



Show Me The Money:

What Charter School Boards Must Know About Financial Oversight

Nick Driver, Board Chair, Education for Change Public Schools, VP, CSMC

Lucy Castillo, Chief Governance and Equity Officer, Charter Board Partners

Kristine MacDonald, Executive Director, Mission Preparatory School



Agenda for Today's Session

- Welcome and Intros (5 minutes)
- Presentation: (30 minutes)
 - Why is strong financial oversight imperative for charter school boards?
 - What does strong financial oversight look like?
 - What data should you look at, and what questions should you ask about it?
- Interactive Discussion:
 - Case study (20 minutes)
 - What are your pain points? (15 minutes)

[Board Source Training](#)

Who is in the room?

Participants raise hands:

- Board member?
- Charter school ED?
- Charter school CFO?
- Other?

Why is Strong Financial Management so Important, #1? Money Matters!

- Public funds, kids' lives, public trust
- Funds received by your charter school, whether from the State of California or other sources, are generally considered “public funds”
 - Article XVI, Section 6 of the California constitution
- All public funds must be utilized to support a “public purpose”
 - Reasonably determined and must be of a benefit to your students
- Charter school board members, like their administrative counterparts, are held accountable for the use of funds, and misuse can result in criminal charges.
- Public officials are held to higher standard than private individuals/companies because public funds are at stake

Why is Strong Financial Management so Important, #2? School closures!

When boards fail to exercise oversight:

- Schools get closed for poor financial management
- Opportunities to improve educational opportunities are lost
- Whole sector is dragged down

Nationwide, an estimated 42 percent of charter schools close because of financial issues

FCMAT estimates the percentage is closer to 70 percent in California

Why is Strong Financial Management so Important, #3? New Transparency Law!

- Governor Newsom signed SB 126 into law last week, giving new emphasis to existing transparency and conflict of interest laws.
- Beginning next January 1, all charter school board meetings must be video recorded and all meeting recordings placed on the school website.
- Charter school board members should expect increased scrutiny and questions from authorizers and anti-charter folks, especially on the subject of finances.

Don't Be These Boards/Schools

The following examples are illustrative of the problems schools can have when a board doesn't provide strong financial oversight:

[Ivy Academia co-founder sentenced for misusing public fund](#)

[Ex-Oakland charter schools director charged with grant application fraud, money laundering](#)

[Inside the Biggest Charter School Theft in Georgia History](#)

What does strong oversight look like?

- Review the right data--all of it
 - Ask your staff for a financial dashboard
 - Make sure you are also reviewing related organizations' financials, such as facilities LLCs
- Review it often enough to stay informed and be able to react in a timely manner
- Set clear financial goals and targets, and monitor progress consistently throughout the year
 - Do a deeper dive on two measures: cash on hand & enrollment variance
- Benchmark against other schools in the city/state & advice of financial services provider

Areas of Financial Oversight

- Budget preparation and formal approval
 - Approve annually, update three times
 - Track actuals to budget regularly
- Accounting/banking
- Compliance
 - Independent audit
 - Authorizer
 - State
- Reporting
- Management
 - Policies
 - Contract/grant management
 - Insurance
 - Internal controls

[NCSRC Fiscal oversight toolkit](#)

How Boards Should Exercise This Oversight

- A Finance Committee that has members with financial expertise
- Strong relationship with CFO or Business Manager
- Regular review of all relevant information
- Financial dashboards to accomplish this regular review
- Board members that ask questions of administration
- An administration that encourages board members to get training

Finance Committee

- Who is on it or staffing it
 - CFO, Business Manager, or equivalent
 - At least 2 board members w/specific and relevant kinds of finance experience (all not created equal)
- Must keep full board informed
- Responsible for audit (unless there is audit committee), 990, budget
- How often to meet (monthly ideal)
- Annual calendar
- Set goals

Relationship with CFO/CEO

- Make sure board is not getting info only from CEO
- Collaborate to create effective, complete, accurate dashboard
- Governance doesn't mean management, micromanagement, meddling, but it also doesn't mean:
 - ignoring concerns
 - rubber stamping
 - staying too high-level

[Financial risk management tool](#)

What Data To Review

- Cash on hand, current + projections (Ideally at least 60 days, or 30-60 days and the 1 year trend is positive)
- Monthly cash flow projections
- Sustainability in short and long terms
- Budget to actuals
 - YTD
 - Annual forecast
- Enrollment and staffing
 - Against projections - best is if actual enrollment equals or exceeds 95% of projections
 - Benchmarked to other schools/city or area average

Financial Ratio	Formula	Current	Target
Current Ratio (Liquidity)	$(\text{Current Assets}) / (\text{Current Liabilities})$	6.15	> 1.00
Cash Ratio	$(\text{Cash}) / (\text{Current Liabilities})$	552.12 %	> 100.00%
Defensive Interval	$(\text{Cash} + \text{Securities} + \text{AR}) / (\text{Average Expenses past 12 months})$	3.68	> 3 months
Debt Ratio	$(\text{Total Liabilities}) / (\text{Total Assets})$	62.41 %	< 33.00%
Asset Ratio	$(\text{Current Assets}) / (\text{Total Assets})$	41.11 %	> 90.00%
Cash on Hand	(Cash)	\$7,187,278.07	>= \$0.00
Days Cash on Hand	$(\text{Cash}) / ((\text{Average Expenses past 12 months}) / (30.4))$	106.20	> 45
Cash Reserve Ratio	$(\text{Cash}) / (\text{Budgeted Annual Expenses})$	29.39 %	> 10.00%
Savings Indicator	$((\text{Last Closed Revenue}) - (\text{Last Closed Expenses})) / (\text{Last Closed Expenses})$	-0.19	> 0.00
YTD Savings Indicator	$((\text{YTD Closed Revenue}) - (\text{YTD Closed Expenses})) / (\text{YTD Closed Expenses})$	-0.04	> 0.00

Financial Ratio	Description
Current Ratio (Liquidity)	Ability to pay short-term obligations
Cash Ratio	Ability to meet short-term obligations with cash
Defensive Interval	Possible months of continued operations if no additional funds received
Debt Ratio	Proportion of debt relative to total assets
Asset Ratio	Proportion of liquid assets relative to total assets
Cash on Hand	Assets immediately convertible to cash for purchase of goods and services
Days Cash on Hand	Possible days of continued operations using current cash

Typical red flags

- School consistently and materially falls short of its enrollment projections
- School continually spends more money than it receives in revenue
- Leadership is unable to communicate about the school's financial health in clear, understandable language
- Payables mounting up and going unpaid
- Unanticipated, unexplained, large changes in line items
- Lack of funds has become the focal point of conversation at staff and board meetings
- Lack of regular board or committee meetings focusing on finances
- Administration shows excessive optimism, or an unwillingness to acknowledge potential pitfalls or changes in the external environment

Questions Boards Should Ask

- What are our enrollment projections, and how do we calculate them? If they are low: why are we falling short of our projections? Should we budget for a lower number of students next year?
- We should be continually building our reserves. Are we? Should we consider a reserve policy that forces us to set funds aside?
- Are we paying all of our bills in a timely manner? If the answer is no, ask for a list of payables.
- If we are hit with a Public Records Act request, has the administration already told the board what payables might be considered red flags?

Questionable Expenses/Payables

Here are some of the types of school expenses that could lead to trouble:

- First or Business Class Travel; Travel Unrelated to School Business
- Wine, Beer or Alcohol
- Expensive Meals, Hotels, entertainment
- Expenditures Not Directly Related to School Purposes
- Gifts and Personal Items (Clothes, guns and ammo, jewelry)
- Car or apartment/condo leases
- Large employee expense accounts
- Golf club memberships
- Bonuses paid to employees in the form of gift cards
- Payment of debts of other people/organizations
- Payments to vendors with familial ties to charter school employees

Case Study Activity

Review the case

Discuss in small groups

Report to full group

Future Leaders' Public Charter School is in its 9th year with its dynamic founding school leader, Ron, who has had a vision from the beginning that the school should expand its successful middle school program into a high school.

The board, accustomed to following Ron's lead, secured a hefty loan for construction of a high school building. After a year of labor, the school was finally prepared to open its doors to students in grades 9 and 10. However, at the first board meeting of the new school year, Ron informed the board they are 150 students short of their enrollment projection, which puts the budget in turmoil and the school's financial future in question.

The board members are shocked to hear this outcome. They have never "meddled" in Ron's management of school affairs, so they assumed they were on track to be fully enrolled. They are not sure what to do with this news and have a ton of questions. Will they have to start fundraising for the first time to make up the shortfall in the budget? How will they manage the debt service on the newly constructed building? Is there anything else they can do to salvage the school's financial bottom line? When did Ron first figure out that enrollment wasn't going as planned? Have we dedicated enough resources to our enrollment efforts?

Case Study Questions

- What is happening here?
- What structures and best practices could the board have put in place that could have helped prevent this from happening?
- What do you think are the ideal next steps to emerge from this meeting?
- What would you do if you were on this board?

What Are Your Pain Points?

- Take 5 minutes to write down your challenge with financial oversight
- Discussion (10 minutes)

Questions

Lucy Castillo, Chief Governance and Equity Officer, Charter Board Partners

lcastillo@charterboards.org

Kristine MacDonald, Executive Director, Mission Preparatory Academy

kmacdonald@missionpreparatory.org

Nick Driver, Board Chair, Education for Change Public Schools, and VP, CSMC

415.225.4661 ndriver@csmci.com

Appendix: Top 10 Internal Controls

The Top Ten Internal Controls Your School Must Have:

1. Checks and balances through proper segregation of duties
2. Reconciling
3. Do not allow school credit cards, or strictly control them
4. Board of Directors oversight, especially of Executive Director/Principal expenses
5. Fiscal policies and procedures
6. Limits on use of school assets
7. Strict controls on petty cash funds and other cash funds
8. Protect checks against fraudulent use
9. Protect cash and check collections through solid internal controls
10. Avoid related party transactions

Appendix: Who to Talk to When Issues Arise

Board and Management - The board must immediately convene so that they can work to develop a plan of action.

Legal Counsel and Business Services Provider - If issues are discovered, or even if there is a suspicion of issues, contact your legal counsel and, if applicable, business services provider immediately. Lawyers and financial experts will help the school navigate the reporting obligations, the political landscape, and guide you on how to fix the issue.

Your independent financial auditor - Not only is your auditor there to review your transactions, but they can also assist in addressing deficiencies in safeguards and, how to address the issues in your audit report.

Your authorizing district liaison – only after contacting counsel first. Let your authorizer know what the issue is, how it has been addressed, and how you will prevent it from happening again. You want them to find out from you, and not when they see the news on TV. Additionally, you want to position your school as a partner in fighting any financial misconduct.