salaries and bill payments	-\$2.5M	-\$2.5M	-\$2.5M
Subtotal: Operating	-\$0.5M	-\$0.5M	-\$2.5M
Other Activities			
Line of Credit	+\$0.5M	+\$0.5M	+\$2.0M
Mortgage loan	+\$0.8M		
Mortgage payment	-\$0.1M	-\$0.1M	-\$0.1M
Subtotal: Financing	\$1.3M	\$0.4M	\$1.9M
Ending Cash	+\$0.8M	+\$0.7M	\$0.1M

Balance Sheet Breakdown

Snapshot view of Assets vs. Liabilities + Fund Balance



Assets are what you own; liabilities are what you owe; fund balance is an accumulation of net incomes

What Does the Balance Sheet Tell Us?

Liquidity

Leverage

**Net
Worth**

**Historical
Trends**

Assets	Amount
Cash	\$0.5M
Accounts Receivable	\$1M
Building	\$1.5M
Total Assets	\$3M

Liabilities	Amount
Accounts Payable	\$0.2M
Facility Loan	\$0.8M
Total Liabilities	\$1M

Fund Balance	Amount
Retained Earnings	\$1.5M
+ CY Net Income	\$0.5M
Total Fund Balance	\$2M

How Does it All Fit Together?

Income Statement

+ Revenues
- Expenses
= **Operating Income/
(Loss)**

Balance Sheet

Cash
+ Other Current Assets
= Total Assets

Total Liabilities

Beg. Fund Balance
+ **Operating Income/
(Loss)**
= Ending Fund Balance

Cash Flow

Beg. Cash Balance
+ **Operating Income/
(Loss)**
+/- Balance Sheet
Changes
= Ending **Cash** Balance

Statements & Fiscal Health

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"Because a large font makes profits look bigger."



Identify the Key Indicators of Success

Financially successful schools likely share these indicators

Strong Foundation

- Fund Balance
- Cash Balance
- Reliable Funding

Solid Planning

- Alignment to Strategic Plan
- Conservative Forecasting

Stability Focus

- Flexible Budgeting
- Internal Controls
- Consistent Financial Balances

Think about the key indicators of success at your school

Key Indicators of Success

Three places to start: operating income, cash balance, fund balance

FY22 Income Statement

Revenue	Amount
State Revenue	\$7.3M
Federal Revenue	\$1.5M
Local Revenue	\$0.1M
Total Revenue	\$8.9M

Expenses	Amount
Salaries & Benefits	\$6.7M
Supplies	\$0.8M
Services	\$2.0M
Total Expenses	\$9.5M

Bottom Line	Amount
Op. Income	-\$0.6M

1

Operating Income

6/30/22 Balance Sheet

Assets	Amount
Cash	\$4.5M
Accounts Receivable	\$1.7M
Fixed Assets	\$0.4M
Total Assets	\$6.6M

Liabilities	Amount
Accounts Payable	\$0.6M
Deferred Revenue	\$0.4M
Total Liabilities	\$1.0M

Fund Balance	Amount
Retained Earnings	\$6.6M
+ CY Net Income	-\$0.6M
Total Fund Balance	\$6.0M

2

Cash Balance

3

Fund Balance

Measuring Financial Health A

How is this school doing? What questions do you have?

Income Statement As of Jun FY2022	Budget		
	Approved Budget	Current Forecast	Approved Budget vs. Jun Expected Final
SUMMARY			
Revenue			
LCFF Entitlement	7,808,357	5,684,899	(2,123,458)
Federal Revenue	548,508	1,512,856	964,348
Other State Revenues	1,296,872	1,600,035	303,163
Local Revenues	371,530	43,185	(328,345)
Fundraising and Grants	12,804	5,323	(7,481)
Total Revenue	10,038,071	8,846,299	(1,191,773)
Expenses			
Compensation and Benefits	7,162,359	6,726,549	435,810
Books and Supplies	616,317	758,121	(141,804)
Services and Other Operating Expenditures	1,968,532	1,966,843	1,689
Depreciation	40,000	38,117	1,883
Other Outflows	-	5,136	(5,136)
Total Expenses	9,787,208	9,494,766	292,442
Operating Income	250,863	(648,467)	(899,330)

Measuring Financial Health A

FY22 Income Statement

Revenue	Amount
State Revenue	\$7.3M
Federal Revenue	\$1.5M
Local Revenue	\$0.1M
Total Revenue	\$8.9M

Expenses	Amount
Salaries & Benefits	\$6.7M
Supplies	\$0.8M
Services	\$2.0M
Total Expenses	\$9.5M

Bottom Line	Amount
Net Income	-\$0.6M

6/30/22 Balance Sheet

Assets	Amount
Cash	\$4.5M
Accounts Receivable	\$1.7M
Fixed Assets	\$0.4M
Total Assets	\$6.6M

Liabilities	Amount
Accounts Payable	\$0.6M
Deferred Revenue	\$0.4M
Total Liabilities	\$1.0M

Fund Balance	Amount
Retained Earnings	\$6.6M
+ CY Net Income	-\$0.6M
Total Fund Balance	\$6.0M

FY22 Cash Activities

Beginning Cash	\$5.4M
Operating Activities	
Revenues	+\$8.1M
Staff salaries and bill payments	-\$8.9M
Subtotal: Operating	-\$0.8M

Other Activities	
Depreciation	-\$0.1M
Subtotal: Investing	-\$0.1M

Ending Cash (6/30/22)	\$4.5M
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Measuring Financial Health B

How is this school doing? What questions do you have?

Income Statement As of Jun FY2022	Budget		
	Approved Budget	Current Forecast	Approved Budget vs. Current Forecast
SUMMARY			
Revenue			
LCFF Entitlement	4,444,897	4,668,686	223,789
Federal Revenue	245,106	279,559	34,453
Other State Revenues	970,210	696,578	(273,632)
Local Revenues	18,500	30,688	12,188
Fundraising and Grants	402,412	482,087	79,675
Total Revenue	6,081,126	6,157,599	76,473
Expenses			
Compensation and Benefits	3,893,748	3,801,380	92,368
Books and Supplies	130,643	114,310	16,333
Services and Other Operating Expenditures	1,471,711	1,432,312	39,398
Depreciation	382,639	382,639	(0)
Other Outflows	76,022	76,102	(80)
Total Expenses	5,954,763	5,806,743	148,019
Operating Income	126,363	350,856	224,493

Measuring Financial Health B

FY22 Income Statement

Revenue	Amount
State Revenue	\$5.3M
Federal Revenue	\$0.3M
Local Revenue	\$0.5M
Total Revenue	\$6.1M

Expenses	Amount
Salaries & Benefits	\$3.8M
Supplies	\$0.1M
Services	\$1.9M
Total Expenses	\$5.8M

Bottom Line	Amount
Net Income	\$0.3M

6/30/22 Balance Sheet

Assets	Amount
Cash	\$0.6M
Accounts Receivable	\$1.9M
Fixed Assets	\$8.4M
Total Assets	\$10.9M

Liabilities	Amount
Accounts Payable	\$0.5M
Facilities Loan	\$3.7M
Total Liabilities	\$4.2M

Fund Balance	Amount
Retained Earnings	\$6.3M
+ CY Net Income	\$0.3M
Total Fund Balance	\$6.6M

FY22 Cash Activities

Beginning Cash	\$0.2M
Operating Activities	
Revenues	+\$5.7M
Staff salaries and bill payments	-\$5.2M
Subtotal: Operating	+\$0.5M

Other Activities.	
Mortgage payment	-\$0.1M
Subtotal: Financing	-\$0.1M

Ending Cash	+\$0.6M
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Measuring Financial Health C

How is this school doing? What questions do you have?

Income Statement As of Jun FY2022	Budget		
	Approved Budget	Current Forecast	Approved Budget vs. Current Forecast
SUMMARY			
Revenue			
LCFF Entitlement	7,283,424	7,163,083	(120,341)
Federal Revenue	955,057	1,533,639	578,582
Other State Revenues	1,051,422	965,825	(85,596)
Local Revenues	98,259	1,374,437	1,276,178
Fundraising and Grants	-	40,262	40,262
Total Revenue	9,388,162	11,077,246	1,689,084
Expenses			
Compensation and Benefits	5,958,902	5,958,796	106
Books and Supplies	687,190	838,275	(151,085)
Services and Other Operating Expenditures	1,535,309	1,472,600	62,710
Depreciation	190,417	275,750	(85,333)
Other Outflows	5,971	3,417	2,554
Total Expenses	8,377,789	8,548,836	(171,047)
Operating Income	1,010,372	2,528,410	1,518,037

Measuring Financial Health C

FY22 Income Statement

Revenue	Amount
State Revenue	\$8.2M
Federal Revenue	\$1.5M
Local Revenue	\$1.3M
Total Revenue	\$11M

Expenses	Amount
Salaries & Benefits	\$5.9M
Supplies	\$0.8M
Services	\$1.8M
Total Expenses	\$8.5M

Bottom Line	Amount
Net Income	\$2.5M

6/30/22 Balance Sheet

Assets	Amount
Cash	\$6.8M
Accounts Receivable	\$0.9M
Fixed Assets	\$2.6M
Total Assets	\$10.3M

Liabilities	Amount
Accounts Payable	\$1.2M
Deferred Revenue	\$0.9M
Total Liabilities	\$2.1M

Fund Balance	Amount
Retained Earnings	\$5.7M
+ CY Net Income	\$2.5M
Total Fund Balance	\$8.2M

FY22 Cash Activities

Beginning Cash	\$2.8M
Operating Activities	
Revenues	+\$11.7M
Staff salaries and bill payments	-\$7.5M
Subtotal: Operating	+\$4.2M

Other Activities.	
Land Purchase	-\$0.2M
Subtotal: Financing	-\$0.2M

Ending Cash	+\$6.8M
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Financial Metrics to Monitor Success

How can you use financial statements to get to these indicators?

Balance Sheet	Income Statement	Cash Flow
Liquidity Ratios	Net Operating Income	Cash on Hand
Payables & Receivables	Trends	Timing of Funding
Fund Balance	Expense Ratios	
Leverage Ratios		

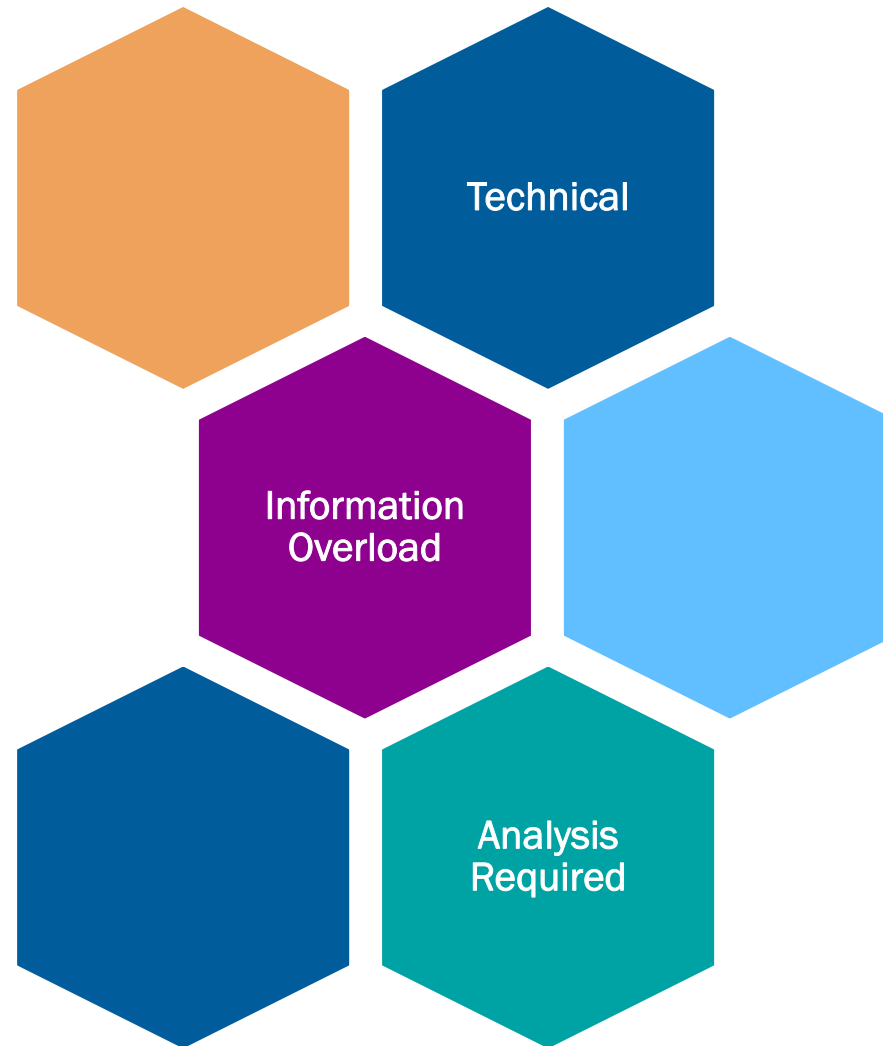
Financial Metrics to Monitor Condition

Common metrics allow LISC, others to evaluate and compare charters

Statements Used	Sample Metrics	LISC Standard & Analysis
Balance Sheet	Liquidity & Leverage Ratios Current assets / liabilities Total liabilities / net assets	Ability to pay all liabilities > 1.20 : 1 < 5 : 1
Balance Sheet & Income Stmt.	Debt Service Coverage (DCSR) Net Income* / Debt Service	1.20 : 1 Available cash to cover current obligations
Balance Sheet & Income Stmt.	Days unrestricted cash on hand	90 days Cash cushion for upcoming outflow
Income Stmt.	Facilities cost burden	~ 20% of budget Project affordability

Do these results support or contradict your school's story?

Limitations of Financial Statements & Metrics



Focus on what is important to your organization

Thank you!

ADDITIONAL QUESTIONS? CONTACT US:

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