Is Your Board Financially “Literate”?  

Andy Kaplan, Board Member/Treasurer

Formerly Camp JRF
Camp Havaya

- Camp of the Reconstructionist movement
- In the Poconos, PA
- Camp Havaya is all about the joy of summer camp with the freedom to be who you truly are
- Diverse and accepting community
- Focus on “How We Be” – Being our best selves
- About 400 campers over two sessions, family camp, No’ar Hadash Israel Experience
My Background

• My Background:
  • Camp board about 8 years, Treasurer for last 4
• Experience as business operator and investor
• Educational Technology/Services
  • Scholastic, Kaplan
• Private Equity
  • Quad, EGP
Finance Level Set

• Familiar with/can read budgets?
• Know what a balance sheet is?
• Understand how P&L, balance sheet, and cash flow statements work together?
• Eyes glaze over during finance conversations, try to nap without head hitting table?
• Feel like you can use finance to look forward and plan?
Accounting Overview

• Three critical financial statements:
  • Income statement – P&L
  • Balance Sheet
  • Cash Flow Statement

• Other critical information:
  • Budget
  • Enrollment metrics;
Income Statement

• Also called “Profit and Loss Statement” – P&L
• Covers a specific period/periods – like a month, year, or year to date
• Starts with Revenues, subtracts expenses, shows net income
## P&L: Revenues

<table>
<thead>
<tr>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4000 · Tuition &amp; Fees</strong></td>
</tr>
<tr>
<td>4001 · Program/Session 1</td>
</tr>
<tr>
<td>4002 · Program/Session 2</td>
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<tr>
<td>4003 · Program/Session 3</td>
</tr>
<tr>
<td>4004 · Travel Fees</td>
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<tr>
<td>4005 · Other fees</td>
</tr>
<tr>
<td><strong>Total 4000 · Tuition &amp; Fees</strong></td>
</tr>
<tr>
<td><strong>4100 · Tuition Discounts</strong></td>
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<tr>
<td>4101 · <em>Early Registration Discount</em></td>
</tr>
<tr>
<td>4102 · Sibling Discount</td>
</tr>
<tr>
<td>4103 · Faculty Discount</td>
</tr>
<tr>
<td>4104 · Incentive Grants</td>
</tr>
<tr>
<td>4105 · Scholarships</td>
</tr>
<tr>
<td><strong>Total 4100 · Tuition Discounts</strong></td>
</tr>
<tr>
<td><strong>4200 · Donations &amp; Grants</strong></td>
</tr>
<tr>
<td>4210 · Grant Income</td>
</tr>
<tr>
<td>4230 · Scholarship Donations</td>
</tr>
<tr>
<td>4250 · Fund Raising</td>
</tr>
<tr>
<td><strong>Total 4200 · Donations &amp; Grants</strong></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
</tr>
</tbody>
</table>
## P&L: Expenses

<table>
<thead>
<tr>
<th>Expenses</th>
<th>5000 · Payroll</th>
<th>5100 · Insurance</th>
<th>5110 · Advertising</th>
<th>5120 · Office Expense</th>
<th>5130 · Professional Fees</th>
<th>5140 · Recruitment Travel</th>
<th>5150 · Camper/Staff Travel</th>
<th>5200 · Operations</th>
<th>8910 · Amortization</th>
<th>9200 · Depreciation</th>
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</thead>
<tbody>
<tr>
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<td></td>
<td>5210 · Kitchen</td>
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<td>5220 · Repairs &amp; Maintenance</td>
<td></td>
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<td>5230 · Utilities</td>
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<td></td>
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<td>5240 · Health Center</td>
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<td>5250 · Programs - Training, supplies, equipment</td>
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Total Expenses
Income Statement - Evaluation

- Cash vs. Accrual accounting
- Many camps don’t show non-cash expenses on Income Statement (e.g. depreciation, amortization)…but do show non-revenue items (like pledges).

- Keys to evaluate:
  - Comparisons to budget
  - Comparisons to prior periods
  - Comparisons to reforecast

- Take a look at $ comparisons and % comparisons
Balance Sheet

• Represents a snapshot of a specific point in time (end of quarter, end of year).
• Shows the assets (camp resources) and funding for those resources (liabilities and equity).
• “Balance” because the two sides – Assets on the one hand and Liabilities + Equity on the other – must balance.
• Why is this important?
  • Reflects underlying timing dynamics not captured in income statement – working capital.
# Balance Sheet Example

<table>
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<tr>
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<th>Liabilities</th>
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- **Change Frequently**
- These are “Working Capital” needed to run camp

**Total Liabilities and Equity**
- Equity: Retained Earnings
Camper Tuition Example

• Tuition: $5000

• Camper signs up Jan 1 with $1000 deposit
  • Cash: + $1000
  • Accounts Receivable (A/R): + $4000
  • Deferred Revenue: + $5000

• Pays balance on June 1
  • Cash: + $4000, Accounts Receivable: -$4000

• Attends Camp
  • Deferred Revenue: -$5000; Revenue: +$5000
Accounts Payable Example

- Accounts Payable: money owed but not yet paid. Abbreviated as A/P.
- Examples: Promotional video, camper trips
- Important: Compare A/P to Cash + A/R to plan for short term cash requirements
- Quick ratio: \((\text{Cash} + \text{A/R}) / \text{A/P}\)
- Should be greater than 1
Mortgage Example

• Mortgage payments have two components:
  • Principal and Interest
• Interest is an expense – on Income Statement
• Principal is a transfer of assets, not an expense:
  • Reduce cash, increase Fixed Assets
• Confusing concept for most non-finance people
Balance Sheet

• Keys to evaluate: Changes
• Change from prior period
• Change from same period in a prior year.
• Most important areas: Cash, A/R (accounts receivable), A/P (accounts payable), Deferred Revenue
Cash Flow Statement

• Shows cash over a specific period – e.g. quarter, year-to-date
• Calculated using Income Statement and Balance Sheet changes
• Starts with bottom line surplus or loss, then adjusts for other working capital changes on balance sheet to arrive at cash from operations.
• Separate sections for cash used in investing and cash from financing
• Leads to net change in cash for the year
In Practice

• Since most camps run on cash basis, single statement

• Presents mortgage payment like rent

• Easier for most boards to understand

• But does not show cycle of cash, can miss important cash low points

• Financial statements can be “backward looking” – key is to use finance strategically to “look around the corner” and plan
Core Concepts – Key Drivers

- **Revenues:**
  - Number of campers/Beds/Sessions
  - Cohort size/year
  - Tuition
  - Retention rate
  - Donations/Scholarships

- **Expenses**
  - Variable
  - Fixed
Expense Analysis

Fixed Expenses
- Mortgage: 15%
- Summer Staff: 15%
- Program: Camp: 3%
- Operations - Variable: 10%
- Scholarship / Incentive Grants: 10%
- Recruitment: 2%
- Staff - Year Round: 19%
- Insurance: 7%
- Administration: 6%
- Other Fees: 3%
- Operations - Required: 8%
- Taxes: 1%

“Variable” Expenses
- Discounts: 1%
- Scholarship / Incentive Grants: 10%
- Summer Staff: 15%
- Program: Camp: 3%
- Operations - Variable: 10%
- Discount: 1%
- Recruitment: 2%
- Scholarship / Incentive Grants: 10%
- Staff - Year Round: 19%
- Insurance: 7%
- Administration: 6%
- Other Fees: 3%
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- Taxes: 1%
Strategic Finance

• Budget with clear assumptions
  • Identify drivers
  • Understand cost ratios
  • Think about impact of over/under enrollment

• Track enrollment activity
Finance – Important Practices

• Reforecast
  • Late spring – after most enrollments, before expenses
  • Find ways to adjust – variable expenses

• Planning for cash cycle
  • Particularly for Fall: Cash depleted after summer expenses, new tuitions don’t really start until winter
Long Term Impact

• Capacity utilization
• Lifetime value
• Retention rate
• Tuition over time/Discount rate
Capacity Utilization

• Measures how “full” camp is:
  • % of bed/week capacity

• May be best to look at in several ways:
  • Overall, by session, by age range, by program

• Due to high fixed cost nature of camp, high capacity utilization is key to financial success

• Important for planning: if near capacity, should you expand? If consistently under utilized, what can be done to reduce capacity or find other uses?
Lifetime Value

• Measured as the total amount of tuition from a camper over their entire camp lifetime
• Impacted by a combination of tuition rates and retention rates
• Example: If tuition is $5000/year and a camper stays 3 years, lifetime value is $15,000
• High and increasing lifetime value of a camper is critical to camp financial viability
• Helps to understand camper value and parent perspective
Retention Rate

• Measures how many campers return for a subsequent season as a % of those able to return (i.e. haven’t aged out)

• Important because
  • It’s a key measure of value
  • Much more expensive to recruit new campers than to keep existing

• Small changes make a big difference:
  • 70% retention rate:
    - LTV: $100 – 70% = 3.33. At $5000 tuition, Camper LTV = $16,667
  • 80% retention rate:
    - LTV: $100 – 80% = 5. At $5000 tuition, Camper LTV = $25,000.

• 10% increase in retention = 50% increase in Camper value!
Tuition Over Time/Discount Rate

• Costs rise over time: inflation
• Tuitions rise over time
• Discounts/subsidies/scholarships are “contra revenue”
• Important to track net tuition (tuition – discounts/scholarships)
• Rate of increase of expenses vs. net tuition change
Questions/Discussion