



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

FINANCE AND BUDGET COMMITTEE (FBC)
FEBRUARY 4, 2020
MEETING SUMMARY AND RECOMMENDATIONS

Meeting Date and Time: Tuesday, February 4, 2020, 3:30 – 5:30 PM

Location: College Counseling Conference Room

Participants:

Present: Lynne Allen, external charter school member; Jonathan Fung, external philanthropy member; Kate Martin, accountability member; Louise Peng, accountant; Kelly Reeser, EDE; Sam Todd, EDO; Thomas Willetto, board member.
Not present: Derek Cole, board treasurer; Eric Duran, external banking member.

AGENDA ITEMS

1. Q2 2019-20 Financial Report

The financial results for the second quarter of 2019-20 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 \$4.35 million, or 24% of budget; while expenses were \$4.29 million, or 25% of budget. A budget surplus of \$61K was generated in Q2, leaving financial reserves in good shape at nearly \$6.6 million. The ending fund balance for the year is projected to be \$5.7 million.

Food Services Fund 21

Total revenues in Q2 were \$171K, or 31% of budget, and total program expenses were \$157K, or 27%. At the end of Q2, the Fund 21 fund balance was \$38K, \$13K more than the beginning balance. The ending fund balance for the year is projected to be \$34K.

Operations & Technology Fund 65

Revenues in Q2 were \$288K, or 25% of budget, and total expenses were \$229K, or 17% of budget. At the end of the Q2, the Fund 65 fund balance was \$501K. This will be spent down throughout the year and expected to finish the year at \$203K.

FBC Discussion

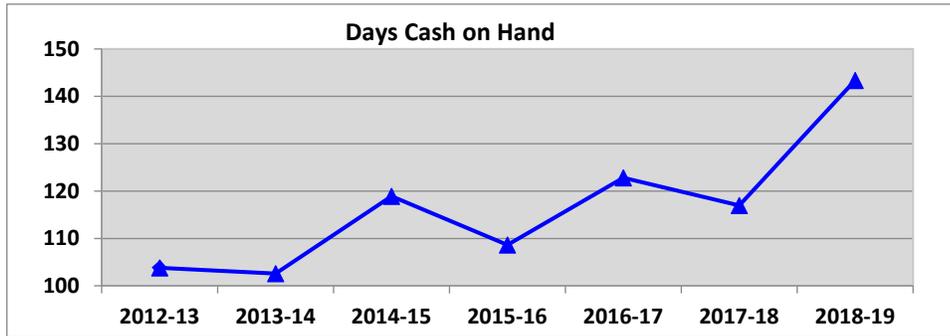
FBC members were pleased with the consistent strong financial performance of the school.

2. Review of Financial KPIs with 2018-19 Audited Financial Data

Peak to Peak's financial KPIs have been updated with 2018-19 audited financial data. Please see an analysis of the financial KPIs below:

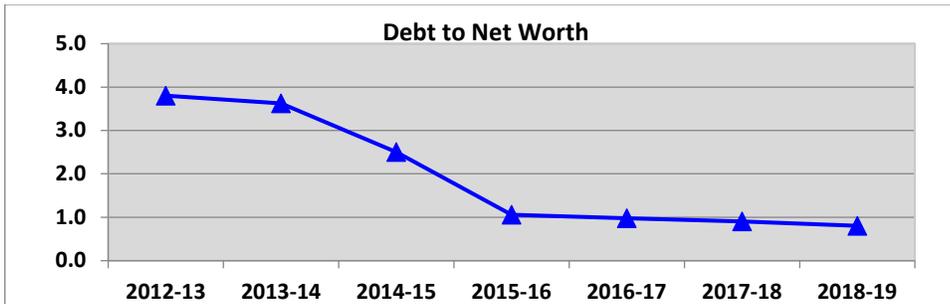
a. Days Cash on Hand

The 2018-19 fiscal year saw strong budget performance with the general fund posting a surplus of \$1,125,391, which increased DCOH from 116.9 to 143.4. Unrestricted cash increased by \$1,522,300 from the prior year at \$6,753,276. The trend line for DCOH indicates an increasing amount of financial reserves over the last several years, far exceeding the threshold of 95 DCOH.



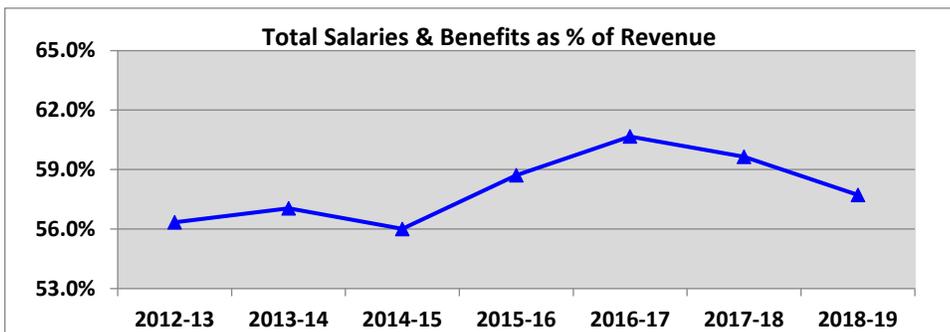
b. Debt to Net Worth

Net assets of \$22.2M once again exceeded total liabilities of \$17.9M, dropping the ratio from 0.9 to 0.8, the lowest ever. This is far below the threshold of 4.5, and shows a continuing positive trend.



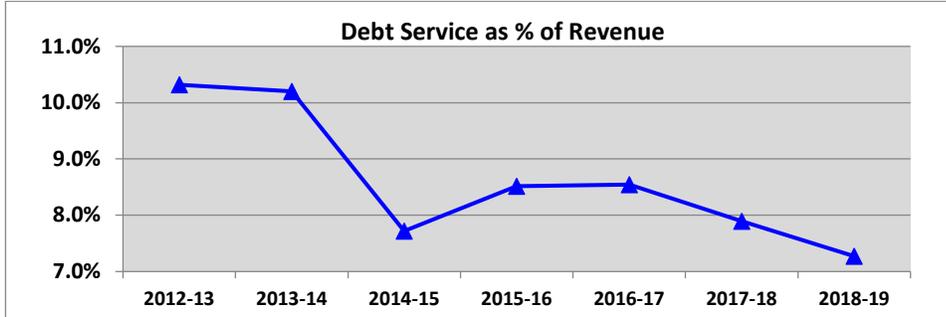
c. Total Salaries & Benefits as % of Revenue

\$546K was added to employee salaries and benefits in 2018-19, but total revenues increased even more (largely due to Fund 65 which has no salaries), which lowered the salaries & benefits as a % of total revenues from 59.7% to 57.7%. This is far above the minimum threshold of 50%, but still less than the maximum threshold of 65%. The school still has room to grow in this KPI.



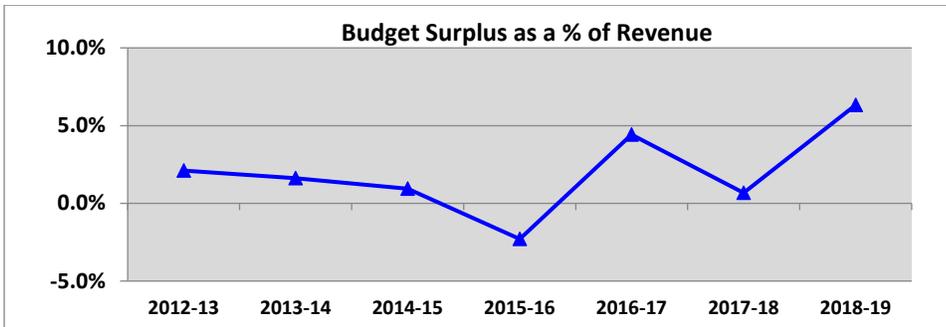
d. Total Debt Service as % of Revenue

Since bond payments are nearly flat year-over-year, and total revenues continue to increase, this KPI continues on a positive trajectory. Total debt service as a % of total revenues dropped slightly this year from 7.9% to 7.3%, which is the lowest ever. This is well below the maximum threshold of 12% and shows a three-year downward trend.



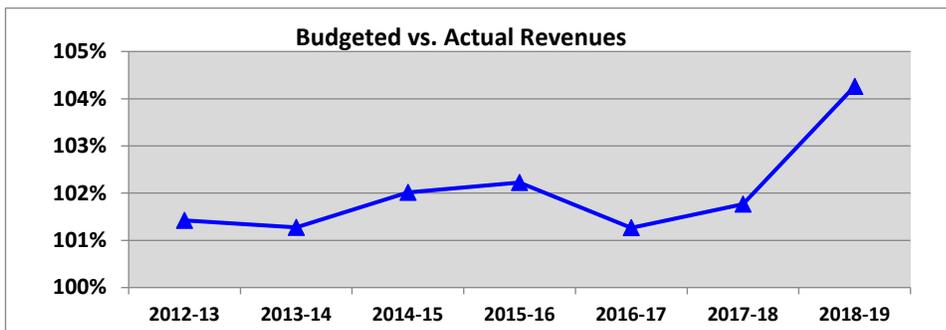
e. General Fund Budget Surplus as % of Revenue

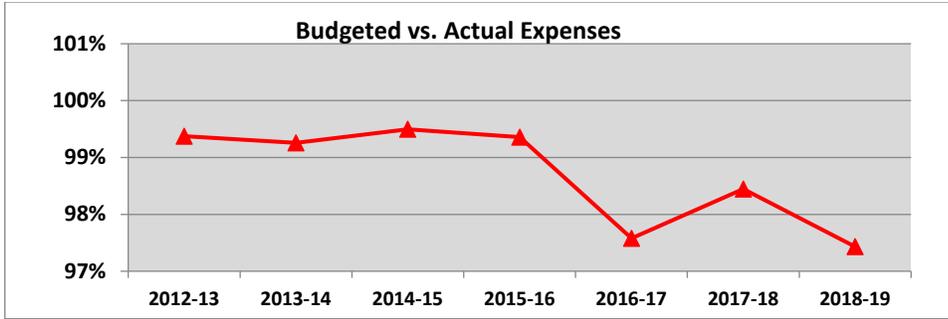
The budget surplus of \$1.1 million was the highest ever at 6.3%, above the minimum threshold of 0%. This large surplus helped build up financial reserves after the large purchase of land last year.



f. Budget Performance

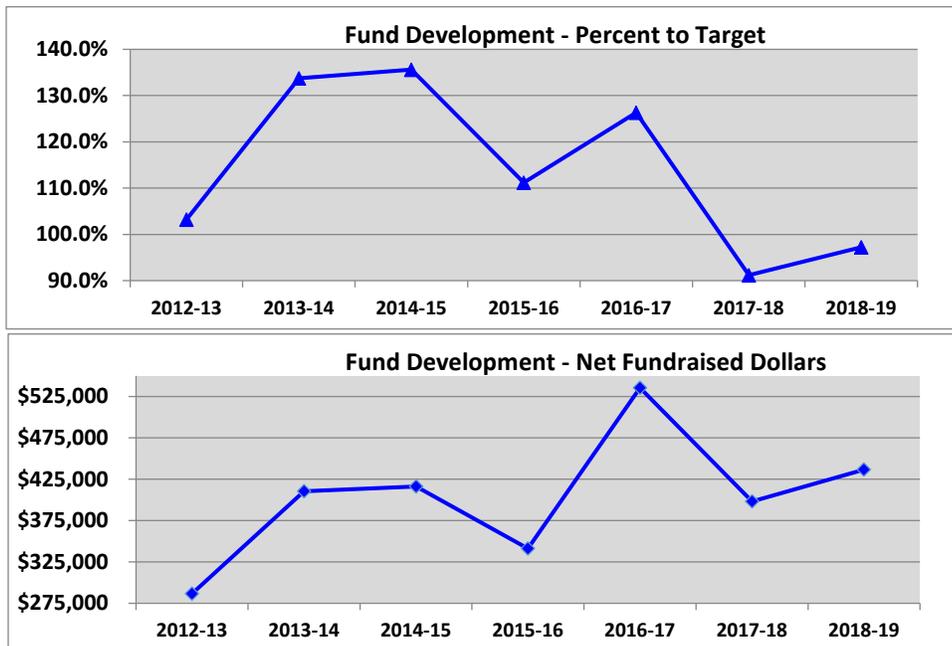
The school finished 2018-19 with strong budget performance. Revenues came in at 104.3%, above the minimum threshold of 100%. Expenses came in at 97.4%, below the maximum threshold of 100%. The result was a combined budget surplus of \$1,495,269. A major reason for the large surplus this year was the unappropriated 2016 MLO revenue of \$318K in Fund 65. This will be spent in future years, which will lower DCOH.





g. Fund Development

With the loss of the major gifts officer, fundraising efforts fell short of exceeding the budgeted net fundraised dollars of \$449K by only \$12K, which resulted in 97.2% of actual vs. budget. While falling below the target, the budgeted number for net fundraised monies has increased every year since 2015-16, so the bar is getting higher. In 2012-13, the target was \$278K, this year it was \$449K. In the second graph, net fundraised dollars are shown over time. The last three years have generally generated more net fundraised dollars than in past years, even though the percent to target numbers are lower. This is due to the rising expectations for fundraising.



FBC Discussion

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

3. Response to Listening Campaign – Campus Improvements and Funding Strategy

The drawings developed by TreanorHL Architects in response to the feedback received during the Listening Campaign and through subsequent follow-up meetings with staff were shared with the FBC to show the proposed plans to further develop the Peak to Peak campus to better meet student needs.

FBC Discussion

FBC members were pleased with the drawings and felt it would greatly enhance the school's campus. Four options exist that P2P could pursue in order to fund the project: 1) assume additional debt to finance the project, 2) dip into the school's financial reserves, 3) wait for the district's next bond issue and request funding for the project, 4) raise funds through a major capital campaign. FBC members acknowledged that it may require using multiple options in order to fully fund the project. Assuming additional debt was perceived as the least desirable option. Seeking assistance from BVSD through a future bond issue was also seen as a positive option, but the timing would likely delay the project for several years. Mounting a major capital campaign was viewed as a likely option and would require a feasibility study and hiring an employee or a consultant to lead the school in such an endeavor. There was some discussion about the merits of having an employee versus using a consultant. It was noted that there should be naming rights for large donors, with great options in the proposed innovation center and performing arts center. Seeking support from local corporations was highly recommended, in addition to high net worth individuals, and grants through foundations. Utilizing the FDAC to assist in the fundraising was also recommended.

4. Financial Reserves

Peak to Peak currently has about \$1.8 million in its operating bank account, which does generate interest earnings. The school only needs about \$1.3 million to ensure coverage of payroll and ongoing expenses. The finance staff recommended that \$500K be transferred from Chase operating account to COLOTRUST financial reserves account so that interest earnings can be generated.

FBC Recommendation

FBC members recommended the transfer of \$500K to COLOTRUST.

5. 2019-20 Final Revised Supplemental Budget

The FBC and the P2P board approved the 2019-20 final revised budget back in the fall. However, the BVSD board approved an increase in the 2016 mill levy override, which generated a significant amount of new revenue for the district and P2P. The additional \$220K will go into Fund 65, the Operations and Technology budget. The new revenue will allow for more expenses to be moved into Fund 65 and out of Fund 11, especially in ensuing years. This is the reason for presenting a supplemental 2019-20 budget to the FBC and board for approval.

FBC Discussion

FBC members were pleased with the new revenue, and particularly how it will help the school in future years to improve teacher salaries.

FBC Recommendation

The FBC supported the 2019-20 supplemental budget as presented, and recommended it to the P2P board of directors for approval.

6. S&P 2020 Charter Schools Sector Outlook

Standard & Poor's recently released an analysis of the charter school sector in the US entitled, *Charter Schools 2020 Sector Outlook: Clear Skies for Now, But Political Uncertainties Cloud the Horizon*. Below are summarized bullet points from the publication:

- Although S&P highlights more potential credit disruptors than favorable opportunities, the overall expectation for 2020 is charter school rating stability.
- Despite the increasing political support for stricter charter laws in some states, federal government support for school choice remains strong, per-pupil funding is generally stable-to-growing, and student/parent demand for charter schools continues to grow.
- 82% of S&P charter school ratings carry a stable outlook.

- From a financing standpoint, charter schools' opportunities and options have expanded and interest rates remain low.
- IDEA charter network in Texas is the first and only to obtain an underlying rating of A-.
- Mid-term elections in 2018 caused a loss of charter advocates in many states, and during the past year there has been increasing support for less favorable charter laws.
- Weakening demographics, such as declining enrollments in certain districts, will be a key credit risk for charter schools in these areas.
- Only about 11% of charter schools are unionized, but efforts to increase union presence in charters is expected to increase.
- Risks for charter schools continue to arise from less traditional areas including governance scandals, school shootings, strikes, and cybersecurity issues.
- Unfunded pension obligations continue to pose risks, putting financial pressures on charter schools.
- Several states increased funding for charter school facilities.
- While two-thirds of charters schools are independent, there is increased pressure from foundations and policymakers to promote more schools operated by CMOs and EMOs that benefit from centralized governance and economies of scale.
- Texas, Arizona, Colorado and Utah all have state credit enhancement programs for charters, which are also the states with the most active charter financing activity.

7. 2020-21 Preliminary Budget and State Funding Outlook

The preliminary 2020-21 budget currently includes a 2.7% increase in PPR, as proposed in the governor's budget request. The ELT has begun work 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 2020-21 preliminary budget at their next meeting in April.

8. The next FBC meeting date will be Monday, April 27th at 3:30 PM.

The preliminary agenda for this meeting will include:

- Review of Q3 financial results
- Discussion of projected year-end financial results
- Review of fundraising results and strategy
- Recommendation of 2020-21 preliminary budget