



# Financial Stewardship in Charter Schools

Fall 2023

# Our learning outcomes today



Understanding effective financial stewardship and its connection to mission



The role and responsibility that each member of the board, CEO, and CFO play in effective financial stewardship



Practical guidance that you can apply right away



# The headlines

## **Effective financial stewardship is about:**

- Reflecting your mission in resource allocation,
- Protecting your money with controls and governance, and
- Making resource decisions that can be sustained toward your long-term impact.

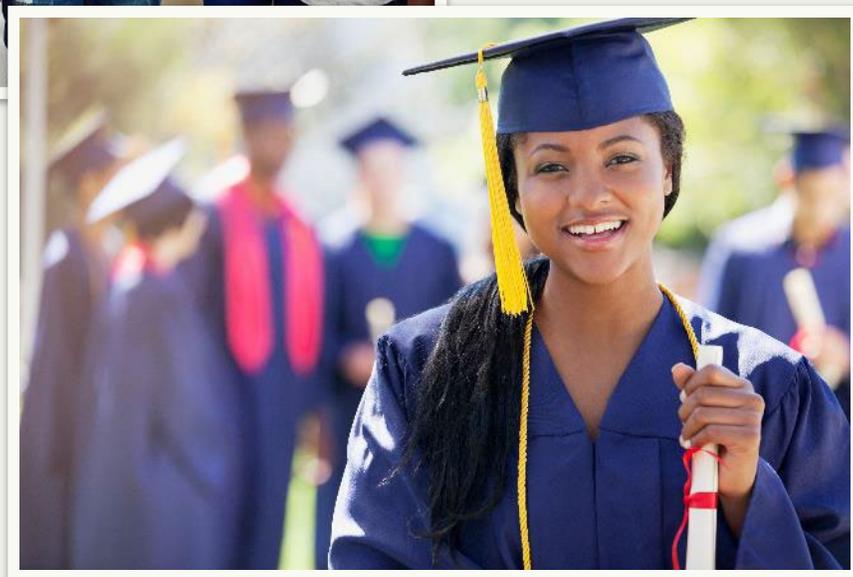
## **Getting more rigorous in your financial oversight is important and timely.**

- Consider your elevated pressures: enrollment, funding, labor, student need, societal, and economic.

## **Applying effective financial stewardship includes:**

1. Ensuring your budget is reflective of your priorities and strategies
2. Building and maintaining a strong board finance committee
3. Resourcing your finance team with a strategic CFO and sufficient accounting and budgeting resources
4. Rigorously maintaining fiscal controls and reporting
5. Using long term affordability data to inform today's strategic decisions





**Your mission is the  
reason your  
organization exists.**

The resource allocation in your budget  
should connect to your mission and  
reflect your priorities.



# Effective financial stewardship is about...



MISSION



MONEY



IMPACT

Your most trusted staff members are also key vectors for fraud within your organization—driving the need for strong policies, controls, and execution.

1. **Leadership** - ~75% of fraud at nonprofits is committed by executives and managers, with losses on average 8x larger than more junior staff.
2. **Long-tenured Employees** - Long-time employees (>5 years) are responsible for nearly 50% of fraud and steal 2x as much as employees with less tenure.
3. **Accounting Department** - Beyond the fraud committed by leadership and long-time employees, the accounting department is at higher risk for fraud—with a higher frequency and greater losses.



## Your money and resources require protection.

Governance, controls, reporting, and compliance are part of your organization's foundation for success.





## You are in this for impact over the long-run.

Today's financial health matters for tomorrow. And what's affordable longer-term informs today's decisions.



# Mission. Money. Impact.



Which of these areas are you proud of in your own organization or in your own skill set and why?



Which of these areas would you prioritize for evolution at your organization or in your role?



# Forces that heighten the importance and timeliness of more rigorous financial stewardship

## ESSER



One-time federal funding ending

## Economy



Rising costs often outpacing revenue growth

## Enrollment



Declining enrollment overall but wide variation

## Employees



Talent difficult to find and competitively compensate

## Exceptional Needs



Increasing student needs individually and in aggregate

## Expectations



Increasing pressures and expectations for services





# Roles & Responsibilities for Charter School Financial Stewardship

**Together, the Board and Management are responsible for ensuring *good stewardship of public funds*, in addition to *providing a high-quality education* for its students.**



*A clear delineation of roles helps ensure the budget is not “co-managed” by the board, and by the same token, management is not the only responsible partner for the financials of the organization*



# There are significant benefits to a high functioning board finance committee

## The board's governance role...

- Provides you the appropriate financial guardrails (days of cash, DSCR) to guide your annual and long-term planning
- Guides soundness of assumptions in financial planning (enrollment, philanthropy)
- Assists with financial risk mitigation

## The board's consultative role...

- Provides strategic thought partnership on matters like facility site selection, facility financing, and generally strategic resource allocation - the balance of academic investment priorities alongside financial guardrails
- Looks ahead and 'sees around the corner'

## The board's ambassador role...

- Provides meaningful contacts to support banking, financing, and audit initiatives
- Advocates for state and authorizer financial policy & procedure improvements



# Each of the Finance Committee Chair, CEO, and CFO play an important role toward effective fiscal oversight

## Finance Committee Chair

- Leads the board through all financial matters
- Governing financially responsible board member of the organization

## Chief Executive Officer

- Sets the strategy of the organization and approves key financial investments and budget allocations
- Accountable for the delegation and approval to allocate key financial resources of the organization

## Chief Financial Officer

- Runs the internal financial management of the organization, inclusive of day-to-day requirements, strategic investments, and long-term commitments
- In-house expert and owner of the finance function, accountable for all relevant activities of financial operations

**These roles must each evolve as your organization grows, matures, and becomes more complex.**



# Where is your organization today for each of these three roles?

Smaller Org / Newer Team

Mid Sized Org / Exp. Team

Larger Org / Veteran Team

**Board  
Finance  
Committee  
Chair**

Runs meetings; Helps lead financial function; Hold CEO/CFO accountable (true throughout).

Serves as a high-level decision maker for large decisions; Partners closely with CEO/CFO.

Advises on budget, real estate, borrowings; Delegates among board and senior management.

**CEO or  
Executive  
Director**

Closely aware of all budget details; acts as point-person for all key financial decisions.

Partners with CFO to deliver financial information to leadership team, board.

Entrusts CFO to own financial materials and processes; leads on key resource allocation decisions.

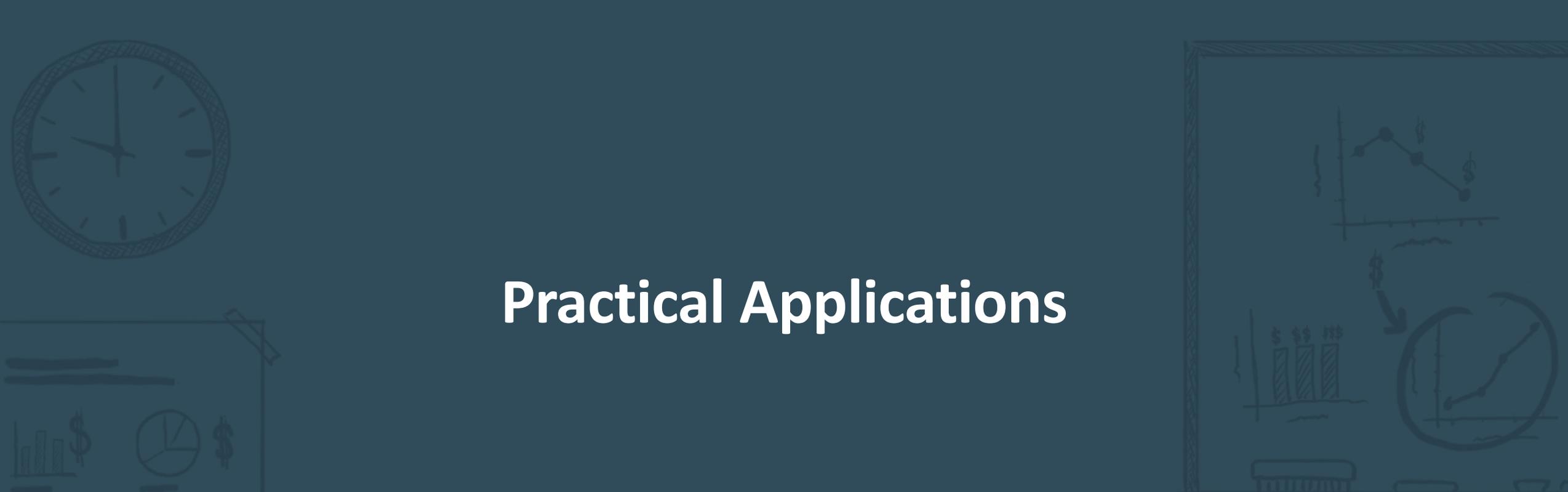
**CFO or  
Finance  
Director**

Owens General Ledger, monthly close, annual budget. Delivers board and compliance reports.

Owens multi-year plan, quarterly financials, budget. Communicates to stakeholders; builds systems.

Leads larger finance team; trains staff; builds on existing controls; collaborates as a resource enabler.





# Practical Applications

# Leading with mission is essential. AND this must show up in the budget. One cannot exist without the other.



## MISSION

- The mission needs to be created and kept alive by the founders, current leaders, and board members of the organization
- In all cases, the goal is to do right by students; however the **mission** and **priorities** need to be specific in order to clearly show up in the budget.
- The mission cannot be carried out without financial sustainability

## BUDGET

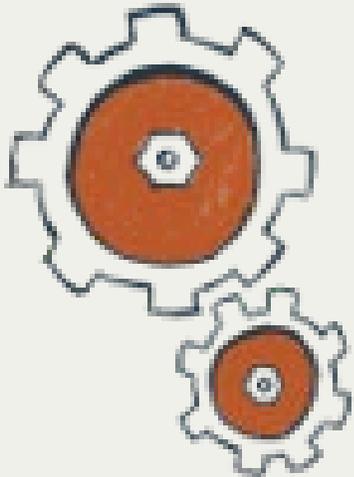
- The budget as a financial statement of values should show the key investments towards mission and **priorities**
- Show most significant items in terms of scale – **not** the minutia
- Utilize key performance indicators to ensure annual financial health
- Financial sustainability is essential for the mission to be achieved on an ongoing basis into the future



Each year, the budget should highlight **INVESTMENTS** into the school's **PRIORITIES** to achieve the overarching mission.



# Be real about your operating assumptions



- Growth rates of State **Per Pupil Funding** and Federal funding
- **Enrollment by grade-level**. Show along side past budget-to-actuals
- **Compensation** drivers: average wage increases and **benefits** per FTE
- **Non-personnel** assumptions:
  - Costs relating to mission: technology, curricula, PD, teacher training
  - Service contracts: maintenance, transportation, food
  - Fixed operational costs: insurance, audit, legal, etc.

**GOAL:** show 2-3 year historical trends of assumptions, and the impact of changes to assumptions in a 3-5 year model

**The end-result: managing your financial forecast and cash position effectively and conservatively over the long-term**



# Convey your budget in terms of your priorities & strategies

## 1 Recurring and non-recurring revenues:

- a) **Enrollment**-driven funding; show simple impact of 10 students below budget (e.g.  $\$15K \times 10 = \$150K$  shortfall)
- b) Non-recurring public grants: ESSER, CSP, other grants with public funding restrictions: take care of requirements early **so that compliance will NOT drive allocations** away from priorities or create last-minute spending
- c) Private philanthropy: organize by largest donors and indicate **recurring/non-recurring** time horizon

## 2 Personnel Expenses:

Largest changes in drivers: wage growth and FTE changes; which FTE changes are linked to **priorities & strategies**?

## 3 Non-Personnel Expenses:

Similarly, which big-ticket items are new and linked to **priorities & strategies**? Who approves?

## 4 Cash, cash, cash: all large balance sheet items matter, such as fund balance as it relates to

## 5 Covenants: when applicable, is there a budgeted surplus which exceeds a debt service coverage ratio?



# Controls & Governance – they matter



MONEY

Conflicts policy

Procurement -  
multiple bid  
processes

Escalation of  
approvals

Nepotism  
policy

Whistleblower  
hotline

Ethics Training

Executive  
compensation  
comparables

Third party  
review of  
controls

Segregation of  
duties

Budget  
accountability

Timely  
monthly  
financial closes

Limit bank  
signatories

Electronic  
payments



# To make this happen, resource your finance department

## Key Factors that Drive Staffing Requirements of Finance & Accounting

### Network Size

- Number of schools and multi-city or state operations seems to drive finance workflow, more than number of students

### Life Cycle Stage

- Is the CMO planning expansion or stabilizing?

### School Autonomies

- Where does spending authority lie?
- How much are school business managers leveraged?

### Grant & Compliance Requirements

- How many and what kinds of funding sources and reporting requirements?
- What is LEA status of CMO?

### Facility Ownership

- Building ownership typically means construction and bond financing

### Systems

- Accounting, payroll & HR systems can greatly affect staff requirements

### Operations Involvement

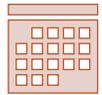
- How much is finance involved in other departments (e.g. IT, facilities, HR)



# Here is a simple recipe for effective board financial governance



Ensure ample board capacity to carry out financial governance – at least 3 engaged members who are financial statement-literate



Meet monthly as a finance committee



Adhere to a set of board member commitments



Define the monthly reports, dashboards, and seasonally appropriate agendas



Annual setting of the finance committee's charge and goals



# Boards should monitor organizational risk

*Example categories which should be customized for your charter network*

| Type of Risk                | Example Details on Type of Risk   | Example Notes on Current State  |
|-----------------------------|---|---|
| <b>External / Political</b> | <ul style="list-style-type: none"> <li>• Authorizer renewal; report cards</li> <li>• City/State trends with charters</li> </ul> | <ul style="list-style-type: none"> <li>• Currently “yellow” on state report card; renewal process begins FYXX</li> </ul>                                      |
| <b>Financial</b>            | <ul style="list-style-type: none"> <li>• Financial KPIs (DCOH, Budget)</li> <li>• Rising wages, healthcare costs</li> </ul>     | <ul style="list-style-type: none"> <li>• Cash low point is December at 59 days; healthcare renewal anticipates 10% rate inc.</li> </ul>                       |
| <b>Enrollment</b>           | <ul style="list-style-type: none"> <li>• Incoming grades</li> <li>• Rising grades, attrition, trends</li> </ul>                 | <ul style="list-style-type: none"> <li>• 12<sup>th</sup> grade that exits is bigger than incoming 9<sup>th</sup>; school at 90% of budgeted target</li> </ul> |
| <b>Academic</b>             | <ul style="list-style-type: none"> <li>• State standardized test scores</li> <li>• Internal metrics for growth</li> </ul>       | <ul style="list-style-type: none"> <li>• Growth for subgroups trending up; freshman on-track is 80%</li> </ul>  |
| <b>Personnel</b>            | <ul style="list-style-type: none"> <li>• Teacher turnover</li> <li>• Leadership changes</li> </ul>                              | <ul style="list-style-type: none"> <li>• Teacher attrition was 21% vs. goal of 15%; median principal tenure is 4 years</li> </ul>                             |
| <b>Operational</b>          | <ul style="list-style-type: none"> <li>• Attendance</li> <li>• Long-term strategic plan challenges</li> </ul>                   | <ul style="list-style-type: none"> <li>• Attendance lagging for 10<sup>th</sup> grade; facility costs rising impacts future growth considerations</li> </ul>  |



# Use these topics as seasonal guide for board discussion

RELEVANT TO THE FULL BOARD AND THE FINANCE COMMITTEE

**July -  
Oct**

Review interim year end results

Hard look at actual new year enrollment

Receive prior year audit update

**Nov -  
Dec**

Approve prior year audit

Begin next year planning for org-wide and school-level priorities

Begin discussions on next year financial goals

**Jan -  
Mar**

Set next year's financial targets

Discuss enrollment, revenue, and compensation forecasts

Review prior year IRS Form 990

**April -  
May**

Review iterative new year budget drafts

Review updates to financial policies

Set committee meetings, priorities, and goals for new year

**June**

Review coming year's enrollment projection

Approve new year's budget

Approve updates to financial policies



# What the CFO can bring to the committee table

## Your monthly reporting package enables:

- Monitoring of **liquidity**
- Monitoring of **actual financial results** in connection with goals
- Guidance of any **major organizational decisions** (e.g., borrowing and capital decisions)

## Thus, every month, you can discuss:

- ✓ **Cash** position and projections
- ✓ Year to date **financial statements & budget variance**
- ✓ **Enrollment** status
- ✓ Any **major transactions** being contemplated

**Financial dashboards and a one-pager summary can be great supplements to the standard monthly financial statements**



# If your board work is lagging, here are next steps you can take to evolve your finance committee

CFO & CEO align with Board chair on taking your board financial governance to the next level. You want a commitment for the board to be populated with engaged, financial statement-literate members who are willing to meet at least bi-monthly if not monthly.

Name a committee chair and build that relationship

Co-create a role description for the committee with the committee chair

Calendar the entire fiscal year of finance committees, upfront

Determine a format for your financial reporting for the committee – start with something simple and do-able, then later name what you might build toward



# Today's financial health matters for tomorrow

Some standard metrics to use at Finance Committee



IMPACT

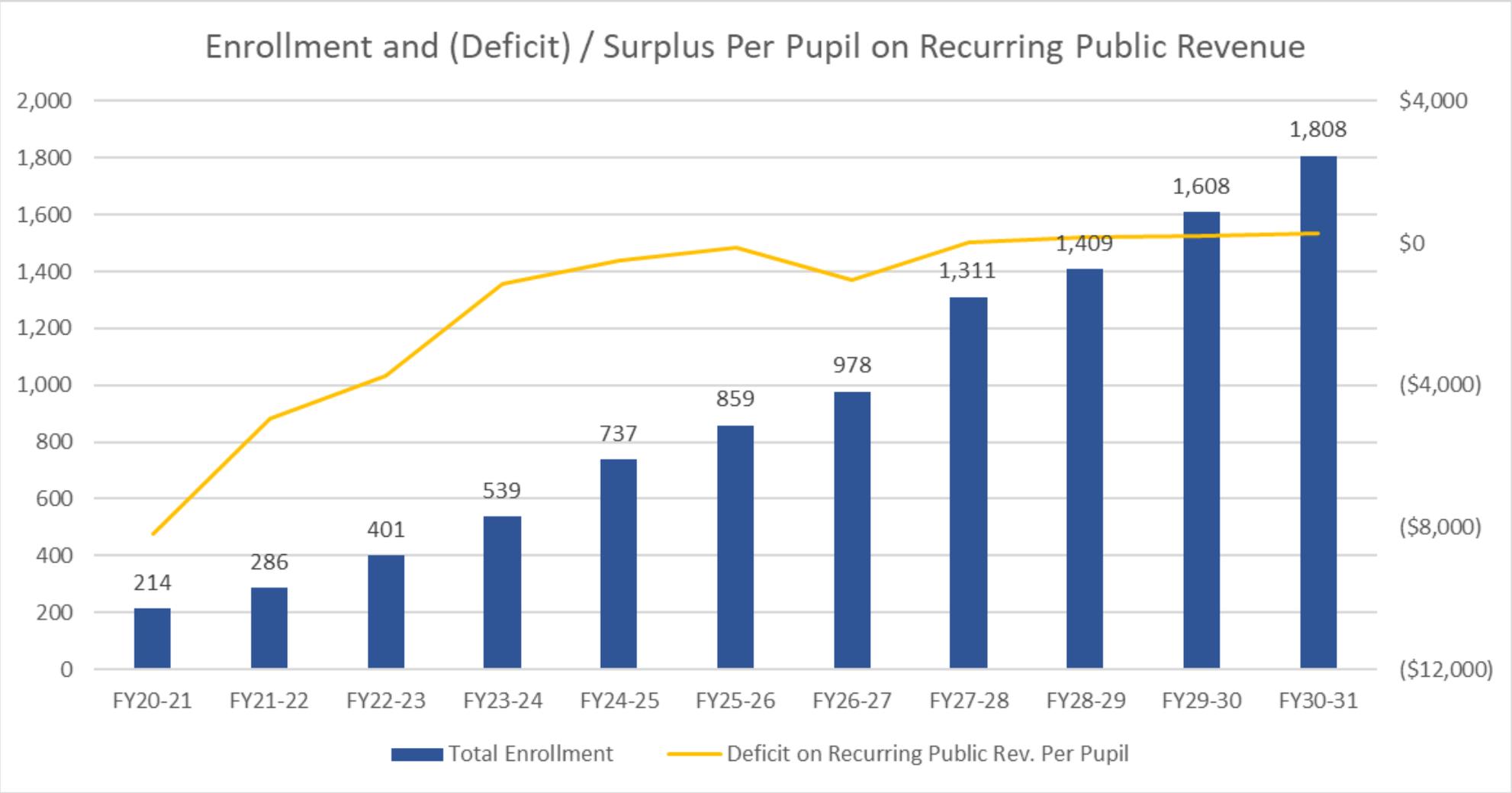
| Target and Criteria   | Red  | Yellow  | Green   | Notes (examples)  |
|---|--|---|---|---|
| <b>CASH</b>   |  |   | <b>132 Days</b>                                     | <ul style="list-style-type: none"> <li>+ Dec 31 cash balance was \$5.0M (103 days of current expenses)</li> <li>+ Forecasted 6/30 cash of \$5.2M is 103 days of FYYY expenses.</li> <li>+ Higher cash inflow are expected April-June with reimbursable grants being funded, and philanthropy grant X being funded.</li> <li>+ See tab in workbook for monthly cash detail.</li> </ul> |
| Target criteria:<br>Maintain cash to cover monthly operating expenses | < 45 days                                    | 45 days - 90 days                                   | >= 90 days  |   |
| <b>ENROLLMENT</b>   |  | <b>95% of target</b>                                |   | See following sheet for year over year enrollment details and performance compared to budget.   |
| Target: Count-day students as % of plan                               | 90% - 95%                                    | 95% - 97%   | >= 98%  |   |
| <b>NET ASSETS</b>   |  | <b>Net Assets forecasted to be 30% of Budget</b>    |   | <ul style="list-style-type: none"> <li>+ Net Income budget target for the year is \$900K, and forecasted net income estimated to have a favorable variance of approx. \$100K</li> <li>+ Increased liabilities are forecasted for end of year borrowing will lower net assets</li> </ul>   |
| Target : Grow Net Assets to \$X.XM (~35% of expenses)                 | <35%   | 25% - 35%   | Net Assets >35% of expenses                         |   |
| <b>FUNDRAISING</b>  | <b>35% of annual target through December</b> |   |   | <ul style="list-style-type: none"> <li>+ First 6 months of collections are \$1.7M, &gt;50% of \$2.9M target;</li> <li>+ \$2.3M is committed for the entire year</li> <li>+ The annual fundraising target was \$2.2M without facility</li> <li>+ "Phase I" (FY20-FY25) goal of \$8.3M is 75% complete with \$6.2M of collections and commitments FY20 - FY25</li> </ul>                |
| Target: Meet annual fundraising target of [\$X.XM]                    | < 40% through Dec.<br><90 % through Jun      | > 40% through mid-year<br>>100% through end of year | > 50% through mid-year<br>>100% through end of year |   |
| <b>BUDGET</b>   |  |   | <b>Expenses tracking to 98% of budget</b>           | <ul style="list-style-type: none"> <li>+ Through the first 6 months of the year, consolidated expenses are tracking to 98% of pro-rated full year budget.</li> <li>+ Lower expenses are expected in the second half of year.</li> </ul>   |
| Target: control spending w/in reasonable percent of budget            | Forecast > +/- 5% of annual budget           | Forecast within +/- 2% to 5% of annual budget       | Forecast within +/- 2% of annual budget             |   |



# Longer term affordability and sustainability informs today's decisions



IMPACT



# Some other resources on this topic



- **What Great Charter School Board Treasurers Do (CSGF, Rich Billings)**
  - <https://stories.chartergrowthfund.org/great-charter-school-board-treasurers-do-these-things-6c4200e058fc>
- **Finance Committee Roles and Responsibilities, Arc of Year, Meeting Cadence (KIPP, Afton)**
  - [https://drive.google.com/file/d/1T86g29KaEP26iCgS7fFgWZK8wrZ\\_oqPtz/view](https://drive.google.com/file/d/1T86g29KaEP26iCgS7fFgWZK8wrZ_oqPtz/view)
- **Financial Dashboard Example (CSGF, Afton)**
  - <https://docs.google.com/spreadsheets/d/1Nk6R3KnO2Gk8U6UlsSCOZjGfixK96MkB/edit#gid=71042405>

