Eight Common Issues With First Year Charter School Finances

If you are not preparing on the front end, you will be repairing on the back end.

This charter school finances tip sheet was researched and written in collaboration with charter school financial service provider Acadia NorthStar and the team at Leaders Building Leaders. Acadia NorthStar has operated for nearly two decades mastering the financial accounting and data reporting systems that keep charter schools financially healthy and charter school auditors happy.

Issue #1: Ensure Your Actual ADM Meets Your Budget. On average, public charter schools in their first year of existence only enroll 75-80% of their projected enrollment. It is the founding board and leaders' responsibility to fill every seat that is budgeted for. Schools should be budgeting based upon a realistic enrollment, not on a projection of their initial three years.

Even if you enroll 95% of your projections, 5% of your money is already gone!

It's important to note that state funding is based on average daily membership (ADM) of your first 20 school days and not enrollment alone. For instance, if a child is enrolled on Day 1 but doesn't physically show up until Day 6, then the school will only be funded at 75% (15 day of membership / 20 school days) of the total for that child.

Question to ask your team:

- If we do not make 100% of our budgeted projections, what will we cut from our budget and when?
- How do we ensure high student turnout on the first day of school?

LBL Resources: Secure 100% Enrollment Checklist

Issue #2: Ignoring Cash Flow: Cash is your oxygen; without it, you will be reaching for any pocket of air to survive. Or in most cases, money. Many public charter schools' founding leaders make poor decisions to ensure their school opens on time with the basic resources. When they do this, they tend to forget that:

1. They will receive only 34% of their overall projected allotment sometime between the middle to the end of July.
2. Their local funding will not typically be received until October as it is based on membership per every 20 days of school.

3. They make promises to vendors that their invoices will be paid "as soon as they get their first drop."

These are all "failing forward" mistakes; remember that your top two expenses will be your people and your facility. Be sure that you have allocated those funds; then begin negotiating timelines for big purchases, such as furniture and books. Download LBL's cash flow template.

Issue #3: Overzealous Facility Financial Planning: There are two factors that should drive your thinking about financial and facilities planning:

1. Total number of students.

2. Amount of per pupil revenue.

- Plan ONLY with money you have either in hand or committed by law.
- Too many schools get in trouble because they assume their enrollment will grow.
- Even a modest shortfall can challenge your school's ability to honor its obligations.

Additional Cost Prohibitive Items to Consider:

- Traffic flow/additional roads (DOT).
- Parking (Local).
- Sewage (Local).
- Facility/location.
    - Will facility hold consistent class sizes?
    - How will this location impact our targeted population?
    - Does it allow the school to meet its mission?
    - **How long will we be here?**
- Certificate of Occupancy (Educational Purposes).
- Renovations (Local Inspections).
    - Fire Department (Sprinkler System).
    - ADA inspections.
    - Number of bathrooms.

Schools that spend less than 55% on their instruction and more than 15% on their facility have limited flexibility. Remember, you can always be innovative when it comes to hiring and programming, but you cannot always find a purpose for an extra 2,000 square feet of unused, yet costly, facility space.

Issue #4 Falling Victim to the Impulse Buy and Not Doing Your Homework. As a new school there will be many companies eager to offer you the latest and greatest innovations: A top-of-the-line 3-D printer, an employee management subscription, a new textbook series, and the list goes on and on. Just remember, the old adage "if it sounds too good to be true, it probably is" still applies. Before entering into any purchase or lease agreement, ask yourself:

1. Is this something my school needs now or is it something to put on a future wishlist?
2. Can I afford to purchase this now or can I put if off for a year or two?
3. If this purchase is intended to replace a current system or software, will my school remain in compliance with state reporting/guidelines?

4. Does it make more sense to purchase or lease? What are the replacement costs if the item is lost, stolen, or broken?

When considering purchases the first question should always be: Did I plan for this purchase in my budget? If the answer is “no” then you should first review the budget to determine if a purchase is possible. If the current budget is unable to accommodate the purchase then make a note to incorporate it into next year’s budget during your planning sessions.

Issue #5 Third Party Vendors (How do you know you need them?): There are only three reasons you should be hiring a third party vendor:

1. You do not have the skill set or staffing to complete the job.
2. You don’t want to do the job.
3. You want to create redundancy or an additional layer of oversight for key positions.

If you do hire a third party vendor, keep reading.

Issue #6 Bad Third Party Contracts: In one year, LBL and Acadia collaboratively helped a school that was struggling with financial oversight and cash flow pay off over $500,000 in accumulated debt. Our first step was to act like a forensic scientist, analyzing their budget and monthly income statements. We identified that the school was spending over $10,000 a month on their website, phone, and a “living wall” for their lobby. None of these contracts improved student learning or teacher working conditions. The time and effort it took me to negotiate out of those agreements was financially costly and energy consuming. When working with a third party vendor, you should have the following questions answered:

1. **Check References:** Ask for three current clients and write questions based on your fears or predictions of where they might fail. Ask these current clients how they meet their needs based on these fears and challenges. Ask about their customer service.
2. **Check Bandwidth:** How big is their current staff? Can they prove that they are financially strong enough to support your needs? Where is their nearest office locations? Do they have the latest technology upgrades and support people to do service calls in less than 24 hours? Have them prove to you that they have the bandwidth.
3. **Start Small Project:** Before you jump all the way in, see if there is an opportunity to work together short term to see if you and the vendor are a match.
4. **Set Clear Expectations:** Share how in the past you were let down or fear you will be let down. Ask them how they would handle this? What is their guarantee? Ask about their past by asking them this question: Have you failed your clients and how did you make it right?
5. **Short Leash Accountability:** Make big things out of little things so that big things don't happen. Rarely do vendors make big mistakes first; they tend to stumble before they fall. At the first stumble, schedule a meeting. We agreed to X, and Y happened. What can we do to ensure that X happens next time?

Issue #7 Not Planning on Retirement: One faulty assumption I hear many founding charter leaders make is that they need to be in the State Retirement in order to hire quality teachers. Little do they know that the costs to the employer to be a member of the State Retirement System is creeping close to 20% and not showing signs of slowing down. This is a huge expense to an independent charter school with very little return. Charter schools can create their own retirement plan, and with the right planning, they can provide their employees twice the investment.

Here are two examples: Remember, State Employees Contribute 6% of their salary.

> Example #1: Charter Employees contribute 3% of their salary; the school matches the 3%, providing the employees the same 6% investment without full contribution. This is a 3% raise for the employees and a 17% savings for the school that the school can use to invest in other school initiatives.
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> Example #2: Charter Employees contribute 6% of their salary (as they do now as a State Employee); the school matches 6%, resulting in a 12% investment towards employees' retirement at no extra cost to the employees and a 14% savings for the school that the school can use to invest in other school initiatives.

Issue #8 Poor Fiscal Oversight: The number one reason why charter schools close is mismanagement of a school's finances. There should be multiple members of the finance committee and management team conducting monthly deep dives into the school's financial history, practices, and future planning until the school is on more viable ground.

Download LBL's 5 Strategies to Successful Oversight

In North Carolina, out of the 46 schools that opened for operation, but then closed, 35 (or 80%) of those schools closed due to financial reasons. I guarantee that all of these schools had a written budget and knew they were responsible for the fiscal oversight. The perceived cause of these financial issues might have been noted as low enrollment, fiscal noncompliance, or excessive debt. In reality, the root of their problem was poor execution of a written plan. Cash is the oxygen to any successful business, and charter schools are a business. If the organization does not adjust spending in a timely manner, the school will run out of oxygen and eventually suffocate.

This document was written collaboratively between Leaders Building Leaders, a charter school improvement and leadership development company and Acadia NorthStar, a charter school financial services provider. Learn more about the services offered by Acadia NorthStar by emailing Sarah Crain-McCracken at sarah.mccracken@anscharter.com, going to https://acadianorthstar.com/ or calling (828) 287-7897.