



PEAK TO PEAK
CHARTER SCHOOL
800 Merlin Drive • Lafayette, CO 80026

**FINANCE AND BUDGET COMMITTEE (FBC)
MEETING SUMMARY AND RECOMMENDATIONS
JANUARY 30, 2023**

Meeting Date and Time: Monday, January 30, 2023, 3:30 – 5:00 PM

Location: Remote via Google Meet

Participants: Present: Lynne Allen, external charter school member; Brian Boonstra, board treasurer; Jen Dauzvardis, communications director; Eric Duran, external banking member; Jonathan Fung, external philanthropy member; Jennie Klein, EDE; Dan Koerner, finance director; Louise Peng, senior accountant; Cathy Rein, accountability member; Sam Todd, EDO; Marcus Watkins, board member.

AGENDA ITEMS

1. Q2 2022-23 Financial Report

The financial results for the second quarter did not include any surprises, and showed positive results for all funds. Summarized results are provided below for each fund.

Charter General Fund 11

Revenues in Q2 totaled \$5.2 million, or 25% of budget; while expenses were \$5.1 million, or 24% of budget. A budget surplus of \$127K was generated in Q2. YTD, revenues were \$10.5 million, or 50%; and expenses were \$9.1 million, or 42%, which generated a surplus of \$1.5 million. Financial reserves are in good shape at \$8.2 million. The ending fund balance for the year is projected to be \$6.3 million.

Food Services Fund 21

Total revenues in Q2 were \$230K, or 39% of budget; and total program expenses were \$188K, or 29%. YTD, revenues were \$462K, or 79% of budget; and expenses were \$306K, or 47%. At the end of Q2, the Fund 21 fund balance was \$334K. The ending fund balance for the year is projected to be \$111K.

Operations & Technology Fund 65

Revenues in Q2 were \$401K, or 24% of budget; and total expenses were \$445K, or 26% of budget. YTD, revenues were \$803K, or 49% of budget; and expenses were \$965K, or 57%. At the end of the Q2, the Fund 65 fund balance was \$458K. The budgeted fund balance at year-end is projected to be \$560K.

FBC Discussion

FBC members were pleased with the consistent strong financial performance of the school.

2. Review of Peak to Peak's 2022 Standard & Poor's Credit Rating Report

Peak to Peak retained its "BBB+" credit rating, with a stable outlook. P2P is among just a few charter schools in the nation to hold this high of a credit rating. Please see a few excerpts from the S&P report below:

The rating is supported by the school's very stable enrollment at charter and facility capacity, excellent student

retention, a significant waitlist, top academic performance, sophisticated management team, and exceptional district authorizer support. In our opinion, the enterprise profile is constrained by the size of the organization, with lower enrollment levels when compared with those of similarly rated peers. The financial profile can be characterized by a history of good and consistent financial performance metrics, additional support in the form of mill levy, good and growing liquidity, and a debt burden that continues to moderate. We acknowledge fiscal 2022's financial performance, while still positive, moderated compared with previous years as the school implemented pay increases for faculty and staff. While the pay increases are an important strategic initiative for P2P to continue delivering excellent academic results, we anticipate future operating margins will likely remain lower than levels achieved before fiscal 2022. We assessed the enterprise profile as strong and the financial profile as adequate; combined, these credit factors lead to an anchor rating of 'bbb+' and a final rating of 'BBB+'.

The rating reflects our view of the school's:

- Stable enrollment and healthy demand bolstered by P2P's national recognition and impressive academic performance;
- Significant support from mill levy overrides, which provides some diversity to the organization's revenue base;
- Positive relationship between the charter school and district authorizer, with the expectation of material grant funding for capital purposes over the next few years; and
- Capable management team that is data focused and uses multiyear scenario budgeting.

In our opinion, partially offsetting credit factors include:

- Moderating financial performance following the implementation of a new compensation package for faculty and staff in fiscal 2022, which will likely affect future operating budgets; and
- Revocation and renewal risk shared by all charter schools subject to charter approval prior to debt maturity.

FBC Discussion

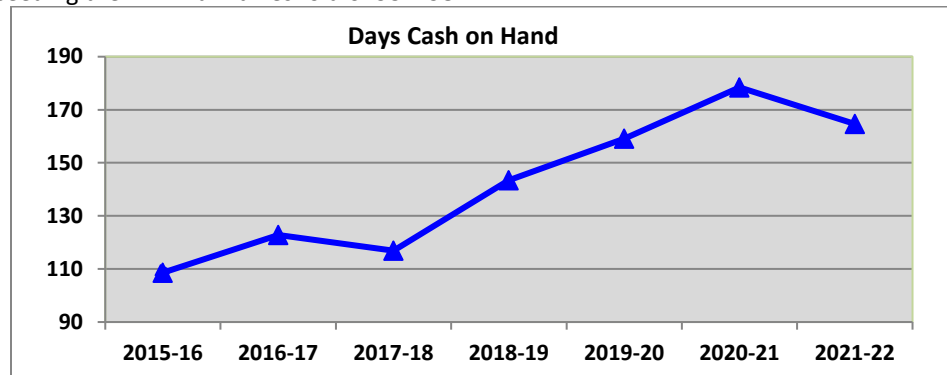
FBC members applauded the high credit rating and noted that Peak to Peak is one of but a few charter schools in the nation to hold the “BBB+” rating.

3. Review of Financial KPIs with 2021-22 Audited Financial Data

Peak to Peak’s financial KPIs have been updated with 2021-22 audited financial data. Please see an analysis of the financial KPIs below:

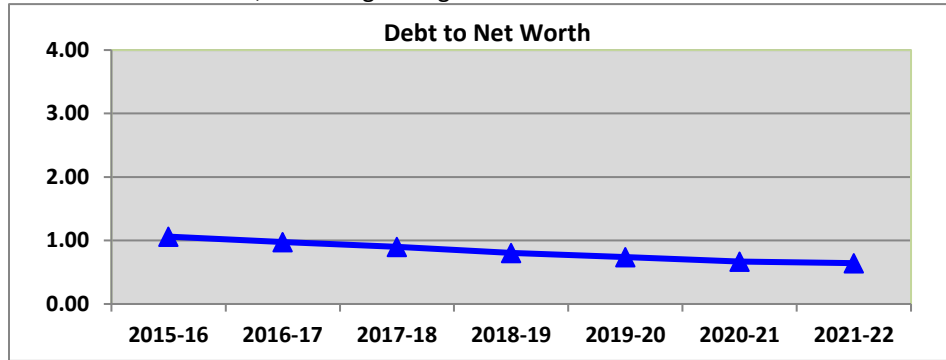
Days Cash on Hand

The 2021-22 fiscal year finished well, with the general fund posting a surplus of \$215,893 despite a budgeted deficit. Unrestricted cash increased by \$718,640 from the prior year to \$9,066,343. DCOH decreased from 178.4 to 164.6, which can be attributed to the increase in expenses from one-time capital investments and higher unused leave payouts. The trend line for DCOH indicates an increasing amount of financial reserves over the last several years, far exceeding the minimum threshold of 95 DCOH.



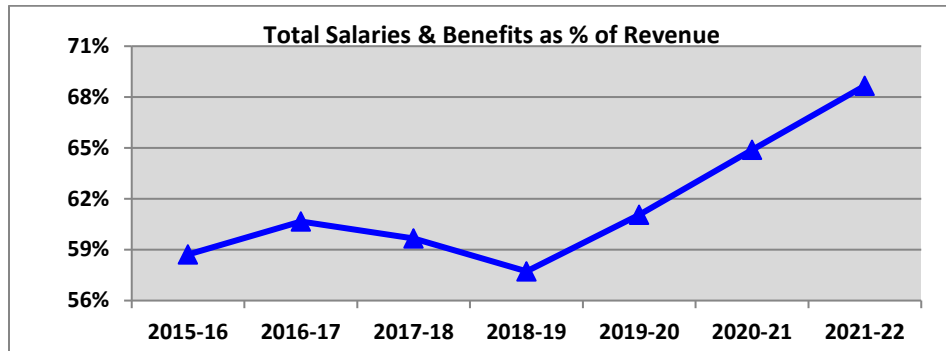
Debt to Net Worth

Net assets of \$25.04M exceeded total liabilities of \$16.1M, dropping the ratio from 0.67 to 0.64, the lowest ever. This is far below the threshold of 4.5, indicating strong financial health.



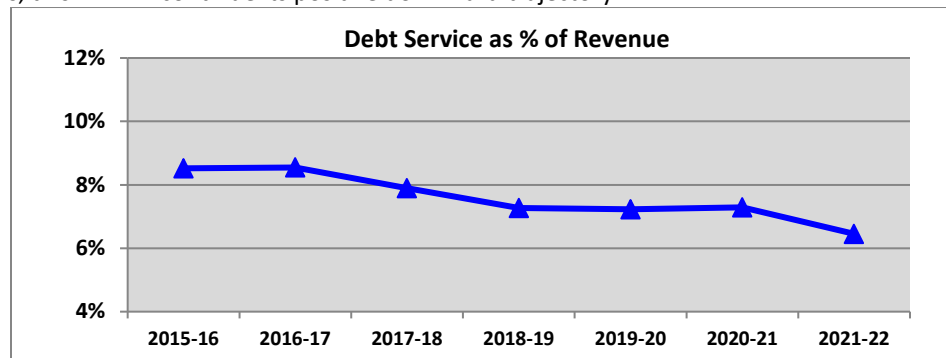
Total Salaries & Benefits as % of Revenue

\$1.3M was added to employee salaries and benefits in 2021-22, which increased the salaries & benefits as a % of total revenues from 64.9% to 68.7%. This is far above the minimum threshold of 50%, and has now exceeded the maximum threshold of 65%. This demonstrates the school's commitment to improving compensation levels for employees.



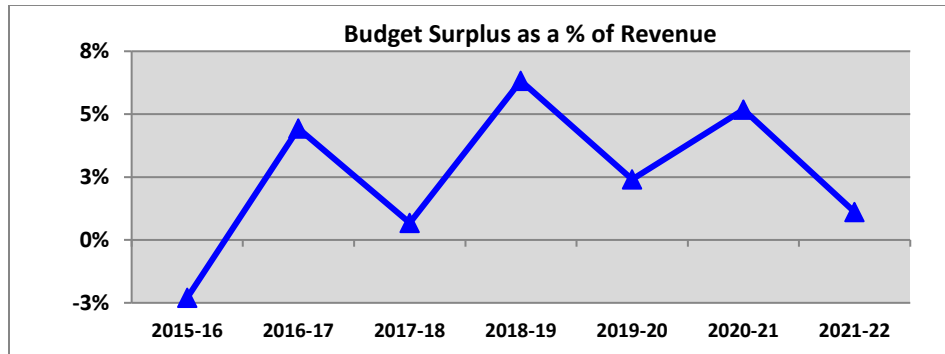
Total Debt Service as % of Revenue

Bond debt service declined in accordance with the bond repayment schedule, and total revenues rebounded from the effect of the pandemic in 2020-21, due to the resumption of near normal school function and an increase in State PPR. Total debt service as a % of total revenues decrease from 7.3% to 6.5%, which is a very strong performance. This is well below the maximum threshold of 12% and shows a downward trend. As revenues grow in future years, this KPI will continue its positive downward trajectory.



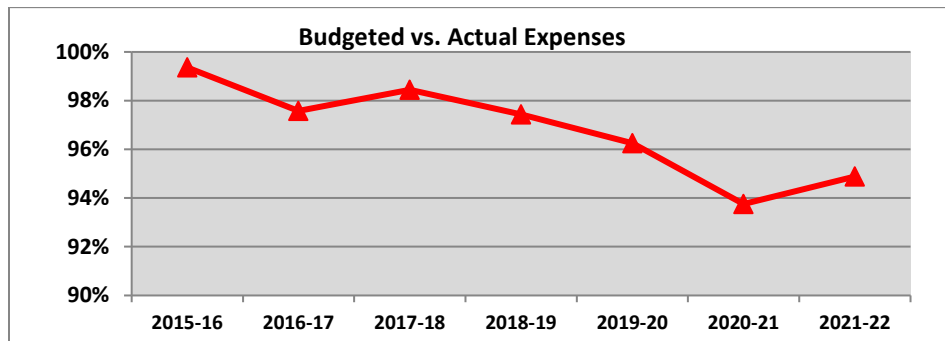
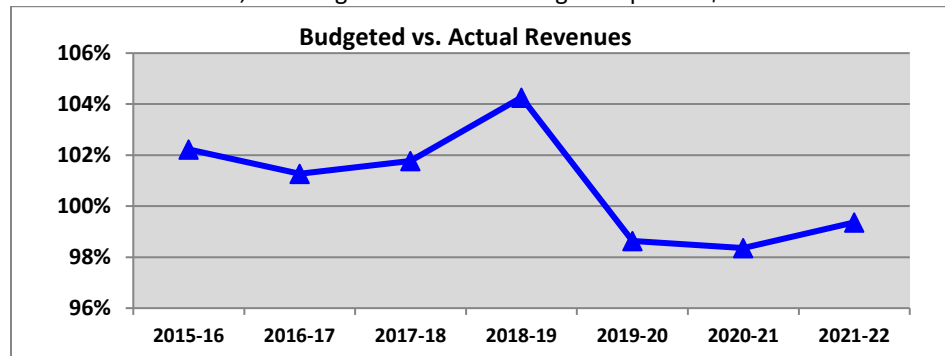
Budget Surplus as % of Revenue

The budget surplus of \$216K was above the minimum threshold of 0%. A budget surplus was achieved even while adding bus parking and other electric bus infrastructure.



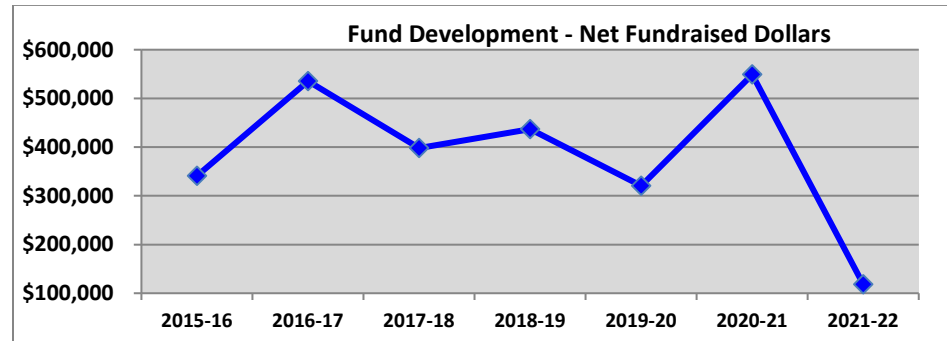
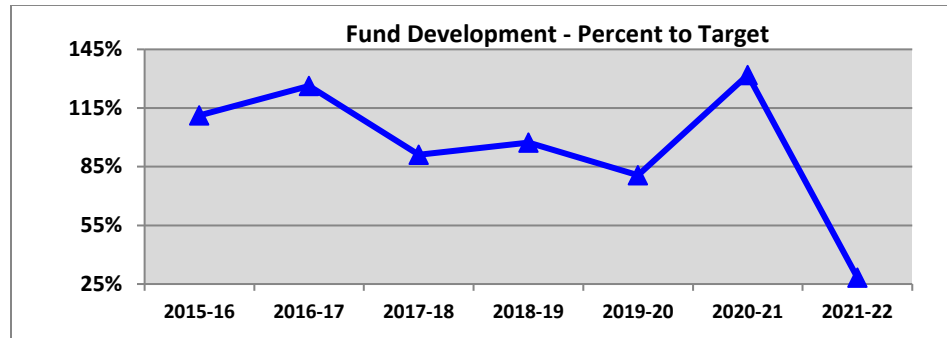
Budget Performance

2021-22 ended with better than expected budget performance with the continued assistance of federal COVID relief grants. Revenues came in at 99%, slightly lower than budget, primarily due to delayed usage of ESSER grant funds, with higher than expected revenues in food services, and lower than expected revenues in athletics & activities. Expenses came in at 95%, resulting in a combined budget surplus of \$624k.



Fund Development

The overall Fund Development budget to actual decline was driven by the market losses in the Scholarship Fund of \$291K. Actual fundraising efforts, that P2P has control over, were successful. Friends of Peak to Peak raised \$409K in actual net fundraising revenue, outperforming the budgeted \$373K by \$36K in 2021-22. Leadership is evaluating changing the KPI for fundraising to only include Fundraising, as FP2P and management at P2P have no control over market performance in the Scholarship Fund. In the second graph, net fundraised dollars are shown over time. As you can see again, in 2021-22 the large market loss in the Scholarship Fund skewed the overall measurements in Fund 26.



FBC Discussion

FBC members were encouraged by the overall positive trends in the financial KPIs for the school.

4. 2022-23 Revised Budget

On 12/21, BVSD provided updated numbers for the 2022-23 revised budget, and the P2P board approved the 2022-23 revised budget at the January board meeting. While BVSD purchased services costs went up, revenues went up even higher, which left P2P in a positive situation. The reconciliation from last year's budget resulted in an addition of \$153K to this year's budget in revenues. Here is a summary of the other changes:

	Previous	Revised	Difference
PPR	\$9,444	\$9,499	\$79,475
MLOs	\$2,774	\$2,835	\$87,899
SpEd Categorical	\$268	\$358	\$130,223
ELPA Categorical	\$19	\$20	\$1,272
Charter Cap Construction	\$367	\$363	(\$6,199)
2016 MLO (Fund 65)	\$1,142	\$1,118	(\$34,463)
TOTAL Net Revenues			\$258,207
BVSD Purchased Services	\$1,920	\$1,983	\$91,324
NET CHANGE TO BUDGET			\$166,883

The 2022-23 general fund now has a net shortfall of \$458K, which is down significantly due to the lowered cost for purchasing new land, the lower than expected costs for bus infrastructure, and the increased revenues from PPR and categorical funding.

FBC Discussion

FBC members voiced support for the revised budget. Sam Todd indicated that last year, a shortfall of over \$600K was budgeted, but was not realized due to the delays in completing the electric bus infrastructure. Those costs were pushed into this year’s budget, along with the purchase of the land east of campus, which resulted in the deficit budget this year.

5. 2023-24 Preliminary Budget and State Funding Outlook

The preliminary 2023-24 budget currently includes a 9% increase in PPR, as proposed in the governor’s budget request. The biggest changes to the 23-24 preliminary budget expenses are several FTE additions to better support our increasing population of SPED, FRL and ELL students. Colorado voters approved the “free food for all students” reimbursement program for all school lunches, which will greatly increase participation next year. The ELT began work last week on the budget, which will continue through the spring, with the board expected to approve the preliminary budget in May. The FBC will review the 2023-24 preliminary budget at their next meeting on May 1st, and make a recommendation for approval to the board.

6. Land Acquisition East of Campus

Peak to Peak closed on the purchase of the land located at 85 N 120th Street on January 6th with a closing amount of \$266,225.28. Two previous down payments of \$25K each brought the total cost for the property to \$316,225.28. The school entered into an agreement with Environmental Quality Management to clean up the surface asbestos and debris for an amount not to exceed \$25,000. The total cost for the land purchase is as follows:

Phase One Environmental Study	\$ 2,350
Phase Two Environmental Study	\$ 9,995
Alta Survey	\$ 4,223
Land Purchase	\$316,226
Asbestos and Debris Clean-Up	<u>\$ 25,000</u>
TOTAL COST	\$357,794

7. BVSD Bond/Campus Expansion

Jennie, Jen, John and I met with Rob Price and Bill Sutter on January 23rd at BVSD. Our objective for the meeting was to get district leaders to be willing to consider allowing P2P to use our \$10.7 million bond allocation to pay of our bond debt. They did agree to seek an opinion from their bond counsel about this proposed usage of bond proceeds, and to run it by the superintendent. We cited several benefits to both P2P and BVSD for paying off P2P bond debt:

1. The freed-up annual debt service of \$1.44 million would allow P2P to improve our teacher/staff compensation to be more competitive in attracting and retaining employees and to get us closer to BVSD compensation levels.
2. By shifting the freed-up debt service to classroom supports and teacher salaries, more of P2P’s general fund monies would actually be used for instructional purposes instead of debt service.
3. By paying off our bond debt, P2P is no longer bound to bond covenants that require cash reserves, and the school will no longer feel the pressure to maintain a high credit rating. This frees up millions of dollars of financial reserves, which could be used to renovate the performing arts center, one of the cornerstones of our original planned usage of BVSD bond monies.
4. P2P can launch a major capital campaign to help fund the other priority for our original planned campus expansion, building an innovation center on campus. This fundraising effort can include naming rights opportunities to attract large donors.
5. P2P will be able to set aside a portion of the freed-up annual debt service for ongoing building maintenance, that we listed in our plans for the BVSD bond monies.
6. With our increasing SPED, FRL and ELL student population, the freed-up annual debt service will also allow the school to invest in additional classroom supports to better serve these students.
7. For BVSD, paying off our bond debt will be a simple one-time transaction that will require less paperwork, supervision, and accounting than ongoing building projects.
8. Other school districts have used their bond monies to pay off charter school bond debt, e.g., Jeffco with

Compass Montessori.

9. P2P will have better capacity to take on additional high-needs students in the future with more financial resources available through freed-up annual debt service.

8. The next FBC meeting date will be Monday, May 1st at 3:30 PM.

The preliminary agenda for this meeting will include:

- Review of Q3 financial results
- Discussion of projected Q4/year-end financial results
- Review of fundraising results and strategy
- Review of 2023-24 preliminary budget and recommendation for board approval