Grow Schools

# School Budgeting Terms Defined

## A Companion to the Charter School Budget Guide

**With the right knowledge and understanding of budgeting terminology, you can make informed decisions and set your school up for success.**

**Accounts Payable**
Accounts payable is the money owed to your vendors to pay for services or products you've received.

**Accounts Receivable**
Accounts receivable are those who need to pay you for your offering, or the services and products you provide.

**Back Office**
The administrative tasks associated with running a school, including accounting, taxes, and payroll. Can be managed by employees, contractors, or an outsourced back office provider.

**Balance Sheet**
A chart with two sides that lists assets and liabilities. One side lists the value of what the school owes (liabilities) while the other lists the value of what the school owns (assets). When totaled, the two sides should always be in balance.

**Base Salary**
A fixed amount of money paid to an employee at regular intervals on an ongoing basis in return for work performed. Base salary does not include benefits, off-scale awards, or any other potential compensation from an employer.

**Bottom Line**
This is your school's net income. This is one of the first things outsiders will look at to judge your school's financial performance. To improve your bottom line you can work on generating more revenue, reducing expenses, or both.

**Budget**
A financial plan for the year that doesn't change. A budget goes through many layers of executive approval before it goes into effect. Budgets include both costs and anticipated revenue.

**Burn Rate**
The burn rate measures outgoing cash flow and is based on the amount of money your school typically spends each month. So if you spending $100,000 each month you'd have a burn rate of 100,000. This rate is important for forecasting your income. If your burn rate is larger than your expected income, or if it doesn't leave room for upcoming expenses, you know you need to adjust your monthly spending.

**Capital**
Anything a school owns that is considered a financial resource. Everything from materials to machinery, facilities, and more can be considered capital because they all add value to the school and its future growth.

**Cash Flow Planning**
An estimate of the amount of money you expect to flow in and out of your business and includes all your projected income, expenses and other non-income statement items that directly affect cash (i.e., accounts receivable, accounts payable, financing). A forecast usually covers the next 12 months, broken out either monthly or weekly.

**Cash Runway**
A time measurement of how long your school could survive if it stopped making money and continued spending as it is. This is easily calculated by dividing the amount of money you have readily available by your burn rate.

**Depreciation**
Some assets lose value over time due to use, wear and tear, or changes in the market. This is known as depreciation and must be accounted for to help understand how the asset helped the school earn revenue.

**Expenses**
Your expenses are the costs you pay to run your school such as paying employees, vendors, rent, depreciation, etc.

**Forecast**
Updated monthly or quarterly so a school knows how it will end the year. Like a budget, forecasts also include costs and revenue; unlike a budget, a forecast is updated throughout the year.

**Fixed Assets**
Your fixed assets are things you purchase and intend to keep for a long time. Examples could be land or a facility, furniture, office equipment, and some types of software.

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### General Ledger
Your school's general ledger is where all transactions get entered (recorded, tracked, and posted) and is a useful tool for conducting internal research/reviews, audits, and budget preparation. The general ledger typically requires double-entry bookkeeping to provide the most accurate financials and can be used to prepare financial statements directly from the accounts, and as a means to identify errors or instances of fraud.

### Interest
Interest is the additional charge that accumulates on borrowed money.

### Knowledge Capital
The intangible assets encompassing your employees' skills, experience, on-the-job education, and understanding of your school and their areas of expertise. Because this asset is so specialized and unique, it can give your school a highly valuable advantage.

### Liabilities
The debts and obligations your school owes. These are listed on the right side of your balance sheet including loans and mortgages, accounts payable, expenses, and any deferred revenue. These may sound like a bad thing, but liabilities are often essential to financing expansions, a new facility, and operational costs.

### Marginal Analysis
As a decision-making tool, marginal analysis is the process of weighing the benefits of adding an activity or function with the added costs. Generally speaking, we perform marginal analysis in our day-to-day lives, but the effects of these decisions become much larger with an entire school at stake.

### Net & Net Income & Net Margin
Net refers to a total amount after all deductions are applied (while gross refers to a total amount before deductions). Your net income is your entire income after overheads, interests, taxes, and other deductions are taken out. Your net margin is a percentage representing how much of your revenue is turned into cash profit. This can be calculated using this formula: Net Margin (%) = (Revenue - Operating Expenses - Interest & Taxes)/Revenue

### Off-scale Reward
A fixed amount of compensation paid to an employee at one time or over a defined interval, in addition to a salary. Examples of off-scale awards include performance-based bonuses, extra paid time off, revenue-based profit sharing, and temporary increases. An off-scale award may change from year to year and does not affect an individual's base salary.

### Operating Costs
The expenses that relate to the function of your school such as devices, resources, equipment, and facilities. This can include typical ongoing overhead costs as well as variable expenses such as materials and one-off purchases.

### Opportunity Cost
Time is money. Every time you choose between two options, you have to factor in the benefits to pursuing each option. When you make a choice to prioritize one, you are faced with the opportunity costs of another. For example, the opportunity costs of a new playground may mean giving up a new auditorium. A marginal analysis could rationalize this choice by find a greater potential income with a new playground (which will benefit everyone and increase curb appeal) than an auditorium (which will mostly benefit music students).

### Overhead
Your overhead consists of the general operating expenses and fees required to run your school. When ongoing and predictable, these costs can help you plan for the future and make smart decisions.

### Profit & Loss (P&L) Statement
Shows your revenue, cost to operate, and expenses during any given period of time. This is one of your most important financial statements (along with balance sheet and cash flow) and provides the best view into your bottom line.




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