



NATIONAL RESOURCE CENTER ON

**CHARTER  
SCHOOL**

FINANCE & GOVERNANCE



# Assessing Fiscal Health: A Financial Benchmarking Tool For Charter Schools

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## ABOUT THE NATIONAL RESOURCE CENTER ON CHARTER SCHOOL FINANCE AND GOVERNANCE

The National Resource Center on Charter School Finance and Governance was established in fall 2006 with funding from the U.S. Department of Education's Office of Innovation and Improvement (Grant No. 0282N060012) under the Charter Schools Program National Leadership Activities Grant Program. The National Resource Center (NRC) develops and disseminates tools, information, and technical assistance to help charter leaders at all levels—operators, authorizers, and state policymakers—take steps to improve charter school finance and governance.

For more information, visit the NRC website at [www.CharterResource.org](http://www.CharterResource.org) or e-mail NRC at [info@charterresource.org](mailto:info@charterresource.org).

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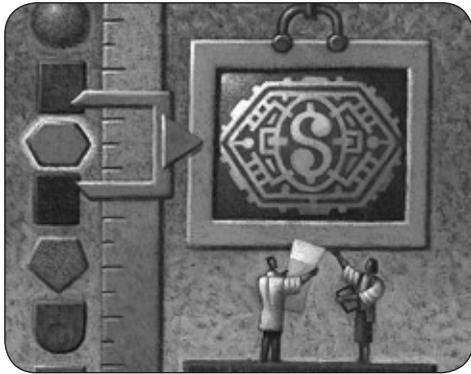
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# Preface

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The Fiscal Health Assessment Toolkit for Charter Schools is one in a series of publications and tools developed by the National Resource Center on Charter School Finance and Governance (NRC) to help charter school leaders take steps toward developing successful and sustainable charter schools through effective finance and governance.



Fiscal health plays a significant role in a charter school's ability to maintain operations over time. The Toolkit is designed to help charter school leaders regularly evaluate their existing financial systems to ensure the long term sustainability of the school. The Toolkit begins by outlining the fiscal health assessment process and follows with a detailed discussion of a number of key measures of a school's fiscal solvency. Lastly, readers will find a number of practical

worksheets and templates to guide them through their own assessment process and a number of additional resources to help readers tailor the assessment to the individual characteristics of their school.

The contents of this toolkit do not necessarily represent the policies of the U.S. Department of Education and endorsement by the federal government should not be assumed.

# I. Introduction

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Since their inception in 1991, charter schools have pioneered a variety of innovative educational models designed to meet the diverse needs of some of the nation's most challenged student populations. Charter schools have the freedom and flexibility to develop these unique models largely because their charter agreements allow them to exchange bureaucratic constraints for operational autonomy and the promise of academic gains. With this independence, however, comes the requirement that charter school leaders assume much greater responsibility for the financial management of their schools. Though many charter school developers have built ground-breaking and effective programs over the past several years, fiscal management remains a significant challenge for many charter school leaders, a fact underscored by a 2009 study by the Center for Education Reform, which found that 41 percent of the 647 charter schools that have closed since 1991 did so for financial reasons.<sup>1</sup>

Three primary factors play a role in authorizers' decisions to close a charter school.<sup>2</sup> First, while charter school developers typically are experienced educators with innovative visions, they have varying degrees of training in business administration and often lack "hands-on" experience managing school finances. Second, this comparatively limited level of training and experience is compounded by the fact that the charter school movement is still relatively young, with a small (but growing) pool of knowledge about the benchmarks and best practices related to effective charter school finance. Finally, charter schools are diverse in a number of ways, and their varied organizational structures and unique local contexts make it difficult to create a generic formula for financial success.

This Fiscal Health Assessment Toolkit is designed as a resource for charter school leaders to build fiscally sound schools and establish financial systems that can sustain their programs and services for years to come. The toolkit defines fiscal health as the ability of a charter school to successfully meet the terms of its charter and maintain a budget that effectively supports operations. The toolkit examines financial well-being in a comprehensive manner, going beyond the preparation of a quarterly budget report to incorporate a variety of financial measures that can help charter school operators and authorizers monitor and develop the capacities that will ensure the long-term fiscal health of their organizations.

The Fiscal Health Assessment Toolkit is designed for a variety of uses and stakeholders, including:

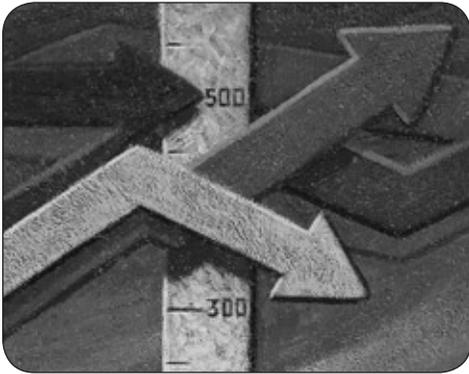
- Individual charter school leaders can use it as a self-assessment tool, as part of their annual budget planning and audit process, or as part of their Board's regular meetings or retreats;
- Charter management organizations or networks of individual charters can use it to track the fiscal health of their member schools; and
- Authorizers and funders can use the toolkit to provide technical assistance to individual schools, create peer learning communities that use shared benchmarks and measure and evaluate a school's readiness for reauthorization.

<sup>1</sup> "The Accountability Report 2009: Charter Schools." Washington, DC: Center for Education Reform, 2009.

<sup>2</sup> "Charter School Funding: Inequity's Next Frontier." Thomas B. Fordham Institute, August 2005.

## II. Making the Most of This Toolkit

The effective use of this toolkit requires that school leaders invest the time necessary to carefully plan out the assessment process and allow for the thoughtful discussion of results.



It may be helpful to time the assessment so that it supports a related activity, such as preparation for an audit or an annual budget planning process. Ideally, the assessment process should include six key steps:

1. Review the categories of measures;
2. Create fiscal health assessment teams;
3. Choose the right measures;
4. Capture the data;
5. Analyze the data; and
6. Develop an action plan.

### I Step I: Review the categories of measures

The fiscal health measures in the toolkit are grouped into three categories:

- *Tactical measures*: short term, often time-sensitive indicators that typically require month-to-month assessment to monitor budget expenditures and cash flow;
- *Operational measures*: internal controls, such as policies and data tools that help collect and track data over time; and
- *Strategic measures*: “big picture” measures that might affect a school’s long-term sustainability which are typically assessed on a year-to-year basis.

Each of these measures can help charter school leaders monitor their school’s short-term fiscal state, assess the quality of financial polices and procedures that support fiscal health, and predict their ability to anticipate and proactively respond to sustainability challenges over time. It is important that those involved in the assessment process develop a clear understanding of each of the measures before selecting those that best apply to the organization. A detailed description of fiscal health measures and their corresponding indicators are provided in **Appendix A**.

## 2 Step 2: Create fiscal health assessment teams

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To conduct the fiscal health assessment process effectively and to capitalize fully on the value of the toolkit, it is best to work in teams. Establishing teams enables charter school leaders to share the burden of the work, and, more importantly, brings a variety of perspectives to the process. Each category of measures addresses different aspects of a school's operations and needs. For small, beginning charter schools and those with relatively few financially experienced stakeholders, consider starting with a single team across the categories of measures, and then grow teams as capacity and engagement in fiscal matters increase. Schools with sufficient staff capacity should consider establishing a team for each category of measures and assign team members according to their knowledge, experience, and their ability to assess each unique indicator.

### Tactical Measures Teams

Tactical measures tend to be quantitative and driven by data from the school's financial management systems. Tactical measures are likely to include sensitive information such as salaries and debt, so it is appropriate to limit the tactical measures team to a few key staff and board members who are able to work with technical and sometimes confidential data. These might include:

- The school leader;
- The lead financial manager;
- School finance staff, as needed;
- The board treasurer; and
- A member of the board finance or audit committee.

The use of a smaller management-level team does not imply that data from tactical measures cannot be shared. In fact, a fiscally healthy school operates with a spirit of appropriate openness about financial matters. Managers and leaders at all levels need key financial data to do their jobs well.

### Operational Measures Teams

Because operational measures assess a charter school's policies and procedures, the operational measures team should include individuals who put those policies and procedures into action and are able to determine which policies are working and which are in need of revision. The team might include:

- The school leader;
- A department head or lead teacher;
- The lead financial manager;
- School finance staff; or
- A board member with practical knowledge of how schools are effectively administered or who has a role in the development of the school's financial and operational policies.

## Strategic Measures Teams

Strategic measures have two purposes: assessing factors that might change the long-term strategic direction of the school *and* assessing the school's ability to monitor and respond to those factors. The strategic measures team might include members who can contribute to both areas, including:

- The school leader;
- The lead financial manager;
- School department heads or lead teachers;
- The chair of the board;
- A member of the board planning committee or other appropriate committees; and
- An intern to assist with research if possible.

Regardless of the category of measure, the fiscal health assessment process is more effective when it involves teams, rather than single staff persons. Working in teams reduces the workload on any one individual, and ensures that the measurement data is considered from a variety of perspectives.

### 3 Step 3: Choose the right measures

**B**efore beginning the assessment process, teams must first select the measures that are most applicable to their charter school. Teams can feel free to mix and match measures from the lists provided in **Section III** below. While the measures listed in this toolkit are intended to be as comprehensive as possible, not every measure is right for every charter school. Select only the measures that provide targeted information to support decision making for the school, and resist the temptation to collect data that is not directly relevant to the goal of the assessment process. Data overload distracts from the important conversations about the school's fiscal health and creates unnecessary work.

As teams select measures, it is helpful to consider the school's unique characteristics:

- *Mission*: Does the school's charter promise a specific outcome or approach, and how does that impact the school's financial health? For example, if a school has a philosophy of maintaining small class sizes, choose measures that capture the financial implications of that approach, such as cost per student and cost per classroom.
- *Age of the school*: Where is the school in its organizational life? Younger schools tend to have higher overhead and start-up costs. Choose measures that monitor ramp-up costs over time to ensure that they trend in the right direction.
- *Demographics*: How does the school's student population drive costs? Choose measures that monitor those costs for special populations like English Language Learners or students who qualify for Title I programs.
- *Financial condition*: Is the school facing a particular financial challenge? For example, if the school recently took on debt to finance start-up costs, choose measures that assess the school's ability to service that debt, such as cash flow projections.
- *Strategic planning*: Does the school have a strategic plan that impacts its financial situation? A common example is planning for the acquisition of a permanent facility. When planning

for a new facility, it is important to create measures that demonstrate the school's readiness for financing, such as tracking revenue streams and exhibiting robust internal financial management systems.

The availability of data is another consideration in the selection of measures. If the measures team needs to conduct extensive research to assess a particular indicator, it should evaluate whether the information yielded by the extra work justifies the time and expense to capture it. While it may be interesting to determine the monthly change in property values in a school district, that information would require significant research and may only impact decision making in the most extreme circumstances.

When making selections, teams may also find it important to plan for the long-term use of the measures. The routine use of "benchmarks" to track outcomes over time can help school leaders follow long-term trends in financial performance.

## 4 Step 4: Capture the data

Methods to capture data for each of the indicators vary as widely as the measures themselves. The school's finance department is the most likely source for most of the necessary data, but other sources could include the U.S. Census Bureau, the State Department of Education, and the school's faculty and staff. Regardless of the data source, it is important to consider several factors when planning the data collection process:

- *How often should data be collected?* In an environment of limited financial and logistical resources, time is a valuable commodity. Measures teams should do only as much data collection as needed to support good decision-making. Some indicators require close monitoring and frequent collection, such as cash flow projections and average daily attendance. While teams typically will need to collect data for tactical measures on a monthly or quarterly basis, operational and strategic measures can be assessed less frequently on an annual or biannual basis.
- *Are the sources of data reliable and complete?* Measures that include an element of subjectivity are more reliable if collected from a variety of sources. For example, if the indicator asks if charter school leaders involve the board in budgeting decision-making, include responses from both board and staff members.
- *Is the data reliable?* Most financial management offices have a system of checks and balances that ensures the integrity of financial data. As such, it is important to develop an assessment process that provides verifiable information about internal systems. For example, a member of the board may use bank statements to validate financial reports provided by the CFO.
- *Does the data already exist?* Most charter schools routinely fill out and submit reports to their authorizers and to state agencies. Consider the use of data or measures from such reports in the assessment process because it will reduce the burden on staff.

Once the measures teams consider these questions, the team can set up a system for the regular collection of relevant data. Ideally, data is collected in the same manner for each reporting period. This process accomplishes two goals—it streamlines the work required for research and collection, and it ensures that data is standardized from period to period.

## 5 Step 5: Analyze the data

In many ways, the identification of measures and data collection is the straight forward part of a fiscal health assessment. Setting benchmarks, as well as analyzing and reporting on the information obtained from the measures, can be a far more complicated and time-consuming process. It is important that the teams allot a sufficient amount of time for data analysis and reporting, and set follow-up meetings to track the implementation of any resulting action plans (see Step Six, Develop an Action Plan).

### Using the Worksheets

The Fiscal Health Assessment Worksheets, found in **Appendix C** help the measures team array and analyze collected data, and identify any necessary action to take to improve future results. Remember that the worksheets are meant to be a template that the measures team can adapt to suit its needs. Teams can feel free to make changes to the format of the worksheets as necessary.

The worksheets are grouped first by categories of measures and then by indicators. For each form, the measures team provides the following information for each indicator:

- **Findings:** the data collected for the indicator and a brief interpretation of its implications for the school;
- **Action Required and Due Date:** any action steps necessary to address areas for improvement and a due date for their completion; and
- **Person Responsible:** the person(s) responsible for the implementation of the action.

**Section III** provides sample worksheets that demonstrate how to input data for each of the indicators. These worksheets can guide teams as they collect data for each measure and determine which information is needed to accurately assess the indicator.

### Setting benchmarks

Data in isolation offers little actionable information. It is important for measures teams to create a basis for analysis and comparison for each of the data elements that they collect.

Examples of baselines against which teams can compare data include:

- Data collected from the school in previous years;
- Peer schools that have similar characteristics; and
- State averages of selected data.

This list is far from comprehensive. A number of baselines exist that can aid the analysis of the collected data. The critical task for the measures teams is to determine the means of analysis that best supports thoughtful discussion and sound decision-making for their school.

### Reporting the data

The value of good data is lost by presentation in a poor format. Data are most useful when presented in reports that are well-labeled, easy to read, and concise. Teams may want to provide a high level overview on the front page and provide deeper levels of detail in

subsequent sections. To make reports more visually accessible, avoid clutter, include sufficient white space, and color-code data. Once a useful reporting format is developed, use it consistently so reviewers can recognize the recurring sections and components of the report.

Measures teams can incorporate four key steps to help make the data analysis process more productive. These steps include:

- Review the fiscal health measures as part of the regular management meeting process, both at the staff and board levels;
- Include a variety of perspectives (e.g. teachers, board members, or parents) to deepen the quality of the review process;
- Share the results before meetings so participants will have ample time to review the information and prepare thoughtful questions or comments; and
- Focus on both the measures and the causes of any underlying problems or conditions they identify.

## 6 Step 6: Develop an action plan

An effective fiscal health assessment process should result in a robust action plan. If the measures teams follow the guidance in the previous sections, the development of an action plan will be a straightforward activity. Once the measures teams identify appropriate goals for organizational improvements, they can develop detailed action plans to accomplish those targeted objectives. Action plans help the organization give thoughtful consideration to the individual action steps, staffing, and resources necessary to meet each goal (see Appendix D: Sample Action Plan). It is most useful if all participants in the assessment process are involved in completing the associated action plans.

Remember to consider constraints such as staff time in the development of the action plan. Not every measure will call for an action, and many will only require a simple “check in” that a particular operating practice or policy falls within acceptable parameters or meets certain minimum standards. Others will require routine monitoring, so consider the most appropriate way to include them as part of routine meetings and decision-making processes or consolidating them into a “dashboard” of measures that is regularly updated and distributed to key staff and stakeholders.

It is important that those involved in the fiscal health assessment process consider and plan thoroughly for each of these steps before beginning the evaluation. School leaders may want to begin by circulating this toolkit to the school’s management team and discussing with the team whether the school has the time and resources necessary to conduct the assessment.

### III. Selecting the Measures of Fiscal Health

Before the fiscal health assessment process can begin, teams must determine which measures and indicators are most relevant to their organization. To accomplish this task, the team must develop a clear understanding of what each measure and indicator entails. As mentioned above, teams will examine three categories of measures during the assessment process, including:

- Tactical measures;
- Operational measures; and
- Strategic measures.

The tables on the following pages break down each of these measures into a series of indicators. As measures teams review the lists, they can use check marks in the second column to select the indicators they will use in the fiscal health assessment process by determining which are most relevant to the unique operations of their charter school. Teams can refer to **Appendix A** for a detailed description of each measure and indicator, along with information on calculating or determining findings for each measure and instructions to aid in the analysis of the resulting data and the determination of what subsequent action may be taken to improve results.

#### Tactical Measures

Tactical measures include measures of enrollment and a broad selection of quantitative measures related to short and near-term financial condition. Charter school leaders use tactical measures to monitor a school’s fiscal health on a monthly and annual basis. Tactical measures are the most common indicators generally used in the finance offices of a number of nonprofits. Through routine attention to the tactical measures, school leaders can anticipate financial problems and plan accordingly. Please refer to page 15 in **Appendix A** for a detailed description of tactical measures.

| Table I   |                       |
|---|-----------------------|
| Indicator   | Include in Assessment |
| Estimated versus actual enrollment                          |                       |
| Variance between budgeted and actual revenues of expenses   |                       |
| Operating results   |                       |
| Cash flow projections                                       |                       |
| Operating revenues and expenses per student served          |                       |
| Facilities cost as a percentage of total operating expenses |                       |
| Facilities cost per student                                 |                       |
| Fund balance as a percentage of operating expenses          |                       |
| Capital structure   |                       |
| Months of cash on hand                                      |                       |
| Current ratio (assets divided by liabilities)               |                       |

## Operational Measures

Operational measures assess a school’s ability to support its own fiscal health through its policies, procedures and activities. Unlike tactical measures that require frequent checks, operational measures can be assessed on a semi-annual or even annual basis. Most “tactical measures” are equally relevant as “operational measures”, and are usually “rolled up” and reported over longer periods as well as shorter periods. Rather than being a separate distinct set of measures, “operational measures” are composed of “tactical measures” rolled up plus additional measures that naturally require less frequent updating. Please refer to page 18 in **Appendix A** for a detailed description of operational measures.

**Table 2: Budgets**

| Indicator   | Include in Assessment |
|---|-----------------------|
| Budget review process                             |                       |
| Linking the budget to educational priorities      |                       |
| Board support with budget and financial decisions |                       |
| School operating budget                           |                       |
| Budget planning calendar                          |                       |
| Cash flow projection                              |                       |
| Monthly or quarterly financial reports            |                       |
| School operating budget policy                    |                       |
| School capital budget policy                      |                       |

**Table 3: Facilities and Internal Controls**

| Indicator                                 | Include in Assessment |
|---|-----------------------|
| Facilities plan                           |                       |
| Controls and oversight for fiscal policy  |                       |
| Internal controls for property management |                       |
| Fiscal policies and procedures            |                       |

**Table 4: Accounting Systems**

| Indicator                                    | Include in Assessment |
|--|-----------------------|
| Accounts payable                             |                       |
| Accounting records                           |                       |
| Pay process for taxes and payroll deductions |                       |
| Grants management and reporting              |                       |

**Table 5: Audits**

| Indicator                                    | Include in Assessment |
|--|-----------------------|
| Audit results                                |                       |
| School board audit committee                 |                       |
| School auditor                               |                       |
| Timely audit                                 |                       |
| Valid ADA figures                            |                       |
| Possible improvements and potential problems |                       |
| Internal audits                              |                       |

**Table 6: Reporting**

| Indicator                             | Include in Assessment |
|---------------------------------------|-----------------------|
| Accrual accounting                    |                       |
| Accessible financial data             |                       |
| Monitoring of corrective action plans |                       |
| Effective board oversight             |                       |
| Public financial reports              |                       |

**Table 7: Financial Management Capacity**

| Indicator   | Include in Assessment |
|---|-----------------------|
| Staff capacity to manage finance, accounting, and budgeting systems |                       |
| Professional development plan                                       |                       |
| Financial management information system                             |                       |
| Management strategies for capacity building                         |                       |
| School board capacity to support financial management decisions     |                       |
| Support from community partners                                     |                       |

## Strategic Measures

Strategic measures have two purposes in the fiscal health assessment process. First, they assess a school's ability to anticipate and proactively respond to long-term sustainability challenges. Second, strategic measures assess the external environmental changes that could threaten the school or offer opportunities for growth. Please refer to page 27 in **Appendix A** for a detailed description of strategic measures.

**Table 8: Environmental Factors**

| Indicator                                   | Include in Assessment |
|---|-----------------------|
| Demographics                                |                       |
| Local and regional economy                  |                       |
| Federal, state, and local education budgets |                       |
| Federal, state, and local education budgets |                       |
| Quality of local schools                    |                       |

**Table 9: Enrollment**

| Indicator                                   | Include in Assessment |
|---|-----------------------|
| Using enrollment data to predict attendance |                       |
| Increasing average daily attendance         |                       |

**Table 10: Strategic Financing**

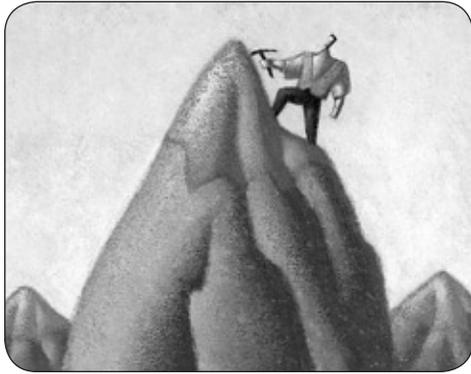
| Indicator                      | Include in Assessment |
|--------------------------------|-----------------------|
| Strategic plan                 |                       |
| Diverse funding portfolio      |                       |
| Revenue policy                 |                       |
| Use of existing resources      |                       |
| Use of public revenue          |                       |
| New sources of revenue         |                       |
| Flow of public funding streams |                       |
| Long-term facilities plan      |                       |

Once the measures teams have reviewed and developed a clear understanding of each of these indicators, then determined which measures and indicators they will be using, they can enter their final selections into the Master List of Measures and Indicators in **Appendix B**. Once the table is complete, teams can proceed with collecting relevant data for those indicators, using the Worksheets available in **Appendix C**. Before they begin that process, however, school leaders are encouraged to review the **Additional Resources** section on page 43 to explore other reports on charter school fiscal health that may provide ideas for additional factors to include as part of the assessment. As measures teams complete the data collection process, they may find it useful to refer back to the tips for collecting data in **Appendix A**, as well as the sample action plan template in **Appendix D**, both of which provide useful information and resources to support the fiscal health assessment process.

# Conclusion

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Successfully managing a charter school's finances can be an ongoing challenge for many operators. Political uncertainty, ever-changing local, state, and federal laws and policies, lack of best practices in the field, and the familiar need in the charter school world to learn



as you go, all make for a shifting terrain that requires constant attention. The processes and measures included in this toolkit will help school leaders to diagnose the state of their school's "fiscally-related human capital," evaluate their schools' fiscal health and recognize potential fiscally-related problems before they occur.

By crafting a set of tactical, operational and strategic measures that fit the unique needs of their schools, charter school leaders can guide their organizations to fiscal

stability and high performance. However, the success of the assessment process depends on the ability of school leaders, staff, and community partners to follow through on its findings and action items. School leaders can take responsibility for closely monitoring the progression towards identified objectives and work with measures teams to correct any deviations from established fiscal goals.

As school leaders conduct the fiscal health assessment process and implement subsequent action items, they may find it useful to remember the important connection between the financial and educational concerns of the charter school. A powerful connection exists between the school's finance office and the headmaster's office. Successful schools understand the imperative for communication and coordination between the two offices to ensure the development of financial systems that further the educational goals and vision of the school.

Given the evolving nature of charter school finance, remember to periodically check the NRC website ([www.CharterResource.org](http://www.CharterResource.org)) for updates, additional tools, and links to helpful resources.

## Appendix A: A Detailed Description of Fiscal Health Assessment Measures

This section details each of these measures and their corresponding indicators, describes the means of calculating or determining findings for each measure, and offers instructions to aid in the analysis of the resulting data and the determination of what subsequent action may be taken to improve results. Most of the measures ask for data from each of the last three fiscal years. If the school has not been in operation for that long, use the data currently available. If the school is in its first year of operation, the measures team can track the data on a monthly basis and review the results as necessary (e.g. at weekly budget review meetings or year-end planning meetings). Descriptions of each measure include a sample worksheet that will help teams apply what they have learned about the indicators to their school and serve as a guide as teams complete the corresponding Fiscal Health Assessment Worksheets located in **Appendix C**.

### Tactical measures

Tactical measures include quantitative indicators that examine a charter school's enrollment and a number of other numerical data sets that help teams assess the school's short and near-term financial condition. Teams can use tactical measures to monitor a school's fiscal health on both a monthly and annual basis. Through routine attention to these tactical measures, school leaders can anticipate financial problems and plan accordingly. Standard tactical measures include:

- Analysis of revenue versus expenses;
- Cash flow analyses; and
- Cash reserves assessments.

Because tactical measures do not offer a complete picture of the fiscal health of the school, teams obtain a better understanding of their school's financial position if they track this data closely and in conjunction with operational and strategic measures.

### INDICATORS FOR TACTICAL MEASURES

Indicators for tactical measures encompass a wide range of financial data, from budgeted and actual revenues and expenses to cash flow projections and capital structure. Indicators for tactical measures also examine actual and projected student enrollment numbers and their impact on a school's ability to effectively fund operations. A fiscally sound charter school develops a system for making sound projections for enrollment, revenue, expenses, and cash flow, maintains a healthy fund balance, and has a liquidity ratio that is well within a "healthy" range. A general rule of thumb for charter school budgets cited by the Community Development Financial Institution Self Help is that they should include:<sup>3</sup>

- 55% of gross revenues dedicated to teacher costs (salaries and benefits)
- 30% of gross revenues dedicated to student services, administration, and other related costs; and
- 15% of gross revenues dedicated to facilities costs.

<sup>3</sup> These percentages are cited by the Community Development Financial Institution Self Help in their presentation on financing charter school facilities available at: <http://www.newyorkcharters.org/documents/TheBusinessofCharterSchoolsSelfHelp.pdf>

## 1. Estimated Versus Actual Enrollment

- **Obtaining Data:** Compare the school's projected student enrollment with actual enrollment and calculate the difference for each of the last three fiscal years.
- **Analyzing Findings:** Significant differences between projected and actual enrollment can have dire consequences for a school. Projected enrollments that are higher than actual numbers can significantly impact a school's budget and may result in the need to return per pupil payments to the school's LEA. Conversely, when actual numbers exceed projected enrollment, school leaders may find themselves short the funds necessary to cover the costs of programs and services for the additional students. Incorrect projections are somewhat tolerable if the school is very young. However, if a more mature school regularly projects incorrectly it should review its enrollment projection process or consider hiring a consultant to assist in the process. If the issue is one of a shortfall in enrollment, then the school may need additional outreach efforts to recruit new students. A good rule of thumb is that schools will experience 10% attrition between opening day and the end of the school year.<sup>4</sup>

## 2. Variance between Budgeted and Actual Revenues and Expenses

- **Obtaining Data:** Compare the school's budgeted revenues and expenses used at the beginning of the last three fiscal years to the actual numbers totaled at the end of each fiscal year and calculate the difference.
- **Analyzing Findings:** Significant variance between projected and actual revenues and expenses can result from a variety of causes that include fundraising challenges due to a downturn in the economy, staff changes or turnover, or inaccurate estimations. Younger organizations can be forgiven for some disparities as they have less of a track record upon which to make projections. If the school has a longer track record, but still experiences significant variations between the budget and actual numbers, then the measures team should reexamine the budgeting processes. Based on this reexamination, the school may also want to consider new strategies such as outreach efforts to increase student enrollment (and, subsequently, per pupil funding levels), or the

expansion and diversification of the school's funding portfolio to secure the necessary fiscal resources.

## 3. Operating Results

- **Obtaining Data:** Subtract the total operating expenses for the school from the total operating revenues for each of the last three fiscal years. If possible, do the same for each category of operating expense (e.g. salaries, equipment) to better identify the source of increases or decreases in costs.
- **Analyzing Findings:** Note whether surpluses or deficits increase or decrease over time and look for contributing factors. This may require a detailed analysis of the school's budget over the last several years to identify the specific cause of the problem.

## 4. Cash Flow Projection

- **Obtaining Data:** Compare expenses to revenues and cash on hand for each month over the last three fiscal years, tracking surpluses and, more importantly, deficits for each month
- **Analyzing Findings:** Use the projection to anticipate funding shortages and develop strategies to accommodate shortages. A review of data from the last three fiscal years helps to identify patterns in cash flow, such as persistent deficits at the start of the school year caused by the timing of state per-pupil payments for new students. If shortages occur on a regular basis, use the projection to identify drivers of the problem and create a plan to cover short-term gaps.

## 5. Operating Revenues and Expenses per Student Served

- **Obtaining Data:** Divide the school's total year-end operating revenue and total operating expense data by the school's final average daily enrollment for the last three fiscal years.
- **Analyzing Findings:** This ratio can help to analyze the financial impacts of different enrollment levels, and can help you determine if additional efforts are needed to increase (or decrease) enrollment numbers.

## 6. Facilities Cost as Percentage of Total Operating Expenses

- **Obtaining Data:** Divide the school's total operating expenses by its facilities costs for the last three fiscal

<sup>4</sup> This projection is cited by the Community Development Financial Institution Self Help in their presentation on financing charter school facilities available at: <http://www.newyorkcharters.org/documents/TheBusinessofCharterSchoolsSelfHelp.pdf>

years. Facilities costs include mortgage or lease payments and all expenses associated with operations, utilities, and maintenance of the school building.

- **Analyzing Findings:** A rule of thumb is that facilities expenses should comprise 15% or less of the total operating budgeting.<sup>5</sup> However, always consider this figure in the context of local real estate prices (urban schools typically pay more for facilities) and the school's strategic plan, for example when higher short term facilities costs will be offset by future increases in enrollment.

### 7. Facilities Cost per Student

- **Obtaining Data:** Divide the facilities cost for each fiscal year by the school's final average daily enrollment for that year.
- **Analyzing Findings:** This ratio is useful in the analysis of the financial impacts of different enrollment levels and to plan for expansion into new facilities.

### 8. Fund Balance as a Percentage of Operating Expenses

- **Obtaining Data:** Divide the total operating expenses at the end of the last three fiscal years by the total fund balance at the end of each year. Note: The fund balance is the total net cash assets held by the school. This is the cumulative surplus or deficit of cash (or debt) that the school has accrued over its history of operation.
- **Analyzing Findings:** Ideally, a school's fund balance should increase in proportion to its increase in operating size. A basic rule of thumb is that the fund balance should be 20% of the school's yearly operating costs. This reserve provides insurance against fluctuations in revenue and allows for reinvestment of financial resources without jeopardizing a school's fiscal health.

### 9. Capital Structure

- **Obtaining Data:** Divide the school's fund balance (total cash assets) by its liabilities (the total debt owed by the school) for each of the last three fiscal years
- **Analyzing Findings:** The ratio between the two totals shows how much the school is leveraged,

meaning how much it relies on debt to finance its operations. By extension, it also illustrates the school's ability to borrow money. The greater the percentage of debt to equity, the more difficult it will be for the school to obtain a loan. However, a higher percentage of equity to debt is not always a good thing, since it might indicate the school is not getting the most leverage out of its assets (e.g. hiring new staff, buying new equipment, expanding its facilities).

### 10. Months of Cash on Hand

- **Obtaining Data:** Divide the fund balance by the school's average monthly operating expenses for each of the last three fiscal years.
- **Analyzing Findings:** This measure looks at how long the school can continue to operate without taking on debt if it stopped receiving all revenues. A standard policy is that charter schools should have at least one month of operating expenses available as liquid (cash) assets.

### 11. Current ratio (of assets to liabilities)

- **Obtaining Data:** The Current Ratio is a measure of the school's liquidity and is used to determine the potential of a borrower to obtain loans from lenders. These are important numbers because schools that have reliable access to loans are better able to address potential financial challenges and support expansion plans. To determine the Current Ratio, divide the school's total current assets by its current liabilities.
- **Analyzing Findings:** What amounts to a "healthy" Current Ratio varies according to industry, but in general a higher ratio is more attractive to lenders because it means less risk since the school has more than enough assets to cover its debt obligations. A 2:1 ratio or less is generally considered to indicate a low level of liquidity and a 3:1 ratio is generally considered ideal,<sup>6</sup> but the school leaders can check with local lenders to get more specific feedback

### Other tactical reports as needed

This list of tactical measures is in no way comprehensive. School leaders can review the unique information

<sup>5</sup> It is common to see 20% cited as the benchmark for the total facilities cost as a portion of overall operating expenses. However, the Community Development Financial Institution Self Help points out that 20% is the figure commonly given by realtors because it increases their commissions, and that 15% is a more fiscally conservative and sound benchmark. For more information, see Self Help's presentation on facilities financing at <http://www.newyorkcharters.org/documents/TheBusinessofCharterSchoolsSelfHelp.pdf>.

<sup>6</sup> Data on this measure from California charter schools can be found in the report "Charter School Indicators" published by the Center on Educational Governance at the University of Southern California, p. 3.

## SAMPLE WORKSHEET I: Tactical Measures

| Indicator                                 | Findings  | Action Required & Due Date  | Person Responsible                  |
|---|---|---|-------------------------------------|
| <i>Estimated Versus Actual Enrollment</i> | Actual enrollment is 215, projected enrollment was 250, a difference of 35 students or 15%. | Review process of projecting enrollment; also examine marketing efforts to see if better outreach will raise numbers. Due by 6/1. | Recruitment Coordinator, Headmaster |

requirements for their school and add additional measures that speak to their school's specific characteristics. For example, an online charter school may want to track technology costs such as servers and internet usage.

### Operational Measures

Operational measures assess a school's ability to support its own fiscal health through its policies, procedures and activities. Unlike tactical measures, which require frequent monitoring, operational measures can be assessed on a semi-annual or even annual basis.

Examples of operational measures include the determination of whether or not a school:

- Uses a fiscal policy and procedures manual to guide its financial management activities;
- Has a system to protect its financial data via back ups and off-site storage; and
- Adheres to an annual budget planning calendar and process.

Keep in mind that operational measures are more qualitative than quantitative, and require a more subjective analysis than tactical measures. It may be tempting to assess operational measures by applying a simple yes or no, but a more rigorous assessment is more effective, and should include a genuine inquiry into the degree to which the operational policies and structures are actively guiding the work of the school. For example, if the school finance policy manual is regularly ignored or circumvented by the staff, the assessment should reflect that fact.

It is appropriate to review the majority of these measures semi-annually or annually. While it may seem counter-intuitive that operational measures are far more numerous than tactical measures, consider that if a school develops strong internal (or operational) systems, they

are much more likely to avoid short-term fiscal problems.

Operational measures are divided into six categories:

- Budgets;
- Facilities and internal controls;
- Accounting systems;
- Audits;
- Reporting; and
- Financial management capacity.

### BUDGETS

The following indicators will help your team assess the accuracy and effectiveness of the school's budgeting policies and procedures. This section includes measures for both budget documents and the different planning and decision-making processes in which they are used. One way to prepare for this section of the assessment is to make a chart with three columns. First, list all the budget documents that the school uses (this includes budgets, policies and procedures manuals, and support tools such as budget calendars). Second, next to each item, list the meetings and planning processes that use the document and how often each occurs (e.g. weekly or monthly budget meeting, board meetings, annual budget review). Third, next to each meeting and planning process, list the individuals who routinely attend. This chart will help you to identify who to interview to gather data on the effectiveness of the different documents and tools, assess whether meetings and planning processes use the best available data and other supports, and evaluate the overall integration of the different meetings and planning processes.

#### I. Budget Review Process

- **Obtaining Data:** Does your school have an adequate budget review process? The annual budget review is the practice of analyzing the previous year's budget to create the budget for the upcoming school year. Elements of an effective budget review include:

- A comparison of the estimated and actual budget for the previous fiscal year;
- An analysis of assumptions used to predict average daily attendance (ADA) through comparison of estimated and actual enrollment;
- A review of anticipated funding broken down by source (e.g. federal, state, nonprofit, and private grants);
- A discussion of long range (two year or more) budget projections;
- An analysis of historical trends and future projections for all significant operating costs, including
  - Capital expenses;
  - Employee salary and benefits;
  - Insurance; and
  - Professional services (e.g. back office support), curriculum materials, and information technology; and
- A comparison of the budget to peer schools.
- **Analyzing Findings:** While the utilization of each of these components is key to a fiscally sound budget review process, keep in mind that ultimately, the process can be assessed by the variance between original budget estimates and the actual numbers at year's end. A smaller variance indicates a strong budgeting process.

## 2. Linking the Budget to Educational Priorities

- **Obtaining Data:** A good principle for charter school management is that the academic priorities and mission of the school drive the financial decision-making process. It is highly advised that the school have a system in place that uses the academic results from the previous academic year to guide decisions about where to deploy resources in next year's budget. Another suggestion is that school leaders conduct spot checks to ensure that the budget provides the necessary resources to support the mission and goals of the school. Teachers, parents and students can serve as excellent sources of data for this indicator.
- **Analyzing Findings:** If budget line items and educational priorities are not in alignment, it is up to the team to reassess fiscal priorities and ensure that they more accurately reflect the educational goals of the organization.

## 3. Board Support with Budget and Financial Decisions

- **Obtaining Data:** Charter schools benefit when their board plays an active role in budget and financial decisions. The board should include individuals with experience and expertise in the financial industry whose input can play a significant role in establishing sound financial practices for the school. The operational measures team can speak to both school staff and board members to get an idea of the level of involvement the school's board has had in making these vital decisions.
- **Analyzing Findings:** The board provides adequate support when it is both thoroughly aware of the financial condition and plans of the school and is able to respond correctly when financial issues arise. Does the school's board:
  - Receive monthly financial statements before each meeting?
  - Review, discuss and approve financial reports on a monthly basis? and
  - Convene the finance, audit, and development (fundraising) committees regularly?

## 4. School Operating Budget

- **Obtaining Data:** A school's operating budget is the core support for all budget decisions and planning processes. The measures team can start with a review of the most recent copy of the operating budget and, if available, versions for the prior three years. Questions to ask about the document include: Does it present budget data in a clear, user friendly format? Does it break down revenues and expenses in enough detail? How often is the operating budget updated? When does the school use the operating budget to guide planning and decision making? Is the budget an effective support to these processes?
- **Analyzing Findings:** A good operating budget clearly presents complete data about the school's finances. This will include:
  - Projections of operating expenses for the next three to five years (usually in a separate document);
  - Long-term debt schedules and multi-year contracts in both the budget for the current year and in the three to five year projections;
  - All fixed assets valued at over \$5,000, including depreciation for these assets;
  - Revenues broken down according to source; and
  - A separate capital budget.

## 5. Budget Planning Calendar

- **Obtaining Data:** The budget planning calendar is a key component of a school's budget planning process and serves as the master planning document that keeps the school's budget planning process on track. The calendar lists all the key dates and deadlines in the budgeting process and details each action school leaders need to take.
- **Analyzing Findings:** Simply having a budget calendar commonly is not sufficient for a "passing grade" on this indicator. Questions the measures team might ask to assess the calendar's effectiveness include whether it is routinely used in monthly budget meetings and if staff routinely complete key actions related to the budgeting process on time.

### ADDITIONAL HELP WITH DEVELOPING FINANCIAL REPORTS

For useful report templates and additional information on creating and using financial reports, please see Chapter 8 of *Beyond the Checkbook: A Financial Management Guide for Leaders of Small Youth-Serving Organizations* available at <http://www.financeproject.org/publications/BeyondtheCheckbook.pdf>

## 6. Cash Flow Projection

- **Obtaining Data:** School leaders may find it useful to routinely use a cash flow projection as a part of the budget planning process. A cash flow projection compares revenues and expenses month by month, allowing the school to anticipate potential shortfalls.
- **Analyzing Findings:** As with the budget planning calendar above, the fact that the school has developed cash flow projections may not automatically result in a positive assessment for this indicator. The cash flow projection works effectively when there are no cash flow issues during the budget year that are within the school's power to control. The team can speak to staff and school leaders to ensure that the cash flow projections have proved relatively accurate and have not resulted in any significant problems that negatively affected school operations during the year.

## 7. Monthly or Quarterly Financial Reports

- **Obtaining Data:** The routine use of monthly or quarterly financial reports is a critical component of the budget planning process. These financial reports typically include a statement of activities (i.e. income and expenses), a budget status report, and a statement of net assets.
- **Analyzing Findings:** High quality financial reports are detailed, comprehensive, timely, and are sent to all the appropriate stakeholders, such as the board's finance committee. See *Additional Help with Developing Financial Reports* below for additional resources and information to help improve financial reporting systems.

## 8. School Operating Budget Policy

- **Obtaining Data:** Schools are well served by the development of clear policies that guide the operating budget and describes its principles, procedures and philosophies. Common policies found in charter school operating budgets include:
  - The school maintains cash reserves equivalent to four weeks of operating costs;
  - Expansion of services is always offset through comparable trade-offs made by cuts in expenses or the addition of equivalent revenues;
  - All significant variations between budgeted and actual amounts are examined on a monthly basis; and
  - Debt capacity is formally assessed before the school issues debt.
- **Analyzing Findings:** Effective budget policies err on the side of conservatism and focus on the use of controls that ensure a balance between revenues and expenditures. To analyze this indicator, review every school policy for the operating budget and verify if they were followed for the last fiscal year. In cases where policies were not followed, establish the reason and include a follow-up process in the action plan to address the issue.

## 9. School Capital Budget Policy

- **Obtaining Data:** Schools should have a clear policy that guides its capital budget and describes the school's policies and procedures for the management of expenses related to facilities and equipment. Common capital budget policies for charter schools include:
  - The school has a multi-year plan for capital improvement that is updated annually;

## SAMPLE WORKSHEET 2: Operational Measures-Budgets

| Indicator                                 | Findings   | Action Required & Due Date  | Person Responsible |
|---|--|---|--------------------|
| <i>Estimated Versus Actual Enrollment</i> | The accuracy of our estimated enrollment declines over the year by an average of two students. Further review found that we don't account for student losses due to a small but consistent number of parents who move during the year to follow agricultural jobs. | Brief parent interviews will be conducted with the families of all new students to determine if they expect to move during the school year. Due by 6/1. | Parent liaison     |

- Physical assets are maintained at an adequate level to protect capital investment and minimize future repair and replacement costs; and
- Sufficient funds are reserved for the replacement and upgrading of equipment for teachers, administrative staff, and students.
- Analyzing Findings:** An effective capital budget policy ensures that the school provides adequate resources to maintain its facilities and equipment. To analyze the policies that relate to the school's facilities, the measures team can ask the staff in charge of facilities maintenance if their budget is sufficient and review the average yearly cost of maintenance and repairs to identify any trends that might indicate a problem. For school equipment, the team can use a brief survey of teachers and staff to assess whether the budget provides adequate support for new purchases and maintenance.

### INTERNAL CONTROLS

The following indicators help your team assess the adequacy of a school's internal controls for fiscal policies, equipment, and facilities. Internal controls are important protections against mismanagement and theft. Clearly written and enforced policies that govern such important issues as segregation of duties, purchasing, and conflict of interest send a strong signal to potential funders and partners that the school is well-managed. It is almost a certainty that any lender will also review these policies as part of a loan application to assess whether there are adequate safeguards in place to protect its investment.

### 1. Facilities Plan

- Obtaining Data:** A good facilities plan details policies, procedures and staff roles for the school's facilities and equipment. It typically includes:
  - An effective system to monitor upkeep and repairs;
  - Requirements that maintenance and operations staff annually evaluate their programs for potential cost savings;
  - Guidance for the prioritization of repairs as dictated by the budget; and
  - An energy management plan.
- Analyzing Findings:** The best measure of an adequate facilities plan is the facility itself. If the facility is clean, safe and supports learning without undue expense, the plan is working.

### 2. Controls and Oversight for Fiscal Policies

- Obtaining Data:** Controls are the policies and procedures that ensure the integrity of the schools finances. Examples of controls include:
  - The procedures that govern the authorization of purchases, the release of funds, the use of school credit cards, and revolving cash funds;
  - The policy that governs decisions about major purchases (typically over \$500);
  - The segregation of duties for staff responsible for financial processes;
  - The conflict of interest policy that governs staff and Board members, especially as concerns major purchases, as well as annual disclosure from every board member about actual or potential known conflicts;
  - The procedures for the confidential reporting of improprieties (whistleblower policies); and

- The safeguards used to protect the school's data from records retention problems, theft, and destruction.
- **Analyzing Findings:** The school financial controls are effective if they prevent fraud, waste and abuse without imposing overly rigorous compliance structures. A good guideline is that small sums of money require small controls while large sums require large controls. These controls may be listed in the school's fiscal policies and procedure manual (see below).

### 3. Internal Controls for Property Management

- **Obtaining Data:** Schools need effective internal controls in place to monitor property management practices, including, for example, procedures for documenting purchases (e.g. through the use of ID numbers) and the annual inventory process.
- **Analyzing Findings:** Good internal controls ensure that:
  - All property is tagged upon receipt and assigned an ID number;
  - There is a log that details all the property in the school's possession;
  - The school conducts an annual inventory of all property that is reconciled with the fixed asset subsidiary ledger; and
  - Regular inventories are conducted of assets over a fixed amount (typically \$5,000).

#### A RESOURCE FOR INTERNAL CONTROLS

The measures team can review *The Finance Project's Beyond the Checkbook: A Financial Management Guide for Leaders of Small, Youth Serving Organizations*, available at <http://www.financeproject.org/publications/BeyondtheCheckbook.pdf>, for a more extensive discussion of specific policies and procedures related to internal controls (see chapters six and ten).

Property management controls are working effectively if school leaders can account for all property with little effort.

### 4. Fiscal Policies and Procedures Manual

- **Obtaining Data:** Good financial practice dictates that schools have, and closely adhere to, a clearly written fiscal policy and procedure manual that describes roles and responsibilities for all financial activities. Fiscal policies and procedures manuals should include guidance around:
  - General accounting procedures;
  - Cash management procedures;
  - Grants management procedures;
  - Payroll procedures;
  - Accounts payable and other liabilities procedures; and
  - Management reporting procedures.
- **Analyzing Findings:** An effective manual is detailed and comprehensive and is frequently used as part of the regular operations of the school.<sup>7</sup> The measures team can analyze this indicator through a comparison to other publicly available fiscal policies and procedures manuals and through a careful review of its school's manual to identify any instances in the last year when fiscal decisions did not conform to policy.

## ACCOUNTING SYSTEMS

The following indicators will help the measures team assess the effectiveness of a school's accounting systems. The ability of a charter school to effectively manage its accounting processes is critical to its fiscal health because these functions affect the accuracy of financial reports, the ability to make timely payments to vendors and creditors, track grants, and manage payroll. If the school uses an educational management organization to handle its back office functions, the fiscal health assessment process offers a good opportunity to review the relationship and assess whether the service meets the school's needs.

### I. Accounts Payable

- **Obtaining Data:** It is important that school leaders ensure that accounts payable are properly tracked. Accounts payable are the school's unpaid operational financial obligations and are recorded in the school's balance sheet under short-term liabilities.

<sup>7</sup> For an example of a fiscal policies and procedures manual, see the Massachusetts Charter School Recommended Fiscal Policies and Procedures Guide, available at [http://financel.doe.mass.edu/charter/charter\\_fpp.html](http://financel.doe.mass.edu/charter/charter_fpp.html).

- **Analyzing Findings:** Proper tracking shows that obligations are kept up to date, are appropriately described, and are disclosed in the school's financial statements.

## 2. Accounting Records

- **Obtaining Data:** Good accounting practice calls for records (journals and ledgers) that are accurate, up-to-date and reconciled monthly.
- **Analyzing Findings:** A good measure of record-keeping is the ability of the school finance leader to create accurate, timely reports. Record-keeping systems that includes a system of checks and balances helps to ensure the integrity of the data.

## 3. Pay Process for Taxes and Payroll Deductions

- **Obtaining Data:** An effective pay process for taxes and payroll deductions ensures that each is reported and paid in a timely fashion. The school's accountant or educational management organization can provide records for the previous fiscal year's taxes and payroll.
- **Analyzing Findings:** Any practice other than prompt and accurate reporting and payment of payroll taxes and other deductions can lead to serious problems for the school. If the school manages its own accounting, the measures team can also review the adequacy of the software it uses to manage payroll and taxes.

## 4. Grants Management and Reporting System

- **Obtaining Data:** The grants management and reporting system for the school's public and private funders includes methods to identify past, current and possible future grants, their amounts, reporting requirements, restrictions and any other relevant information. The systems should also help to ensure that the school meets its grant responsibilities, reporting requirements, and plans for continuity of funding.
- **Analyzing Findings:** The measures team can determine whether the grants managements system clearly defines roles and responsibilities of the staff and if there are any past issues with how the school tracks reporting requirements. Does the school have a calendar of key reporting deadlines (e.g. submission of 990s, grant closure reports)? It is especially important to review the school's budget and accounting records to ensure that funds from each grant with a reporting requirement is managed in a way that allows for detailed tracking of expenditures. The team can also

review the process in place for the production of reports and other communications to funders to assess whether they are accurate and timely.

## AUDITS

The following indicators will help your team assess your school's annual audit process. Audits are an excellent opportunity for charter schools to actively seek feedback on the state of their financial condition and the adequacy of their fiscal management systems. The fiscal health assessment process can help the school prepare for its annual audit and identify specific questions and issues to ask the auditor. Records from past audits are also a good source of data for the measures team to review.

### 1. Audit Results

- **Obtaining Data:** As part of a formal audit, an auditor provides the board with a report which indicates that the school received an unqualified opinion with no reportable conditions on its most recent audit. An unqualified opinion is the independent auditor's declaration that he or she has no reservation in certifying that the audited firm's financial statements:
  - Adequately disclose all important information;
  - Present the school's financial position fairly; and
  - Comply with Generally Accepted Accounting Procedures (GAAP).
- **Analyzing Findings:** The receipt of an unqualified opinion on a school's audit is one of the best indicators of the integrity of its fiscal systems. If the school's audit has ever included a reportable condition, the measures team can review the process that was used to address the situation to identify the lessons learned and ensure procedures are in place to avoid similar problems in the future.

### 2. School Board Audit Committee

- **Obtaining Data:** Good operating procedure dictates that charter school boards have an audit committee. The audit committee helps the school prepare for the audit and oversee the process to correct any problems the audit identifies.
- **Analyzing Findings:** An effective audit committee has financial management knowledge, an understanding of the school's mission and operations, and provides oversight over the policies and policies that affect the audit report. An effective committee is actively

involved in the audit process, has key documents and other records readily available, and has a say in the selection of the auditor and the response to any issues that the audit reveals.

### 3. The School's Auditor

- **Obtaining Data:** Charter school industry standard holds a Certified Public Accountant (CPA) conduct the standard end of year audit. A CPA is a professional accountant who has passed the uniform CPA examination administered by the American Institute of Certified Public Accountants (some states also require the auditor have a state license as well).
- **Analyzing Findings:** The auditor ideally has the requisite certification, is familiar with charter schools and the type of accounting requirements they have (e.g. fund accounting), has previous experience conducting audits in the sector, and is routinely able to deliver the audit on time.

### 4. Timely Audit

- **Obtaining Data:** It is important that schools complete their audits accurately and on time. Audited financial records are required to file the IRS Form 990. The 990 is due five months after the close of the school's fiscal year, although extensions are available.
- **Analyzing Findings:** A late audit, even one that returns an unqualified opinion, can indicate deeper problems with the school's operational systems for finance, accounting, and budgeting.

### 5. Valid Average Daily Attendance Figures

- **Obtaining Data:** An important component to include in a school's audit is a test of the validity of its Average Daily Attendance (ADA) figures. ADA is typically calculated by dividing the total number of days of student attendance by the number of days of school taught during the same period.
- **Analyzing Findings:** Given the impact of this figure on revenue and future planning, the difference between the ADA a school predicts and the actual year-end numbers is very important to track on an annual basis.

### 6. Possible Improvements and Potential Problems

- **Obtaining Data:** A good audit report includes suggestions for possible improvements and notes any potential problems that would prevent an unqualified

opinion. The auditors prepare the report after they examine and certify the accounting records and financial position of a school.

- **Analyzing Findings:** The absence of recommendations in the auditor's report is a cause for concern. Few schools have perfect financials. The measures team can also look for the level of detail the audit report includes in its discussion of potential problems and recommendations for how to address them.

### 7. Internal Audits

- **Obtaining Data:** Charter schools can routinely benchmark their financial performance through the use of regular internal audits to supplement the annual third party audits discussed above. Internal audits are reviews that school staff conduct of financial polices and practices rather than an outside, independent auditor.
- **Analyzing Findings:** Internal audits typically review processes and procedures that relate to internal controls, check financial reports and other accounting records for accuracy, and report on the school's financial condition. Regular internal audits can increase accuracy in financial reporting, improve internal financial control, and lead to better results on year-end external audits. Conducting an internal audit once a year is usually sufficient, although significant changes to a charter school's operations (e.g. adding a grade, moving to a new facility) can warrant multiple uses of the process.

## REPORTING

The following indicators will help your team assess your school's reporting processes. The ability of a charter school to produce accurate and timely financial reports has a direct affect on its relationships with its authorizer, funders, and board. A review of the school's reporting process also offers an opportunity to build relationships with the authorizer and encourage the engagement of board members by seeking their input.

### 1. Accrual Accounting

- **Obtaining Data:** The Generally Accepted Accounting Principles (GAAP) for Nonprofits require that 501(c)3 organizations use accrual accounting rather than a cash basis system. Using the accrual accounting method,

school business managers report income when it is earned and expenses when they are incurred, as opposed to cash basis accounting, where income is reported when it is actually received and expenses when they are paid. With accrual accounting, schools have some discretion about when income and expenses are recognized. Accrual accounting is more complex and takes more time to implement than a cash basis system, but this method provides more accurate financial information.

- **Analyzing Findings:** If the team determines that a school is still using a cash accounting system, they may conclude that the school needs additional professional accounting support to implement an accrual accounting system. In states that require charter schools to use the state's chart of accounts, the assessment team can also evaluate their school's ability to comply with this mandate.

## 2. Accessible Financial Data

- **Obtaining Data:** Measures teams can obtain data for this indicator by speaking to the school's staff and authorizer to determine whether they have found the school's financial records easy to access, understand and utilize.
- **Analyzing Findings:** Effective financial reports are easy to find, read, and provide a clear picture of the school's financial management systems and condition. If the authorizer does not feel that a school's financial reports are sufficient, you may consider working with the authorizer to develop a schedule of reports and specific reporting formats.

## 3. Monitoring of Corrective Action Plans

- **Obtaining Data:** This indicator helps measures teams monitor the implementation of a school's corrective action plans for financial problems. When financial issues arise for a charter school, the authorizer may require additional reports or specific actions to respond to those issues and school leaders need to be prepared to quickly provide any necessary information.
- **Analyzing Findings:** A clear process for monitoring corrective plans includes actions, deliverables, timelines and roles. Does the school have a written procedure for issuing a corrective action plan? Does staff have a clear understanding of their role in the process? Are deliverables typically on time? Measures teams also

can examine the frequency with which the authorizer monitors progress on action plans and the impact of completed plans on financial operations.

## 4. Effective Board Oversight

- **Obtaining Data:** It is important that school staff bring all financial problems to the attention of the school's board in a timely manner. Measures teams can interview both school staff and board members (particularly the board audit or finance committee) to obtain this data.
- **Analyzing Findings:** Measures teams can try to determine whether open lines of communication exist within board and staff, and whether the board is kept well-informed about the charter school's finances, especially during periods of financial turmoil.

## 5. Public Financial Reports

- **Obtaining Data:** Regulations regarding transparency require that charter schools establish financial reporting processes that enable parents and other external stakeholders to obtain adequate and appropriate financial reports. Measures teams can review state and local legislation and regulations to ensure that the school is in compliance. Teams also may find it useful to interview parents and members of the community to determine whether they perceive that financial reports (like the IRS 990) are easily accessible to the public.
- **Analyzing Findings:** If the measures team finds evidence of a lack of compliance, or general concern regarding transparency, it is important to work quickly to establish new policies and procedures that make the school's financial reports more accessible to the public.

## FINANCIAL MANAGEMENT CAPACITY

The following indicators help the team assess the school's ability to effectively and efficiently manage the organization's finances. Many charter schools have to stretch their budgets for financial staff, software, and other resources so the assessment can help identify areas of need that require more support. If the charter school uses an educational management organization to provide its back office functions, use this part of the assessment process as an opportunity to review the relationship and quality of service.

## I. Staff Capacity to Manage Finance, Accounting, and Budgeting Systems

- **Obtaining Data:** Measures teams can collect data for this indicator by interviewing school staff to determine whether they have the skills and experience to operate the school's financial systems. Data collected for previously discussed indicators can also shed light on whether the staff historically has demonstrated the capacity to effectively manage finance, accounting and budgeting systems.
- **Analyzing Findings:** A strong finance staff has degrees, formal training, or past experience related to finance and accounting. Measures teams can determine whether staff workloads are appropriate to efficiently manage the financial management duties and any other tasks as required.

## 2. Professional Development Plan

- **Obtaining Data:** The school can support its staff with an effective professional development plan designed to build staff capacity in the areas of finance, accounting, and budgeting.
- **Analyzing Findings:** Finance staff in a small charter school may feel isolated. Peer-to-peer learning opportunities are an important way to build skills and share best practices. Measures teams may also find it helpful to set aside funds for staff professional development and provide both in-house and external opportunities for staff to increase their skills and knowledge of financial systems. Charter school associations and state departments of education often offer free or affordable training opportunities.

## 3. Financial Management Information System

- **Obtaining Data:** Measures teams can obtain this data by determining whether the school's management information system for finance, accounting, and budgeting has the capability to organize and manage the school's finances. Teams can examine both the school's hardware and software offerings, and speak to staff to establish whether they find that the school's technological resources effectively support their workload.
- **Analyzing Findings:** An effective management information system is easy to use, produces the necessary reports and has adequate safeguards. If a

majority of interviewed staff have had difficulty with the existing system, the measures team can consider exploring alternative options. If only a few employees report having challenges with the system, measures teams may want to consider providing targeted training to those who need added support.

## 4. Management Strategies for Building Capacity

- **Obtaining Data:** Schools can improve their fiscal health through the effective use of performance measures, reviews of best practices, benchmarking of peer performance, and other similar management strategies that can build capacity in the areas of finance, accounting, and budgeting. The measures team can speak to the school's financial manager to obtain her perspective about whether the school is making good use of the rapidly growing body of literature on management strategies for strengthening a charter school's fiscal health.<sup>8</sup>
- **Analyzing Findings:** Ask the school's finance staff to identify any plans or actions they use to improve financial management processes. Do they participate in conferences, meetings for charter school business managers, and other peer learning opportunities? Do they feel that the school provides them with sufficient support (e.g. conference fees and time off for continuing education) to pursue such opportunities?

## 5. School Board's Capacity to Support Financial Systems

- **Obtaining Data:** An effective board has the capacity to provide adequate support in the areas of finance, accounting and budgeting through the provision of helpful feedback and support on financial issues and the identification and resolution of potential financial problems before they negatively impact operations. Measures teams can speak to both school staff and board members to determine whether the board has demonstrated this capacity.
- **Analyzing Findings:** A good rule of thumb is to have at least one board member with extensive experience in nonprofit management or a similar private sector background in finance. Where this is not the case, the school can provide board training to help key members build the necessary knowledge and skills. At a

<sup>8</sup> See the resources section at the end of this document for links to toolkits, manuals, and similar publications to support charter school financial management.

minimum, all board members should have the ability to read basic financial reports.

## 6. Support from Community Partners

- **Obtaining Data:** School leaders can improve their fiscal health by obtaining assistance with finance, accounting and budgeting from partners and community organizations. Measures teams can speak to school leaders, staff, and board members to determine whether the school has made good use of these valuable connections.
- **Analyzing Findings:** A healthy charter school is able to draw on a range of community organizations and supports, and has good relations with a network of its peers (e.g. other charters, public, and private schools) that it can rely on for support with financial issues. If measures teams find that the school has not tapped this resource, they can develop a plan to help staff and board members better leverage relationships with key partners and members of the community such as local foundations and the Chamber of Commerce.

## Strategic Measures

Strategic measures have two purposes in the fiscal health assessment process. First, they examine a school's ability to anticipate and proactively respond to long-term sustainability challenges. Examples of such measures of strategic capacity include:

- The ability of the school to create partnerships that bring unique resources to the school;
- The ability of the school to predict enrollment over the long term; and
- The ability of the school to maximize resources.

Like operational measures, some strategic measures can be assessed with a simple yes or no; however such a simplistic approach precludes the opportunity to think deeply about the school's capacity for strategic action.

Second, strategic measures assess the external environmental changes that could threaten the school or offer opportunities for growth. Examples of environmental measures include:

- Changes in federal, state and local education budgets;
- Changes in school community demographics; and
- Changes in the local and regional economy.

Strategic measures, like strategic planning in general, do not require constant review. Rather, they should be revisited annually as part of planning for the coming year.

For the purposes of this toolkit, the indicators for strategic measures are divided into three categories:

- Environmental Factors;
- Enrollment; and
- Strategic Financing.

## ENVIRONMENTAL FACTORS

Because charter schools are a part of the broader community system in which they operate, they are affected by changes in the social, political, and economic environment. While many of the factors detailed below are beyond the direct control of the school, the strategic measures team can closely monitor any factors that can significantly affect school operations. Much of the demographic and economic data required for these indicators is available from the local school system, state and local public sector agencies such as the Census Bureau and departments of economic development, and community organizations such as the Chamber of Commerce and United Way.

### I. Demographics

- **Obtaining Data:** Relevant demographic data will vary by charter school, but may include changes in the age level, education, employment status, and household income of surrounding populations. Measures teams can regularly track population trends, particularly those for children and youth served by the school for the previous five years and, if possible, make projections for the next five years.
- **Analyzing Findings:** High levels of transience may be a significant demographic factor. A proactive school identifies significant shifts in demographics and will consider their potential impacts. The measures team may want to consider which significant demographic shifts have occurred over the past several years. Did existing systems for analyzing demographic data predict the shifts and prevent significant repercussions for school operations? If not, how would that impact have been lessened if they had predicted those changes in advance? What adjustments to existing practices could enable school leaders to better anticipate and plan for demographic changes?

## 2. Local and Regional Economy

- **Obtaining Data:** To maintain a fiscally healthy school, leaders can make a habit of tracking economic trends from the last five years for the charter school's service area and the surrounding region and, if available, projections for the next five years. In addition, it is helpful to have information on the region's major employers, especially significant cuts or expansions in the local labor force.
- **Analyzing Findings:** How close have projections come to actual changes in the economy? Have projections been effective in lessening the impact of an economic downturn on school funding and operations? Also, while economic data can have many different implications, it can be helpful to consider the consequences of these changes on the local tax base, as this is where a good portion of dedicated local revenue originates.

## 3. Federal, State, and Local Education Budgets

- **Obtaining Data:** It is important for schools to consistently track funding for the major federal charter school programs, as well as trends in state and local education budgets for the previous five years.
- **Analyzing Findings:** As school leaders track funding trends, they can consider both the amount of funding and the types or target programs of funding. Information gleaned from following budget trends can help inform school financing strategies and help school leaders prepare for any reductions in public funding.

## 4. Federal, state, and local politics and public policy

- **Obtaining Data:** The strategic measures team can closely monitor changes in elected officials, as well as current and pending laws and policies that affect charter schools at the federal, state, and local levels. They can also follow recent state and local news about charter schools, especially news that may affect the attitudes of policy makers and the general public.
- **Analyzing Findings:** Many educational advocacy organizations such as charter schools associations and state education departments routinely track changes to policies and legislation that affect charter schools and provide regular updates via email. These organizations can help schools parse the changes and anticipate the consequences of shifts in the political climate.

## 5. Quality of local schools

- **Obtaining Data:** The strategic measures team may find it helpful to track information about the performance, quality, and working conditions of other local schools. Reports may include information on test scores; average teacher salaries, benefits, and turnover rate; enrollment trends and projections for the local school district.
- **Analyzing Findings:** Local and state authorities often create reports that assess the quality and academic outcomes of local public and private schools. This information can prove valuable to school leaders as they assess the needs of their community, develop marketing and outreach plans, and consider their approach for recruiting students and school faculty and staff.

## SAMPLE WORKSHEET 3: Strategic Measures-Environmental Factors

| Indicator    | Findings   | Action Required & Due Date  | Person Responsible   |
|--------------|--|---|--|
| Demographics | The relocation of two new regional headquarters to the county combined with several anticipated housing developments will significantly increase the number of potential new students. Additionally, the current capacity of public school buildings is likely to result in overcrowding | Ensure that future recruitment efforts include outreach to the new businesses and housing developments. Contact the county council to identify any publicly-owned buildings that might serve as an expansion site for our school. Review the strategic plan at the next board meeting to evaluate any necessary changes to our plan for long-term growth. Due by 6/1. | The outreach and marketing coordinator will review and update current recruitment plans. The chair of the board will reach out to the county council. The school principal will review the demographic data at the next board meeting and facilitate a review of the strategic plan. |

## ENROLLMENT

Because per-pupil payments are the primary source of revenue for charter schools, it is especially important to assess policies that relate to enrollment and the process the school uses to calculate and manage short-term and long-term changes in its number of students and associated funding. The following indicators help the measures team evaluate these policies and practices to determine strengths and opportunities for improvement.

### 1. Using Enrollment Data to Predict Attendance

- **Obtaining Data:** The strategic measures team can analyze its past enrollment data to successfully calculate attendance levels for subsequent years. They may also want to conduct a weekly analysis of ADA numbers and update the enrollment projections semi-annually.
- **Analyzing Findings:** The measures team can make reasonable attendance predictions through the review of past projections and actual attendance for the last three years. This information enables the measures team to evaluate how successful it has been at predicting enrollment in the past and adjust procedures accordingly to improve accuracy. A good rule of thumb is that schools will experience 10% attrition between opening day and the end of the school year.<sup>9</sup>

### 2. Increasing Average Daily Attendance

- **Obtaining Data:** A fiscal health assessment provides a good opportunity for the school to review its attendance plan. The specifics of an attendance plan will vary by school, but typically includes specific strategies and policies for communicating with students, families, teachers and administrators in an effort to increase attendance levels among students. Increased average daily attendance can result in an increase in per pupil funding for the school.
- **Analyzing Findings:** An effective attendance plan has a clear system for gathering accurate data, is created with input from all involved stakeholders and includes routine times for school leaders to review results and act before any potential problems affect school finances. The measures team should also examine how effective the existing plan has been in increasing average daily attendance for the school.

Lack of increase may indicate a need to rethink existing strategies for bringing more students into the school and ensuring their regular attendance.

## STRATEGIC FINANCING

A successful school plans for its sustainability in a systematic, intentional and comprehensive manner. The strategic measures team can assess current and potential funding streams, and can examine the flow of dollars into the school, the diversity of funding sources, the processes through which different funds are distributed, and the school's strategies for securing new funding.

### STRATEGIES FOR FINANCING CHARTER SCHOOLS

The National Resource Center on Charter School Finance and Governance has developed a strategic financing training package, *Strategies for Financing Charter Schools*, designed for charter school associations, intermediary groups, authorizers, and others who are providing start-up and ongoing support and technical assistance to charter school operators.

This workshop introduces charter school operators to the concepts of strategic financing and the five financing strategies as outlined in The Finance Project's (TFP's) *Sustainability Planning Workbook*:

- Make better use of resources;
- Maximize revenue;
- Build partnerships;
- Create more flexibility; and
- Create new dedicated sources of revenue.

Resources and strategies for further addressing key concepts and ideas are provided to allow workshop participants to customize the information included to their unique situation and needs. The workshop is also designed to address the needs of audiences with varying experience and knowledge.

<sup>9</sup> This projection is cited by the Community Development Financial Institution Self Help in their presentation on financing charter school facilities available at: <http://www.newyorkcharters.org/documents/TheBusinessofCharterSchoolsSelfHelp.pdf>

## I. Strategic Plan

- **Obtaining Data:** The strength of a charter school's long-term strategic plan is critical given that many schools rely on steady increases in enrollment over several years to achieve financial sustainability. Long-term facilities needs and the challenge of dealing with shifting funding streams, especially after the start-up phase ends, places a premium on having a clear, realistic vision of how a school will grow up and develop over time. Strategic plans typically address:<sup>10</sup>
  - Enrollment (goals and recruitment plan);
  - Staff (staffing plan, recruitment, and development needs);
  - Finances (budget needs, grant expenditure plans, material needs, fund raising plan);
  - Facility needs;
  - Board (selection, expectations, development, function);
  - Growth plan;
  - Parent involvement; and
  - Sustainability and succession plan.
- **Analyzing Findings:** The assessment process is a good opportunity to review the three to five year strategic plan that guides the school's development. When collecting data for this indicator, measures teams should determine when school leaders last used the strategic plan to guide long-term decisions. Effective strategic plans demonstrate a clear, realistic vision of how a school will develop and sustain its operations for the long term. This includes annual goals, measurable objectives, the support of key stakeholders, and a connection to budget and enrollment projections.

### STRATEGIC PLANS FOR CHARTER SCHOOLS

For samples of the various components of charter school strategic plans, see the Charter School Development Center's webpage <http://www.cacharterschools.org/Library/bizpl.html>.

## 2. Diverse Funding Portfolio

- **Obtaining Data:** Measures team can obtain data for this indicator by determining the percentage of total revenue that comes from various public and private sources, including:
  - Federal government;
  - State government;
  - Local government;
  - Private corporations/foundations; and
  - Individual donors.
- **Analyzing Findings:** School leaders may find it useful to pay close attention to the diversity of the school's funding portfolio. Seeking and sustaining funding from a variety of sources helps ensure the school's long-term fiscal viability, particularly in times of economic hardship. Consider whether a school takes advantage of all appropriate available sources of revenue and whether it is over-reliant on any current source. In addition, consider whether the mix of funding is sustainable over the next three to five years. If a significant percentage of the school's funding is due to end over the next three years, the school needs a plan for making up the lost revenue.

## 3. Revenue Policy

- **Obtaining Data:** Revenue policies are the big picture strategic guidance for how the school should insure stability in its funding streams. While the large majority of charter school funding comes from the state in the form of per-pupil payments, the often narrow financial margins on which they operate places a premium on the ability to access additional revenues through foundation grants, fundraising, and business development (e.g. fee for service work, renting space).
- **Analyzing Findings:** The measures team can explore whether the school has developed a comprehensive revenue policy that provides "big picture" strategic guidance for how the ensuring stability in its funding streams. Does the school's strategic plan or similar document address revenue issues? Does the school have a formal process in place to identify potential funding opportunities? As mentioned above, ideally a school will maintain diverse sources of revenue to avoid problems with fluctuations in any one source and actively seek out new sources of revenue.

<sup>10</sup> This outline is drawn from Holly Hart Consulting. To see the full outline of a sample charter school strategic plan, visit <http://www.hollyhartconsulting.com/Resources/docs/Qualities%20of%20A%20Sust.%20Final.pdf>

#### 4. Use of Existing Resources

- **Obtaining Data:** The team can measure whether the school is making efficient use of existing resources. The measurement team can also consider how well the school makes use of available in-kind resources from business and community partners. This indicator tracks the school's drive to constantly improve its financial efficiency.
- **Analyzing Findings:** Teams may want to consider how will the school's leaders link budget decisions to programs performance, which may include determining whether ineffective parts of the curriculum can be cut if necessary, reviewing promising management practices among peers to identify potential cost savings, and pursuing opportunities with other schools to share services, facilities, and jointly purchase large items.

#### 5. Maximizing Public Revenue

- **Obtaining Data:** The strategic measures team can assess whether the school's leaders maximizes public funding sources through an analysis of whether the school routinely draws down all possible revenue from eligible funding streams. The team can first identify the funding sources for which the school qualifies, and then examine how many of those sources the school is currently accessing.
- **Analyzing Findings:** Are there additional local, state, or federal funding sources that the school could or should be tapping? Could the school qualify for additional funding from programs in which it already participates? The measures team can also help maximize public revenue by ensuring that the school maintains and regularly updates a database of funding sources and submits claims to the appropriate agencies for all costs that can be reimbursed.

#### 6. New Sources of Revenue

- **Obtaining Data:** To maintain fiscal health over time, school leaders can continuously seek out, and successfully acquire, new sources of revenue. New sources of revenue can come from a variety of sources not previously tapped, including, for example, local, state, and federal programs; grants from private foundations; and community fundraising. The measures team can explore current and past revenue streams to determine how often the school has accessed new funding sources. The team also can keep themselves abreast of new funding streams by exploring federal

agency web sites, as well as those from private foundations, to ensure that the school is taking advantage of the programs for which it is eligible.

- **Analyzing Findings:** If the school has not made any significant and/or consistent efforts to bring in new revenue streams, it is a good idea to reexamine the school's development/fundraising plan, or to create one if school leaders do not have one in place. Schools may create new revenue by actively seek out new business opportunities with nonprofit and public sector organizations in the community or identifying opportunities to access private sources of capital.

#### 7. Flow of Public Funding Streams

- **Obtaining Data:** Schools are well served by efforts to remain aware of and plan for the impact that the flow of its public funding streams has on its operations and fiscal health. The flow of public funding may include passage through state education agencies, local school districts and/or authorizers. It is a good practice for the measures team to review the path taken by all public funds that the school receives, identify any potential bottlenecks, and create plans for how to handle problems should they arise.
- **Analyzing Findings:** If the school already has such a review in place, the measurement team can examine the effectiveness of current practices. Has the flow of current funds impacted the school's ability to access funding in a timely manner? If existing funding streams have caused issues in the past, it may be useful to consider new sources of revenue to replace or supplement those already in place.

#### 8. Long-term Facilities Plan

- **Obtaining Data:** Schools may find it useful to establish a long-term facilities plan that its board reviews and approves. A long-term facilities plan anticipates school building needs five to fifteen years into the future and is aligned with the schools academic and financial needs.
- **Analyzing Findings:** If the school has a long-term facilities plan in place, explore how closely it has served to support the academic and financial needs of the school. If the plan was developed several years in the past, the measures team can reevaluate it to determine whether the needs of the school have changed in recent years. Plans should be reviewed and updated on a regular basis.

# Appendix B: Master List of Measures and Indicators

Users can download a copy of the document at [www.charterresource.org](http://www.charterresource.org) and adapt the tables and other materials to suit their needs.

## Tactical Measures

| Table 1   |       |
|-----------|-------|
| Indicator | Staff |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |
|           |       |

## Operational Measures

| Table 2: Budgets |       |
|------------------|-------|
| Indicator        | Staff |
|                  |       |
|                  |       |
|                  |       |
|                  |       |
|                  |       |
|                  |       |
|                  |       |
|                  |       |
|                  |       |
|                  |       |

| Table 3: Facilities and Internal Controls |       |
|---|-------|
| Indicator                                 | Staff |
|   |       |
|   |       |
|   |       |
|   |       |

| Table 4: Accounting Systems |       |
|-----------------------------|-------|
| Indicator                   | Staff |
|                             |       |
|                             |       |
|                             |       |
|                             |       |

| Table 5: Audits |       |
|-----------------|-------|
| Indicator       | Staff |
|                 |       |
|                 |       |
|                 |       |
|                 |       |
|                 |       |
|                 |       |
|                 |       |

| Table 6: Reporting |       |
|--------------------|-------|
| Indicator          | Staff |
|                    |       |
|                    |       |
|                    |       |
|                    |       |
|                    |       |
|                    |       |

| Table 7: Financial Management Capacity |       |
|--|-------|
| Indicator                              | Staff |
|  |       |
|  |       |
|  |       |
|  |       |
|  |       |
|  |       |
|  |       |

### Strategic Measures

| Table 8: Environmental Factors |       |
|--------------------------------|-------|
| Indicator                      | Staff |
|                                |       |
|                                |       |
|                                |       |
|                                |       |
|                                |       |
|                                |       |

| Table 9: Enrollment |       |
|---------------------|-------|
| Indicator           | Staff |
|                     |       |
|                     |       |

| Table 10: Strategic Financing |       |
|-------------------------------|-------|
| Indicator                     | Staff |
|                               |       |
|                               |       |
|                               |       |
|                               |       |
|                               |       |
|                               |       |

# Appendix C: Fiscal Health Assessment Worksheets

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- Worksheet 1: Tactical Measures
- Worksheet 2: Operational Measures—Budgets
- Worksheet 3: Operational Measures—Facilities and Internal Controls
- Worksheet 4: Operational Measures—Accounting Systems
- Worksheet 5: Operational Measures—Audits
- Worksheet 6: Operational Measures—Reporting
- Worksheet 7: Operational Measures—Financial Management Capacity
- Worksheet 8: Strategic Measures—Environmental Factors
- Worksheet 9: Strategic Measures—Enrollment
- Worksheet 10: Strategic Measures—Strategic Financing

## WORKSHEET ONE: Tactical Measures

| Indicator   | Findings | Action Required & Due Date | Person Responsible |
|---|----------|----------------------------|--------------------|
| Estimated Versus Actual Enrollment.                         |          |                            |                    |
| Variance Between Budgeted and Actual Revenues and Expenses. |          |                            |                    |
| Operating Results.  |          |                            |                    |
| Cash Flow Projection.                                       |          |                            |                    |
| Operating Revenues and Expenses per Student Served.         |          |                            |                    |
| Facilities Cost as Percentage of Total Operating Expenses.  |          |                            |                    |
| Facilities Cost per Student.                                |          |                            |                    |
| Fund Balance as a Percentage of Operating Expenses.         |          |                            |                    |
| Capital Structure.  |          |                            |                    |
| Months of Cash on hand.                                     |          |                            |                    |
| Current Ratio.  |          |                            |                    |
| Other tactical reports.                                     |          |                            |                    |

## WORKSHEET TWO: Operational Measures—Budgets

| Indicator  | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| The school has an adequate annual budget review process.   |          |                            |                    |
| The school links its financial plan and budget with its educational priorities and goals.                  |          |                            |                    |
| The school's board provides adequate support to the school with its budgeting and financial decisions.     |          |                            |                    |
| The school has an adequate operating budget.   |          |                            |                    |
| The school routinely uses a budget planning calendar as part of its budget planning processes.             |          |                            |                    |
| The school routinely uses a cash flow calendar as part of its budget planning processes.                   |          |                            |                    |
| The school routinely uses monthly or quarterly financial reports as part of its budget planning processes. |          |                            |                    |
| The school has an adequate policy for its operating budget.  |          |                            |                    |
| The school has an adequate policy for its capital budget.  |          |                            |                    |

### WORKSHEET THREE: Operational Measures—Facilities and Internal Controls

| Indicator  | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| The school has an adequate facilities plan.  |          |                            |                    |
| The school has and adheres to fiscal controls.   |          |                            |                    |
| The school has adequate internal controls for property management.                     |          |                            |                    |
| The school has and adheres to a clearly written fiscal policies and procedures manual. |          |                            |                    |

### WORKSHEET FOUR: Operational Measures—Accounting Systems

| Indicator   | Findings | Action Required & Due Date | Person Responsible |
|---|----------|----------------------------|--------------------|
| Accounts payable obligations are properly tracked.  |          |                            |                    |
| All accounting records (journals and ledgers) are kept up-to-date and balanced monthly.                                 |          |                            |                    |
| The school has an effective pay process that ensures a timely reporting of and payment of taxes and payroll deductions. |          |                            |                    |
| The school has an adequate grants management and reporting system for its public, nonprofit, and private funders.       |          |                            |                    |

## WORKSHEET FIVE: Operational Measures—Audits

| Indicator  | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| The school's audit has returned an unqualified opinion with no reportable conditions.  |          |                            |                    |
| The school board has an audit committee.   |          |                            |                    |
| The school's audit is conducted by a Certified Public Accountant.  |          |                            |                    |
| The school's audit is routinely completed on time.   |          |                            |                    |
| The school's audit tests the validity of its Average Daily Attendance figures.   |          |                            |                    |
| The school's audit report suggests possible improvements and notes any potential problems that would prevent an unqualified opinion. |          |                            |                    |
| Internal audits.   |          |                            |                    |

## WORKSHEET SIX: Operational Measures—Reporting

| Indicator   | Findings | Action Required & Due Date | Person Responsible |
|---|----------|----------------------------|--------------------|
| The school's financial reports use accrual accounting.  |          |                            |                    |
| The school's staff and authorizer are able to easily access and use all necessary financial data.   |          |                            |                    |
| The school has a clear process to monitor the implementation of corrective action plans for financial problems.                                     |          |                            |                    |
| Financial problems are brought the immediate attention of the school's Board and there is a written procedure for issuing a corrective action plan. |          |                            |                    |
| The school has an adequate financial reporting process in place with parents and other external stakeholders.                                       |          |                            |                    |

## WORKSHEET SEVEN: Operational Measures—Financial Management Capacity

| Indicator  | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| The school's staff has adequate experience and capacity in the areas of finance, accounting, and budgeting.  |          |                            |                    |
| The school has an effective professional development plan or similar support to build staff capacity in the areas of finance, accounting, and budgeting.   |          |                            |                    |
| The school's management information system for finance, accounting, and budgeting is adequate for its needs.   |          |                            |                    |
| The school makes effective use of performance measures, reviews of best practices, benchmarking of peer performance, and similar management strategies to build its capacity in the areas of finance, accounting, and budgeting. |          |                            |                    |
| The school's board has the capacity to provide adequate support in the areas of finance, accounting and budgeting.   |          |                            |                    |
| The school is able to draw support from its partners and community organizations for assistance with finance, accounting, and budgeting.   |          |                            |                    |

## WORKSHEET EIGHT: Strategic Measures—Environmental Factors

| Indicator                                    | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| Demographics.                                |          |                            |                    |
| Local and regional economy.                  |          |                            |                    |
| Federal, state, and local education budgets. |          |                            |                    |
| Federal, state, and local politics.          |          |                            |                    |
| Quality of local schools.                    |          |                            |                    |

## WORKSHEET NINE: Strategic Measures—Enrollment

| Indicator  | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| The school is able to analyze its enrollment data to successfully predict attendance.      |          |                            |                    |
| The school has an effective attendance program to increase Average Daily Attendance (ADA). |          |                            |                    |

## WORKSHEET TEN: Strategic Measures—Strategic Financing

| Indicator  | Findings | Action Required & Due Date | Person Responsible |
|--|----------|----------------------------|--------------------|
| The school has an adequate three to five year strategic plan.  |          |                            |                    |
| The school has an appropriate diversity of funding sources.  |          |                            |                    |
| The school has an adequate revenue policy.   |          |                            |                    |
| The school routinely seeks ways to make better use of its existing financial resources.                            |          |                            |                    |
| The school successfully maximizes sources of public revenue.   |          |                            |                    |
| The school is successful at developing new sources of revenue.   |          |                            |                    |
| The school is aware of and plans for how the flow of its funding streams affects its operations and fiscal health. |          |                            |                    |
| The school has an adequate long term facilities plan.  |          |                            |                    |

# Appendix D: Sample Action Plan

## Tactical Measures

**GOAL:** Review process of projecting enrollment and examine marketing efforts to determine if better outreach will raise enrollment numbers.

| Action Step | Description  | Staffing  | Resources Needed  | Notes   |
|-------------|--|---|---|---|
| 1           | Liquid assets currently available cover less than one month of operating expenses. The school will (1) update the fiscal policies and procedures manual to require the maintenance of at least one month operating expenses in the reserve fund, and (2) review the budget to identify options to provide at least one month cash reserve. | <ul style="list-style-type: none"> <li>■ Principal</li> <li>■ Chief Financial Officer</li> <li>■ Board Chair</li> </ul>   | N/A   | Make sure to approve changes to policy at next board meeting.   |
| 2           | Analysis of fiscal measures shows that operating results remain flat even after a 10% increase in enrollment. A committee will review the final budgets from the last three years to identify the cause and make recommendations for cost savings.   | <ul style="list-style-type: none"> <li>■ Principal</li> <li>■ Chief Financial Officer</li> <li>■ Accounting consultant</li> </ul>                                   | <p><b>Budget</b><br/>\$500 for one day of technical assistance</p> <p><b>Infrastructure</b><br/>Staff request technical assistance with accounting issues from the school's EMO</p> | Technical assistance is being provided at reduced cost.   |
| 3           | A review of the financial reports used at the monthly budget review found that the document does not present data in a reader-friendly way and is missing several key measures. Staff will review the document format and create a "dashboard" of indicators that presents the data in a more usable format.                               | <ul style="list-style-type: none"> <li>■ Principal</li> <li>■ Chief Financial Officer</li> <li>■ Chair of Board Finance Committee</li> <li>■ Art Teacher</li> </ul> | <p><b>Budget</b><br/>\$100 for software</p> <p><b>Infrastructure</b><br/>Purchase of new graphics software to create the "dashboard" template</p>                                   | A Board member with an accounting background will review the budget report. The art teacher will develop the graphic design for the new financial report. |

### INDICATORS OF SUCCESS FOR THIS GOAL:

- The school will be able to maintain a cash reserve equal to at least one month's operating expenses
- Operating results will increase by a minimum of 5%
- The new budget report and dashboard of financial indicators will receive a positive review from its users

# Additional Resources

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## Web Resources

- Boise State, Center for School Improvement and Policy Studies,  
<http://csi.boisestate.edu/CharterResources.htm>
- Building Charter School Quality, <http://www.bcsq.org>
- Charter School Development Center, <http://www.cacharterschools.org/Library/bizpl.html>
- Fiscal Crisis & Management Assistance Team, <http://www.fcmat.org>
- Massachusetts Department of Elementary and Secondary Education, Charter School End of Year Financial Report, [http://financel.doe.mass.edu/charter/1\\_RevExp.html](http://financel.doe.mass.edu/charter/1_RevExp.html)
- National Association of Charter School Authorizers, <http://www.nacsa.org>
- New Jersey Charter School Resource Center,  
<http://www.njcharterschools.org/Default.aspx?tabid=220>
- Office of Program Policy Analysis and Governmental Accountability, Florida State Legislature (see their Best Financial Management Practices Reviews of School Districts),  
<http://www.oppaga.state.fl.us>
- Utah State Office of Education—Charter School Resources,  
<http://www.schools.utah.gov/charterschools/resources.htm>

## On-line Manuals and Guidebooks

- California Charter Schools Association, “Quality Standards for Charter School Operations.”  
<http://www.myschool.org>
- California Charter Schools Association, “Charter School Financial Management,” special edition of the CCSA Charter Journal, Winter 2007. [www.myschool.org](http://www.myschool.org).
- Carpenter, Bryan “Lets Do The Numbers: Seven Practices for Sound Fiscal Management of Charter Schools” National Charter Schools Institute, 2006.  
<http://www.nationalcharterschools.org>
- Center on Educational Governance, “Charter Schools Indicators,” University of Southern California, 2007. [http://www.usc.edu/dept/education/cegov/CSI\\_USC.pdf](http://www.usc.edu/dept/education/cegov/CSI_USC.pdf)
- Charter Schools Institute, “Financial Oversight Handbook,” State University of New York, October 2007. <http://www.newyorkcharters.org/schoolsFiscalOperation.htm>
- C-Bas, LLC “Colorado Charter School Financial Management Guide” January 2003.  
<http://www.cde.state.co.us/cdechart/guidebook/fin/pdf/FinGuide.pdf>
- Massachusetts Department of Education, “Massachusetts Charter School Recommended Policies & Procedures Guide” November 2005.  
<http://financel.doe.mass.edu/charter/guide05.doc>
- Moody’s Investor Service, Moody’s Methodology and Median Report on Charter Schools, July 2003. <http://www.lisc.org/content/publications/detail/877/>
- Perry, Mary; Oregon, Isabel, Williams, Trish “School District Financial Management: Personnel, Policies, and Practices” Edsource, November 2006.  
[http://www.edsource.org/pub\\_abs\\_bizstudy.cfm](http://www.edsource.org/pub_abs_bizstudy.cfm)
- Providence Financial Company, Charter School Business Newsletter.  
<http://www.charterschoolbusiness.com/charter-schools-newsletter.asp>
- The Finance Project. *Beyond the Checkbook: A Financial Management Guide for Leaders of Small Youth-Serving Organizations*. The Finance Project, Washington, DC. January 2009

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[www.CharterResource.org](http://www.CharterResource.org)

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