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

FROM: Sam Todd, EDO
Derek Cole, Board Treasurer

TO: FBC Members and Peak to Peak Board of Directors

DATE: February 5, 2019

SUBJECT: Finance and Budget Committee Meeting Summary and Recommendations

The Finance and Budget Committee (FBC) met on Monday, February 4, 2019, for its second meeting of the 2018-19 fiscal year. Members present included: Derek Cole, Colleen Elliott, Louise Peng, Eric Duran, Lynne Allen, Jonathan Fung, Kelly Reeser and Sam Todd. Jen Bradfield was unable to attend, but provided written input on agenda topics. Please see a summary below of the financial information presented and the FBC discussions.

1.) <u>Transfer of Funds from Chase Operating Account to COLOTRUST Reserve Account</u>

Amy Smith was present from Chase Bank to discuss a recommendation that Peak to Peak consider moving excess funds from the Chase operating bank account to COLOTRUST reserves account. The operating account currently has a balance of approximately $1.7 million. Lowering the balance in the operating account will incur fees up to $125/month. However, with interest rates over 2.6% at COLOTRUST, the school could earn over $1,600/month by transferring $750,000. Since funds held at COLOTRUST are completely liquid, monies can be transferred back in one day, if needed. FBC members were very supportive of this measure and encouraged moving as much money as feasible, while still allowing for comfortably meeting monthly obligations.

> ***Recommendation:*** *The committee unanimously recommended the transfer of $750,000 from Chase to COLOTRUST. Louise and Sam will monitor the account to determine if more funds might be transferred in the future.*

2.) <u>Review of Minimum Level for Financial Reserves</u>

At the request of a board member, the FBC reviewed the current Peak to Peak policy that requires a minimum of 95 days cash on hand (DCOH) be maintained in reserves. While the school is contractually required to maintain only 70 DCOH to comply with bond covenants, the FBC two years ago agreed that 95 DCOH was more prudent, and would maintain a little more than three months of operating expenses in reserves. Currently, the school is at about 117 DCOH. Eric Duran shared that a minimum of 120 DCOH is usually required by S&P for schools to obtain an investment grade credit rating (BBB-), and that higher performing charter schools similar to Peak to Peak are usually closer to 150 DCOH. While Peak to Peak is below that level, S&P has given a BBB+ rating to the school based on other criteria. FBC members also expressed that it seemed premature to consider lowering the minimum reserving level until there is an immediate need at hand. Additionally, the committee suggested taking into account the economic conditions of the state and country in considering adding to or reducing reserve levels.

Recommendation: *There was unanimous agreement amongst FBC members that the school should not lower the minimum reserve requirement from 95 DCOH.*

3.) Additional Bank Signers for Operating Bank Accounts

Currently, only the EDO and board treasurer are signers on operating bank accounts. This has created delays at times in processing payments due to travel by either signer.

Recommendation: *After discussing any potential negative impacts on banking internal controls, the FBC agreed to add the EDE (Kelly Reeser) and the other board member sitting on the FBC (currently Colleen Elliott) as additional signers on operating bank accounts.*

4.) Q2 FY 2018-19 Financial Report

The Q2 financial report was presented to the FBC with the following items noted:

Fund 11

- Charter fund revenues were on track at 50% at the end of Q2
- Local revenues came in stronger than expected at 65%
- Total revenues were at 52%, a little better than expected
- Instructional expenses came in at 41%, which is on target considering the salary and benefit accrual at the end of the year
- Admin, counseling and library expenses were also where they should be at 45%
- Facility expenses came in better than budget at 44%
- Debt service expenses were where they should be at 50%
- Local expenses were at 55%, which were inflated by revolving grant expenses
- Capital projects expenses came in at 41%, better than budget
- BVSD purchased services were on target at 50%
- Overall expenses came in at 44%, which is better than expected
- A surplus of $1.3 million was generated at the end of Q2, but the salary and benefit accrual in Q4 will drive this down substantially. A larger than expected surplus is projected for year-end.

Fund 21

- Total revenues for food services came in at 51% of budget at the first half
- Total expenses came in at 46% of budget, better than expected
- A surplus of $17K was generated by food services in the first half, which compared to a net loss of $5K last year.

Fund 65

- Total revenues from the 2016 MLO came in at 50% of budget in the first half
- Total expenses for Fund 65 came in at 55% of budget, due to HVAC controls expense early in the year.
- While Fund 65 currently has a shortfall of $45K, it is expected to finish the year with a $360K fund balance due to the additional funding expected from the 2016 MLO.

FBC members voiced no concerns with the financial condition of the school through the first half of the fiscal year, and were particularly pleased with the performance of the food services program.

5.) **<u>Financial Performance Measures</u>**

Committee members agreed that all of the financial performance measures are trending in a positive direction, indicating that the school in strong financial condition. Eric Duran suggested considering a potential new KPI that measures either employees per student or teachers per student. Lynne Allen indicated that Stargate Charter School looks at similar metrics as Peak to Peak. Please see an analysis of each financial KPI below:

Days Cash on Hand
The 2017-18 fiscal year saw strong budget performance. While DCOH dropped from 122.8 to 117, this was much better than anticipated since $780K was spent on purchasing the 5 acres of land adjoining campus. Unrestricted cash only dropped $60K from the prior year at $5,230,976.

Debt to Net Worth
Net assets ($20.6M) once again exceeded total liabilities ($18.6M), dropping the ratio from 1.0 to 0.9, the lowest ever. This is far below the threshold of 4.5, indicating strong financial health.

Total Salaries & Benefits as % of Revenue
While nearly $640K was added to employee salaries and benefits in 2017-18, total revenues increased even more, which lowered the salaries & benefits as a % of total revenues from 60.7% to 59.7%. This is far above the minimum threshold of 50%, but still less than the maximum threshold of 65%. This keeps the school in a healthy place with regards to employee salaries and benefits, with room to grow.

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 8.5% to 7.9%, which is the lowest ever. This is well below the maximum threshold of 12%.

Budget Surplus as % of Revenue
The budget surplus of $113K helped keep this KPI in positive territory at 0.6%, above the minimum threshold of 0%. This surplus was generated in a year when $780K was allocated to purchase new land.

Budget Performance
The school finished 2017-18 with strong budget performance. Revenues came in at 101.8%, above the minimum threshold of 100%. Expenses came in at 98.4%, below the maximum threshold of 100%. The land purchase caused an uptick in expenses.

Fund Development
With the loss of the major gifts officer early in the year, fundraising efforts fell short of exceeding the budgeted net fundraised dollars of $436,471 by $38K, which resulted in 91.2% of actual vs. budget. This is the first time that fundraising efforts fell below 100% of target since 2011-12.

6.) **<u>Fundraising Update</u>**

A brief update was provided to FBC members on fundraising results through the first half of the year. The committee was satisfied with the results and pleased to see growth year-over-year. As of December 31, 2018, giving levels were as follows for this year compared to the last two years:

	16-17	**17-18**	**18-19**
Annual Fund	$100K	$116K	$139K
Designated Gifts	$10K	$18K	$19K
Scholarship Fund	$142K	$161K	$192K

7.) S&P Credit Review

FBC members reviewed the materials that will be provided to S&P to conduct the school's annual credit rating. Since Peak to Peak was moved to a "stable" outlook on its "BBB+" rating last year, the committee expects the school to retain its current rating. FBC members were satisfied with the credit review update document and had no suggestions for improvement.

8.) 2018-19 Budget

The EDO explained to the committee that the BVSD board had approved in December a 1 mill increase in the 2016 mill levy override (MLO) for the current budget year. This will result in an additional $311K added to Fund 65. The ELT has discussed this new funding and agreed that this revenue should not be appropriated in the current budget year, but allowed to accumulate in Fund 65, to be used next year. The FBC expressed no reservations with this approach.

9.) 2019-20 Budget

Work has begun by the ELT on the 2019-20 budget. The EDO shared a copy of the preliminary budget with the FBC and explained a few of the priorities that the ELT has established. First, salaries continue to be a top priority for the school to remain competitive and to retain employees. Second, making progress with the established list of prioritized capital projects continues to be an important priority for P2P.

The $311K carryover from the current year added to the same amount in next year's Fund 65 funding will allow the school to move $576K in capital projects that were formerly budgeted in Fund 11 to Fund 65, which frees up general fund monies for salaries and other non-capital expenses. PPR has been projected to increase 4.4%, consistent with the governor's budget request. Several requests have been proposed and are currently being considered by the ELT:

- Adding steps U-Z to the PO scale @$28K
- Addressing the admin pay compression issue @$72K
- Adding more teacher/para FTE @$264K

There are currently too many requests that can be funded by the projected new revenues. The ELT will need to prioritize and whittle down the budget requests in order to balance the budget. This will take place over the next few months before the preliminary budget will be brought back to the FBC for review and recommendation to the board in April. FBC members expressed support for the established priorities but recognized the need to make the budget balance.

The next FBC meeting is scheduled for Monday, April 30th at 3:30 PM in the college counseling conference room.