



## Committee Report

<b>Committee Name:</b>	<b>Budget &amp; Finance</b>
Date of Report:	<b>10/23/2019</b>
Written/submitted by:	<b>Jennie Winter</b>
Date of last meeting:	<b>10/23/2019</b>
Date of next meeting:	<b>11/13/2019 - only if financial or other reports are available at this early meeting date</b>

<b>Motions/Action Items for the</b>	<b>7/29/2019</b>	<b>Board Meeting</b>	<b>Goal</b>
1. NA			N/A

<b>2019 - 2020 Committee Goals</b>		
<b>Goal</b>	<b>Brief Update on Progress</b>	<b>Completed</b>
1. Monitor and recommend 2019-20 budget revisions to Board of Directors for review and approval.		Ongoing
2. Review and recommend 2020-21 budget to Board of Directors for review and approval.		No
3. Establish a 5-year budget and plan for capital spending.		No
4. Review and update financial controls.		No
5. Finish the year within two percent of projected revenue and expenses.		No

### Commentary:

In an effort to make budget information easier to digest and more informative, we have changed the format of the commentary to a Question and Answer format. **Relevant QA's will remain from month to**

In accordance with Minnesota's open meeting laws, this communication is intended solely to provide information about deliberations that took place in a board or committee meeting and is not meant to advocate for or against any position and should not be considered deliberative in its own right.



month - revisions to those QAs and new QAs will be highlighted.\*

### **Is Nova on track to meet its financial benchmarks this fiscal year?**

Nova is obligated to meet certain financial benchmarks set by its authorizer and bond holders. As of **September 30, 2019**, Nova is projected to reach ...

- **24.4** percent Fund Balance as a Percent of Expenditures (The goal is 25 percent or more)\*
- **1.27** percent Debt Service Coverage Ratio (The goal is 1.1 or higher)\*
- **57** Days Cash on Hand (The goal is 60 days or more)\*\*

\*These projections are from the column labeled “FY20 Working Budget” in the Summary Revenue and Expense Statement for the Year Ending June 30, 2020 in the Financial Report. These benchmark indicators are at the bottom of the first section titled, “Total All Funds.”

\*\*This 57 Days Cash on Hand estimate was supplied by Tyler Dehne of BerganKDV at the Budget & Finance meeting. It assumes that the school stays on or under budget. The auditors will test for benchmark Days Cash on Hand levels in both December and June.

### **Are there additional benchmarks for Nova to consider?**

Yes. During the March 2019 S&P ratings review process, an associate responsible for rating the school asked us, “Do you expect the school’s financial performance to improve back to levels in 2016-2017 (4-6% operating margins), or are you expecting the school’s operations going forward to reflect leaner margins similar to FY2018 and your expectations for FY2019?” After internal discussion about accurate messaging and verbiage, we responded, “We believe Nova will improve its financial performance within the next five years, and we are making decisions to ensure that we do... We are instituting processes and budgets during the current fiscal year with the aim of returning our operating margins to pre-2018 levels...” If you would like to view our full reply or the S&P ratings report, let me know.

Bottom line: Working towards meeting the expectations we communicated to S&P Global, which goes hand-in-hand with maintaining our S&P rating and leveraging the information provided in the annual ratings report, is in Nova’s best interest for a number of reasons. Please let me know if you want more information about this topic.

### **What about the 2020-2021 one percent salary line increase in the five-year budget presented last year? Is Nova on track to increase its salary line by one percent in 2020-2021?**

Nova will most likely be on track for a one percent increase in its salary line in 2020-2021, assuming these conditions:

- Nova meets its annual required and budgeted benchmarks for 2019-2020 - which can be found respectively in its Financial Statement Executive Summary and in the Summary Revenue and Expense Statement, under *Total All Funds, Net Effect of Operations, All Funds*.
- Nova creates a feasible budget to meet required benchmarks in 2020-2021.
- No other circumstances occur that could impact a salary line decision.

### **Some background:**

- In April 2019, Nova’s board approved “... 5-year budget option #2 ... “ which set the expectation

In accordance with Minnesota’s open meeting laws, this communication is intended solely to provide information about deliberations that took place in a board or committee meeting and is not meant to advocate for or against any position and should not be considered deliberative in its own right.



for a salary freeze in fiscal year 2019-2020, a one percent salary line increase in fiscal year 2020-2021 and a two percent salary line increase in the three years beyond.

- In June 2019, Nova's board approved the 2019-2020 annual budget. A revised five-year budget was presented at the June meeting as a tool to provide context and show that the 2019-2020 budget fit within at least a five-year sustainability model. That five-year budget, which was not voted on in June, again included a salary freeze in fiscal year 2019-2020, a one percent salary line increase in fiscal year 2020-2021 and a two percent salary line increase in the three years beyond.
- When the board approves a budget, the expectation is that the administration will manage the budget line items as approved by the board until a board review and revision becomes necessary. The board is not necessarily involved in the strategy employed by the administration related to allocating funds within each line item. For example, the board is not necessarily involved in determining how funds within the salary line are distributed. **As this relates to us as board members, we need to take care not to communicate how any salary line information applies to employees - as individuals or as a group.** It is Nova's executive director's responsibility to work with Nova's administrative team - within budget constraints - to develop compensation strategy and employee communications.

### **Why didn't Nova meet its fund balance, bond covenant and days cash on hand benchmarks in fiscal year 2018-2019?**

The committee continues to identify and assess contributing factors, which include missing budgeted enrollment and expense targets in 2018-2019 along with a change in the salary payment schedule. In the meantime, the school is making headway toward ensuring that the school meets its benchmarks this year and going forward as shown below.

### **What is Nova doing to stay on or under budget this year, and meet its benchmarks?**

The school is taking multiple actions to stay on or under budget, and meet its benchmarks.

1. First off, let us not take for granted that our dedicated faculty and staff are currently under a salary freeze.
2. Likewise, the school has successfully increased enrollment to - **and above** - the new increased levels dictated by the spring 2019 board decision.
3. Dr. Wedlund reported to the Budget & Finance Committee that, at least for the time-being, he is directing his staff to keep spending at FY2019 levels as a first strategy to keep spending under budget in FY2020.
4. Fundraising is reported to be on track for the year, although it is early. "Contributions and Gifts, Grants" is budgeted at \$150,000.
5. Staff and BerganKDV are using a working budget to help staff and board members keep up with mid-year budget fluctuations within budget categories, to stay on or under budget for those budget categories, and to stay on or under budget at the bottom line. At some point later in the year, if larger budget category targets need to move, staff will use the working budget to develop a new revised budget to recommend for board approval.
6. **In order to ensure that Nova has 60 days cash on hand by the December (and June) audit test dates, Nova will either transfer some of the money due from the building fund to the school or moving up our lease aid application to receive payment sooner, or both.**

In accordance with Minnesota's open meeting laws, this communication is intended solely to provide information about deliberations that took place in a board or committee meeting and is not meant to advocate for or against any position and should not be considered deliberative in its own right.



7. **LAST BUT NOT LEAST:** BerganKDV is working with staff to develop a detailed departmental budgeting tool that will help the school analyze and manage resources responsibly at appropriate line item and category roll-up levels. This is a significant project in terms of value to the organization and complexity. Time is of the essence for the school to begin benefiting from the information garnered through a successful roll-out. However, given the complicated nature of this project, the new budgeting tool will be a work in progress throughout this year - although it is intended to inform a more accurate FY21 budget process that will begin this winter. **Mr. Dehne has provided a first draft to Dr. Wedlund.**

## **How are enrollment numbers reported? Why are numbers different in some reports?**

Enrollment drives revenue, and it is imperative that we use accurate enrollment numbers in our budgeting.

Here are some important terms to know:

- **Average Daily Membership (ADM):** Headcount or actual students.
- **Postsecondary Enrollment Option (PSEO):** A program that allows 10th, 11th and 12th graders to earn college credit at area colleges and universities - on a part-time or full-time basis. When Nova students opt to participate in PSEO, Nova loses some, but not all types of funding for those students.
- **Pupil Units, also referred to as “Weighted ADM”:** We receive 20 percent more funding for upper school students. “Pupil Units” takes into account that related higher revenue plus the impact of PSEO participation.

In addition to what is in the September financial statements, Mr. Dehne reported to the Budget and Finance Committee that actual weighted ADM is 1,096, which was budgeted at 1,079. The weighted ADM figure is important because it is used to calculate Nova’s revenue. After adjusting (“weighing”) ADM for upper school students and PSEO participation, Nova is being paid for 17 more students than Nova budgeted.

In future months, we will continue to request enrollment clarification, monitor budget impact and watch to ensure that the figures we are shown are correct and labeled accurately.

## **When will we see the audit report?**

Mr. Dehne informed the committee that CliftonLarsonAllen has completed its audit of Nova’s finances, excluding some final logistical items related to signatures, and will present the audit report at the November board meeting. In the meantime, know that Mr. Dehne reported that Nova is receiving a clean audit report, and that there was just one finding related to prompt payment of bills: of 25 cases tested, four invoices were not paid within 30 days of the school’s receipt. There was committee discussion that led to understanding that this was the first time there has been such a finding at Nova, and that the school will address it in the future so that it does not become a trend.

Mr. Dehne reported **in September** that Nova is showing a \$223,000 deficit in FY2019. This is higher than expected - higher than the FY2019 \$122,046 deficit that the committee and board saw during the FY2020 budget recommendation/approval process in May/June, and higher than the last FY2019

In accordance with Minnesota’s open meeting laws, this communication is intended solely to provide information about deliberations that took place in a board or committee meeting and is not meant to advocate for or against any position and should not be considered deliberative in its own right.



## NOVA CLASSICAL ACADEMY

\$158,957 deficit projected in a preliminary report dated August 2019. Mr. Dehne reported that a number of FY2019 invoices came in after year end, which is normal, and that Nova recently recognized \$24,000 of FY2018 uncollected revenue that had been expected from ERATE. On the topic of whether or not this deficit would qualify as an audit finding, Brett Wedlund reported that auditors often deem a two percent actual-to-budget variance as normal. (A \$100,000 variance like we are seeing represents less than a one percent budget variance on an \$11.5 million budget.)

\* We encourage board members to submit questions to the chair ahead of Budget & Finance meetings so that responses can be discussed at the committee level when appropriate. You will see a monthly budget report in the board packet, which comes out just three days prior to the Budget & Finance meeting. If you have questions for the committee, please submit them by 4 pm, the Wednesday before the board meeting. The Finance and Budget committee meets at 5 pm that Wednesday. Or bring questions to the board meeting, as usual. All interest and questions are appreciated. We want everyone to be up-to-speed. Thank you.

In accordance with Minnesota's open meeting laws, this communication is intended solely to provide information about deliberations that took place in a board or committee meeting and is not meant to advocate for or against any position and should not be considered deliberative in its own right.