Charter School Finance: An Examination of Schools of Choice in Georgia

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Despite the growing popularity of charter schools as an educational alternative to traditional public schools, relatively little is known about how their financial condition. As small organizations operating independently of local school districts, charter schools must provide high quality educational services often with fewer resources than traditional public schools. How charter schools meet these demands with less money is not well understood. This paper reports findings from a study that explores the financial condition and management practices of 25 start-up charter schools in Georgia for the 2006-07 school year. Although Georgia's funding system for charter schools is generous compared to other states, this paper aims to answer questions about charter school financing such as: 1) What are the sources and composition of revenues available to charter schools?; 2) What level of annual net assets do charters have and how much do they vary by school characteristics?; and 3) What are the fixed costs associated with starting a charter school? These findings lead to recommendations that may help to improve the financial stability of charter schools.

Charter schools are the most rapidly growing form of school choice in the United States, expanding from 100 schools in 1995 to close to 3,300 schools in 2005 (Moody's, 2003; NCES, 2007). Since Georgia enacted its charter school law in 1993, approximately 70 charter schools have been authorized throughout the state. Legislation passed in recent years has authorized the creation of entire districts of charter schools, which is expected to increase the number of charter schools to over 100 by the 2009-10 school year.

Despite the growing popularity of charter schools as an educational alternative to traditional public schools, relatively little is known about their financial positions or management practices. What evidence exists suggests that they face significant fiscal constraints and challenges. Besides anecdotal evidence on charter school failure (Labbe, 2006; Gootman, 2006; Jacksonville Business Journal, 2004), there are several reviews of charter school financial management which indicate that a non-trivial number of charter schools have been in a precarious financial position, particularly in their formative years. For example, the Office of Legislative Auditor for the State of Minnesota (2003) found that "about one-fourth of charter schools open in fiscal year 2002 had financial problems, as indicated by negative fund balance or deficit spending…" (p. 1). A study of charter school financial management in Florida (Office of the Florida Legislature, 2000) found that close to 30% had negative fund balances. Moody's credit ratings of charter schools are well below those for traditional public schools and more than one-third were below investment grade (Moody's, 2003). In Georgia, five of eight start-up charter schools had serious financial difficulties before closing or having their charters revoked.[1]

[1] Conversation on May 15, 2008, with Andrew W. Broy, Assistant Superintendent of Policy and Charter Schools, Georgia Department of Education.

This paper sheds light on the financial condition of start-up charter schools in Georgia during the 2006-07 school year. This paper is an interim and preliminary report of a larger study examining the fiscal health and financial management practices of Georgia's small, but growing charter school population.[2] Besides providing basic information on the state's start-up charter schools, this paper explores the role played by factors such as school type, age, and size in affecting financial condition. It concludes with recommendations for programs and policy changes, which may improve the financial condition and stability of charter schools in Georgia. To the extent that the charter school movement is expanding in Georgia and across the United States, this research provides important lessons for charter schools and authorizers towards how to assess and improve their financial health.

Background

The State of Georgia passed legislation creating charter schools in 1993. At that time, only local school districts could open and operate a charter school once converting them from existing schools. The Georgia legislature amended the Charter School Act in 1998 to permit independent groups and organizations to petition a local school district to open a charter school in its jurisdiction. These schools operate independently from the local district, but receive federal, state, and local funding via a pass-through from the local district. As of the 2006-07 school year, 29 independent "start-up" charter schools have opened, but over one in four have closed (28 percent). This rate of failure warrants an investigation into how Georgia's start-up charters perform on indicators chosen to assess fiscal condition and if those still in operation can benefit from early detection of fiscal stress. Although financial difficulties can be a symptom of

[2] This paper will not report on financial management practices of Georgia's charter schools, as the survey for gathering these data will not be complete until January 2009. Results presented here are cross-sectional for the 2006-07 school year. For schools in operation prior to this year, financial statements are being collected to assess trends in financial indicators and to assign a credit-like rating to each charter school. These results will be presented in a working paper of the Andrew Young School of Policy Studies' Fiscal Research Center in May 2009.

other deficiencies in managing a charter school (e.g., poor student performance, over-hiring, poor governance), insufficient attention to a school's financial condition can be a direct cause of school failure.

This paper examines Georgia's start-up charter schools in operation in the 2006-07 school year for which independent financial statements exist.[3] Start-up schools are the only charter schools required to submit financial statements to their authorizing districts and the State Department of Education (SDOE). Conversion schools and local education agency start-up schools do not report separately from their districts. Independent start-ups are of interest, because most have significant fixed costs related to facilities, and they do not benefit from the administrative services of their authorizing districts for budgeting, payroll, procurement, and plant operation and maintenance. Start-up charters make up nearly half of all charter schools in Georgia (49 percent) but educate less than one percent of all public school students in the state (0.5 percent). Despite this small market share, start-up charters are expected to grow as the charter movement strengthens and as a result of Georgia amending its charter legislation in 2008 to permit a state commission to authorize schools that were rejected for authorization by their local districts.

The 25 charter schools reviewed for this paper share characteristics of charter schools across the nation, yet differ on some aspects relative to Georgia's public schools. (See Table 1.) Start-up charters schools in Georgia have fewer students on average (281) than traditional public schools (769), with nearly 70 percent having fewer than 300 students. Georgia's average enrollment is similar to the size of charter schools across the nation (271). Start-ups serve a higher percentage of minority students (71 percent) than Georgia's traditional public (53 percent)

[3] Although 29 start-ups were open, four did not prepare financial statements separate from their district authorizers. All four of these schools serve small, specialized populations of at-risk students.

schools and US charter schools (58 percent), reflecting the fact that over 60 percent of start-ups are located in the Atlanta metropolitan region. Although start-ups serve a higher share of minorities, they have a slightly lower proportion of students who qualify for free or reduced price lunch (47 percent) compared to Georgia's traditional public schools (50 percent). This is likely a result of Georgia having many rural districts with high proportions of poor students. Finally, start-up charters in Georgia enroll a similar proportion of special education students (12 percent) as traditional public schools (12 percent).

Table 1: Characteristics of Georgia Start-up Charter Schools Compared to US Charter Schools and Georgia Traditional Public Schools

	US Charter Schools	GA Start-ups	GA Public Schools
School enrollment (mean)	272	281	769
Minority enrollment (%)	58%	71%	53%
Free/reduced lunch (%)	44%	47%	50%
Special education (%)	NA	12%	12%

Sources: Georgia Department of Education, Governor's Office of Student Achievement, 2006-07 Report Card. National Center for Education Statistics, Common Core of Data, 2005-06.

Student composition has implications for the financial stability of start-up charter schools. Since per-pupil funding is the primary source of revenue for start-ups, small enrollments limit the ability to distribute fixed costs and threaten the ability to balance year-to-year operating budgets when enrollment fluctuates. Likewise, to the extent start-up charter schools serve higher proportions of high-need students in urban areas, it may require more resources to meet student performance targets (Duncombe and Yinger, 2005). Schools failing to meet performance goals risk losing students (jeopardizing their revenue stream) and ultimately having their charters revoked. In fact, newspaper accounts reporting on the failure of eight start-up charter schools in

Georgia site financial difficulties as the primary or close secondary reason for non-renewal of their charter petitions. (Atlanta Journal Constitution, 2002, 2003, 2005, 2007).

Methods

This study draws on the literature addressing financial condition analysis for public and non-profit organizations to develop a framework for measuring the financial condition of charter schools. For example, Ammar, Duncombe, Jump, and Wright (2003) developed a financial condition indicator system (FCIS) for New York school districts, which categorized financial condition into short-run financial condition, long-run financial condition, economic condition, and student performance. While FCIS is more extensive than practical for charter schools, with 50 different indicators, some of the indicators in this system are relevant to charter schools. Moody's (2003), in developing credit ratings for charter schools, considers a broad array of factors such as service area demographics and enrollment trends, financial management policies and planning, charter school renewal risk, and the quality of charter school oversight. In a review of Florida charter schools, the Office of the Florida Legislature (2000) used six indicators to evaluate financial condition including fund balances, revenue forecasting accuracy, balanced budgets, financial controls, and demand for school services.

The framework employed for this interim analysis captures the key dimensions of financial condition, but uses indicators that were practical to assemble and analyze. Practical, at this time, refers to the availability of financial statements and the presentation of financial information contained in them. Financial statements, at a minimum, contain an auditor's opinion as to material weakness in an organization's financial statements, a snapshot of an organization's financial position at the end of its fiscal year (Balance Sheet), a summary of inflows and outflows to the organization over the fiscal year (Statement of Activities), a presentation of how

cash was generated and used over the fiscal year (Cash Flow Statement), and notes that explain the significant financial accounting principles used to compile the statements. Some may also include the results of an internal control audit and/or a management discussion and analysis section (under GASB guidelines). Although financial statements contain sufficient information to begin an assessment of financial condition, they are intended for an audience external to the organization and aggregate data in broad functional categories. Many of the indicators developed by Moody's (2003), Ammar et al. (2003), and the Office of the Florida Legislature (2000) require data that cannot be collected from these broad functional categories or from a single year's financial statement (e.g., revenue forecasting accuracy, demand for services, internal controls). Given this constraint, the findings presented in this paper are sufficient for starting to detect fiscal stress, but are inconclusive in determining overall financial health. Trend data and information about each school's financial management practices currently are being collected and will be incorporated into a final report from this study.

The indicators calculated for this paper are for short-run financial condition. The average age of these schools is 4 years, and few have long-term liabilities such as mortgages or long-term notes. Since a start-up's charter with the state typically expires after five years unless renewed, many schools have not invested heavily in buildings or long-term assets other than equipment. Since charter schools are often started to pilot innovative curriculum and governance models in public education, the focus of management in most schools is to survive through the first renewal period. Thus, a short-term focus on financial position is both realistic and practical given the young age and immediate goals for these schools.

The indicators used in this analysis include:

- **Current Assets**—a measure of current assets as a percentage of total assets. Schools with a low value for this indicator have few liquid assets on hand to meet future or unexpected

liabilities. Schools may report sizeable net assets but have little cash on hand, because their assets are tied up in property or equipment.

- **Current ratio**—a measure of current assets to current liabilities. This indicator measures a school's ability to meet its current obligations.

- **Quick ratio**—a measure of cash assets to current liabilities. This is a more conservative indicator for a school's ability to meet current obligations. It only counts cash, marketable securities, and receivables as monies available to pay a school's bills.

- **Net assets**—a measure of net assets as a percentage of total expenditures. Schools with a moderate percentage of net assets relative to revenues have sufficient reserves for stable operations and potential growth.

- **Operating surplus/deficit**—a measure of operating surplus/deficit as a percentage of total expenditures. Negative values indicate a school did not balance its operating budget for the year.

- **Government aid**—a measure of federal, state, or local revenue as a percent of total revenues. This percentage indicates a school's reliance on per-pupil funding and its potential instability when government aid decreases.

- **Management expense**—a measure of general and management expenditures as a percent of total expenditures. Management costs are burdensome for small schools that cannot spread these expenses over many students. A high percentage of management expenses will limit a school's ability to meet instructional needs.

- **Facilities rent**—a measure of annual rent as a percentage of total expenditures. Since charter schools receive little (if any) funding for facilities from their local authorizers or the state, this indicator represents the degree to which schools must find alternative revenue sources or limit spending for other school needs.

The analysis of these indicators for Georgia's start-up charter schools is descriptive and cross-sectional. As with any ratio analysis, what qualifies as "good" performance on an indicator is relative to the service sector and what is standard for that sector. This analysis is exploratory in that few studies have compiled financial indicators for charter schools. Moody's (2003) provides some guidance as to the performance on ratios for charters in other states, but its report focuses on long-term debt and provides few specific data points for comparison with Georgia's start-up charter schools.

Data

This paper uses audited financial statements from 25 Georgia start-up schools that were in operation in the 2006-07 school year. Statements were collected from the Georgia Department of Education, with the exception of two which were requested via email directly from the school. Data on school characteristics were compiled using the Georgia Department of Education School Report Cards for 2006-07.

It is often the case that data collection provides lessons for research, but it is rare when the lessons inform the research topic itself. In the course of collecting financial statements and recording data from them, the type of data available, its format, and when the statements were reported provided some ancillary information about the financial management practices of start-up charter schools.

An interesting finding from using audited financial statements as a data source is the amount of variation that exists in accounting guidelines used by the schools and how the information is presented. Table 2 reports whether the school used FASB or GASB guidelines, the accounting firm that audited their financial statements, and the date of the auditor's opinion letter. Since 15 different accounting firms prepared the statements used in the analysis, it is expected that presentation of financial information would vary; however, it is unexpected to find that 18 schools used FASB guidelines (72 percent) and seven reported under GASB guidelines (28 percent). Five schools used both—FASB as primary and GASB as supplemental information (not shown). The State Department of Education does not specify which accounting guidelines to use. Some district authorizers require GASB presentation so that the financial information will conform to their financial reporting requirements, which involve incorporating charter schools as component units. Atlanta Public Schools (APS), for example, recently began requiring GASB

presentation for this reason. Many of APS' charter schools, however, have chosen to use both presentations because FASB guidelines are preferred by foundations and private organizations that provide operating grants to charter schools. Since start-up schools are small, not-for-profit organizations, it may be more practical and useful for them to use FASB guidelines where they are allowed to present property and equipment as assets. Regardless of which presentation is most relevant to the needs of charter schools, it is a challenge to compute financial indicators that are comparable across schools that use different guidelines. In most cases it was possible to reconstruct similar measures to conform to a FASB presentation, but caution should be taken when evaluating indicators using current and net assets.

Table 2: Information about Accounting Firm and Guidelines Used for 2006-07 Financial Statements for Georgia's Start-up Charter Schools

Charter School	2006-07 Auditor	FASB	GASB	Date of Auditor's Report
Kennesaw Charter School	Berman, Hopkins, Wright & Laham		X	September 11, 2007
International Community School	Brooks, McGinnis & Co., LLC	X		September 20, 2007
Oglethorpe Charter School	Canady, Richbourg & Co., LLP	X		November 13, 2007
Lewis Academy of Excellence	Carter Davis Group	X		November 10, 2007
Kids Peace School of Georgia	Concannon, Miller & Co., P.C.		X	April 18, 2007
Charter Conservatory For Liberal Arts and Technology	Denmark & Brown, PC	X		September 4, 2007
Baconton Community Charter School	Erwin & Johnson CPAs		X	May 5, 2008
Odyssey Charter School	Erwin & Johnson CPAs	X		December 7, 2007
DeKalb Academy of Technology and the Environment	Erwin & Johnson CPAs	X		March 17, 2008
University Community Academy	Gifford, Hillegass & Ingwersen	X		September 17, 2007
Drew Charter School	Gifford, Hillegass & Ingwersen	X		September 27, 2007
Neighborhood Charter School	Gifford, Hillegass & Ingwersen	X		September 25, 2007
Tech High School	Gifford, Hillegass & Ingwersen	X		September 6, 2007
Atlanta Charter Middle School	Gifford, Hillegass & Ingwersen	X		September 25, 2007
SIA Tech	James Moore & Co.		X	October 8, 2007
Brighten Academy	Mauldin & Jenkins		X	April 28, 2008
DeKalb PATH Academy	McKelvey & Russell LLC	X		September 8, 2007
KIPP West Atlanta Young Scholars Academy	McKelvey & Russell LLC	X		September 26, 2007
Academy of Lithonia	Plante Moran		X	October 3, 2007
Amana Academy	Robins, Eskew, Farmer & Jordon	X		September 18, 2007
Fulton Science Academy	Samuel J. Durden, CPA	X		September 18, 2007
KIPP South Fulton	Samuel J. Durden, CPA	X		September 26, 2007
Hapeville Middle School	Samuel J. Durden, CPA	X		September 10, 2007
T.E.A.C.H. School	Samuel J. Durden, CPA	X		September 28, 2007
Marietta Charter School	Waddell, Smith, Magoon		X	September 19, 2007
Total Number of Schools	25	18	7	Late = 9

Note: Kids Peace School of Georgia submitted financial statements for the 2006 calendar year. As of June 2008, it had not submitted a financial statement for the 2007 calendar year.

In collecting financial statements from SDOE, it also was interesting to learn the non-compliance rate for submitting these documents to the State. As Table 2 reports, nine of the 25 schools (36 percent) did not complete their financial audits by the October 1st deadline as required in the Georgia Charter Schools Act of 1998. Untimely audits may be an indicator that the school has poor accounting practices and cannot readily compile its financial information to meet the deadline, or management is distracted from or unaware of compliance deadlines. Conversations with auditors compiling financial statements for start-up charter schools suggest that the time of year when audits are due contributes to untimely reporting. The fiscal year for all but one school ends on June 30th when school staff are on summer break; and, management is consumed with other tasks related to the start of a new school year during the months of August and September just prior to the deadline. Regardless of why audits are not prepared on time, however, it is a reasonable expectation that schools should have their financial statements complete by October 1, three months after the close of the fiscal year. Schools that are regularly reporting activity statements to their boards should have few problems complying with the deadline (Young and Anthony, 2008). In fact, most charter petitions require language that attests their board will review financial statements monthly or quarterly. Untimely submission of financial statements may reveal that schools are not complying with good governance practices in addition to audit reporting.

Findings

The financial condition of Georgia's start-up schools in the 2006-07 school year is mixed. Although nine schools (36 percent) ran an operating deficit or had negative net assets, just one school closed at the end of the fiscal year.[4] (See Appendix for a complete list of indicators by

[4] The school's charter was not renewed by the local authorizing district. Reasons for non-renewal included failure to meet AYP, significant management turnover, and enrollment errors that led to inaccurate funding.

school.) Of the nine with operating deficits or negative net assets, two appear to be financially sound in the short-term on other key indicators, such as current assets greater than 60 percent of total assets and the current/quick ratios over 2.0. The remaining seven schools in deficit all have current/quick ratios at or under 1.0, indicating that they are not likely to meet their current obligations given their current assets. These seven schools share notable characteristics—enrolling fewer than 200 students or being in their first three years of operation.

An aim of this exploratory analysis is to see if performance on financial indicators varies by school characteristics. Table 3 reports average per pupil spending and ratios of size and liquidity by school type, age, and size. The first column reports per pupil spending by each characteristic to compare charter school expenditures with what is known in the education finance literature about spending variation among traditional public schools. Average per pupil spending among all schools is about $9,300, although this varies as expected by school type and size. Elementary schools spend the least amount per pupil ($8,500) compared to K-8 programs ($8,900), middle schools ($9,300), and high schools ($10,800). This variation reflects that higher grades require more technical equipment and more teaching/pupil resources than elementary grades; also, state aid funding formulas weight high school students higher than elementary students in recognition of this demand for more resources. Likewise, per pupil expenditures varies with school size. Schools with approximately 250 students or less spent $10,800 per pupil on average compared to $9,000 per pupil for schools with 250 to 350 students and $7,400 for schools with more than 350 students. Since charter schools have to carry out many of the same administrative functions as traditional public schools, including most school business functions, small schools have fewer students over which to spread these costs. Studies examining the cost structure of public schools have found significant economies of size, especially for

administrative costs (Andrews, Duncombe, and Yinger, 2002). Moody's (2003) has found that "the smallest schools having investment grade characteristics have a minimum enrollment of between 300 and 500 students…" (p. 4).

Table 3: Average Ratios of Size and Liquidity by School Type, Age, and Size for Georgia's Start-up Charter Schools (2006-07 School Year)

Category	N	Per Pupil Spending	Current Assets (% Total Assets)	Current Ratio	Quick Ratio	Net Assets (% Exp.)	Surplus/Deficit (% Exp.)
School Type							
Elementary	7	8,526	54.7%	1.8	1.7	10.4%	0.5%
K-8	5	8,858	59.8%	1.7	1.7	7.2%	1.0%
Middle	7	9,301	58.3%	10.0	9.8	41.7%	11.2%
High School	6	10,752	50.0%	6.1	5.7	25.1%	0.1%
School Age							
1-3 years	12	9,439	53.6%	2.8	2.7	23.0%	6.1%
4-5 years	8	10,128	60.3%	4.6	4.5	20.9%	0.2%
6 or over	5	7,861	52.7%	11.4	11.0	21.5%	2.5%
School Size							
1~250	10	10,782	51.1%	2.0	1.9	22.4%	-1.2%
251~350	9	9,013	54.0%	3.2	3.1	17.9%	7.7%
over 350	6	7,443	65.6%	13.0	12.6	27.6%	5.0%
All Schools	**25**	**9,344**	**55.6%**	**5.1**	**4.9**	**22.1%**	**3.5%**

Note: Two of the schools classified as high schools serve 6-12 grades.

Ratios of size and liquidity in measuring financial condition also appear to vary by size, but less so by school type or age. Measures of cash and other liquid assets on hand at the end of the year to meet current liabilities are stronger for larger schools. Current assets as a percentage of total assets averages 56 percent for all charter schools, but varies from 51 percent for the smallest schools to 66 percent for the largest ones. Current and quick ratios follow a similar pattern, with the smallest schools averaging $2 in current assets for every $1 in current liabilities compared to a much higher ratio of $13 in current assets for every $1 in current liabilities for

schools with enrollments over 350 students. Although a current ratio of 2.0 or higher is a rough rule of thumb for adequate liquid resources on hand to meet current obligations, the average for small schools masks schools with smaller ratios. Of the ten schools with fewer than 250 students, six have ratios below this guideline. This trend is also reflected in the schools' measure of operating reserves, although it is not as consistent as the liquidity ratios. Small schools on average have an operating deficit of about -2 percent of total expenditures compared to positive operating balances of 8 percent for schools with enrollments between 250-300 students and 5 percent for schools with over 350 students. Net assets as a percentage of total expenditures follows this same pattern.

It was expected that school age might influence measures of financial condition among start-up charter schools. With the exception of the liquidity ratios, however, financial position shows no clear pattern by age. Schools in operation for three years or less have lower current and quick ratios (2.8 and 2.7) than schools open for four to five years (4.6 and 4.5) and schools six years or older (11.4 and 11.0). This is a positive sign that schools, on average, are accumulating cash or reducing their current liabilities the longer they are open. Indicators of reserves, however, do not follow this same pattern. Schools in early years of operation have higher percentages of net assets and surpluses as a percent of total expenditures compared to older schools. This is likely the result of new schools having access to implementation grants from SDOE and the federal government during the first two years of operation. Lower operating surpluses for older schools (2.5 percent) compared to newer schools (6.1 percent) may also reflect that start-up schools surviving past their first charter renewal (post year 5) use resources more efficiently, leaving less available as surplus at the end of the year while still ensuring they can meet current obligations (as evidenced in their liquidity ratios).

A final objective of this analysis was to begin to understand the revenue streams and fixed cost burdens faced by start-up charter schools. Table 4 reports the average percentage of total revenues accounted for by federal, state, or local funding and the average percentages of management and rent expenses of total expenditures by school characteristic. For government aid, interesting patterns emerge for school age and size. On average, start-up charter schools derive 92 percent of their operating income from federal, state, or local sources. Other sources of income include individual contributions from fundraising and program income from before/after school care. Schools in their early years of operation receive 90 percent of their revenues from government aid versus 99 percent for schools open six years or longer. These shares may reflect grants from private foundations that are available in Georgia (e.g., the Walton Family Foundation) that are meant to help new schools grow and stabilize. This private start-up assistance from foundations also drives the variation in the percentage of government aid by school size. Small schools report 90 percent of their revenues from federal, state, or local sources compared to 96 percent for schools with more than 350 students. Schools with fewer students in the 2006-07 school year are likely in the process of growing their enrollments as they add grades over the term of their charters. Private foundations interested in expanding the number of charter schools in Georgia provide substantial aid to help schools through their "ramp-up" periods ($500,000 over two years in the case of the Walton Foundation). Since half of the schools in their first three years of operation ran operating deficits in the 2006-07 school year, this funding appears to be essential to being able to keep their doors open at all.

Table 4: Average Public Revenue Shares and Fixed Cost Burdens by School Characteristic for Georgia Start-up Charter Schools (2006-07 School Year)

Category	N	Govt. Aid (% Total Rev.)	Management Exp. (% Total Exp.)	Facilities Rent (% Total Exp.)
School Type				
Elementary	7	88.3%	19.7%	5.9%
K-8	5	97.3%	17.4%	13.3%
Middle	7	89.9%	11.5%	4.7%
High School	6	94.6%	13.9%	7.2%
School Age				
1-3 years	12	90.4%	15.1%	8.2%
4-5 years	8	90.2%	13.0%	3.6%
6 or over	5	99.2%	20.6%	11.3%
School Size				
1~250	10	90.4%	15.7%	8.0%
250~350	9	91.3%	14.0%	7.0%
over 350	6	96.0%	17.6%	6.4%
All Schools	**25**	**92.1%**	**15.5%**	**7.3%**

Note: Two of the schools classified as high schools serve 6-12 grades.

Moody's (2003) suggests that one of the biggest risks to the financial health of charter schools are the fixed costs of facilities and administration. It reports, "Moody's does not believe that narrow financial margins reflect weak financial management or controls, but are inherent, instead, to the significant start-up costs faced by charter schools." (p.10). In an effort to understand the extent of these costs for Georgia's start-up charter schools, shares of total expenditures were calculated for management/general expenses and facilities rent. On average, management and general administrative expenses accounted for 16 percent of total expenditures followed by 7 percent for facilities rent.[5] If aggregated, these two expenditure categories account

[5] For most schools it was possible to disaggregate facilities rent or payment on long-term debt used to acquire facilities from management and general expenditures. In a few cases, however, objects of expenditures were not detailed enough to separate them. Caution should be taken in aggregating the percentages for management and facilities to imply a total share for overhead.

for over 23 percent of all spending. Schools contracting with educational management organizations (n = 6) report spending 24 percent on management and general expenses alone, with fees accounting for 14 percent of total expenditures (not shown). Further investigation into EMO services may be warranted given these shares of expenditures.[6] Spending for management and general administration varies by school size, but not school type or age. Generally, a fixed-type cost is expected to decline as enrollment increases; but for Georgia's charter schools this trend appears to move in the opposite direction. Small schools (up to 250 students) report that 16 percent of expenditures go towards management and administration compared to 18 percent for schools with more than 350 students. It may be the case that larger schools require one or two more administrators, thus the slight difference in shares.

Rent costs for facilities follows the expected decline as school size increases. Small schools report spending 8 percent on facilities rent compared to 6 percent for the largest schools. No patterns in facilities emerge when percentages are averaged by school type or school age. Overall, there is substantial variation in the leases charter schools have brokered. Some schools pay no facilities rent because their authorizing districts give them space; others pay up to 20 percent of total expenses for their rents. These shares omit leasehold improvements that schools often must make to meet occupancy codes for public schools. In most cases, schools with the lowest rent costs have agreements with their local authorizers to rent existing school space.

Discussion

Because charter schools face a number of fiscal challenges, particularly in their early years of operation, it is important to regularly monitor their fiscal condition. Regular fiscal condition assessments can be valuable to charter school administrators and board members in

[6] Some EMOs provide more than traditional business services, including student recruitment and licensed curriculum.

their budget deliberations, to chartering agencies in providing support to charter schools and in considering charter renewal, and to the State Board of Education in its auditing activity as well as for considering charter policy changes. This study provides several preliminary lessons for Georgia's start-up charter schools and their authorizers as they monitor financial health.

It is clear that school size is a key factor in short-term financial condition. Having enough cash on hand to meet current obligations is difficult for schools operating in their first three years. New and small start-ups also face challenges balancing their operating budgets and rely on private foundation grants to survive through the early years of operation as they grow their enrollments. As "experiments" in public education for curriculum and governance, it has been considered a good practice to slowly grow enrollment so that curriculum methodology and management structure can develop. For short-term financial condition, however, low enrollments put schools at risk of closure because they can't meet their current liabilities. Private foundations are enabling many schools to keep their doors open; local authorizers who partner with charter schools to offer choice for their students might consider increasing funding beyond federal implementation grants to aid charter schools' start-up through the first charter renewal term. They might also consider encouraging charters to start with more students to improve financial stability.

An alternative to providing additional funding to charters might be to help charters reduce their costs for administration and facilities. Atlanta Public Schools, for example, provides low cost lease agreements for charters to use existing, but vacant school space. Although many of these spaces require substantial renovation, they are a longer term solution for charters typically located in neighborhoods where charters are opening to offer school choice. Any leasehold improvements required of these buildings could then be spread out over a longer term,

unlike improvements made to spaces that charters eventually outgrow or fall out of favor over leasing terms. Likewise, it would be beneficial to charters to buy business services from their authorizing districts as an alternative to using an educational management organization. Since local authorizers already have the systems in place to provide these services, it would be a marginal cost to the district to add charter schools. Other services such as transportation and food service are offered to charters in some districts, so it does not seem complicated (except politically between the district and school) to add-on services like student data management, payroll, and plant maintenance.

As the study expands to include trend data and indicators of financial management practices, these observations and recommendations are likely to reveal more complex relationships between school characteristics and financial health. The preliminary results presented here should be interpreted with caution, since the presentation of information in the charter school's financial statements vary by accounting guidelines used to prepare them. It would be beneficial for charters, authorizers, and the state (not to mention researchers) for a common format to be adopted for presentation of financial information. It would also aid the ability to detect fiscal stress early in operation if schools are encouraged and monitored for filing their financial statements according to the state deadline.

*****Future Work*****

This is an interim report for a broader study of financial health of Georgia's start-up charter schools. Future work to make this system useful for charter school governing boards and district authorizers will involve consulting with charter school administrators, chartering agencies and associations, and state agencies (e.g., Georgia Department of Education) to learn

what information is lacking and necessary for assessing fiscal stress and making decisions to improve financial position. It will also involve a broader investigation into the management structure that plans and controls financial resources in charter schools. These components of the study will be complete by May of 2009 and involve more data collection and analysis in the following areas:

Financial Management Capacity. One of the objectives of the larger study is to examine the financial management capacity of charter schools. Specifically, it aims to determine how many administrative staff in each charter school are involved in financial management functions, such as budget development, facilities planning, procurement and contracting, grant administration, accounting and internal control, and cash management. What is the education background and experience of administrative personnel? Does the charter school contract out for these services and with whom? If the charter is affiliated with an education management organization (EMO) or charter management organization (CMO) and what financial services, if any, does the charter school receive from the EMO or CMO?

For a small non-profit organization, such as a charter school, the board of trustees can play an important financial management role. We will try to determine for charter schools in Georgia, the background of board members, particularly in finance, and what role the board plays in financial control and planning. For example, what financial reports does the board review on a regular basis, what role does the board play in the budget development and approval process, and is the board actively involved in contracting decisions, fundraising, and salary negotiations?

Financial management practices: Understanding the financial management practices of charter schools is important for determining how to help start-ups improve their financial

systems. There are a number of potential financial management practices which could be evaluated as part of this study, such as budgeting, long-range fiscal planning, revenue and enrollment forecasting, procurement and inventory control, capital and debt management, cash management, accounting and internal control systems, and fundraising. Based on conversations with charter school administrators, staff of chartering agencies, and government and non-profit experts we will select a subset of financial management practices of interest/concern to examine and develop a survey of schools to collect this information.

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APPENDIX
FINANCIAL CONDITION INDICATORS FOR GEORGIA'S START-UP CHARTER SCHOOLS

School Code	Grades	AGE	Enrollment	Expend/ pupil	Current ratio	Quick ratio	Current Assets/ Total Assets	Operating surplus/deficit (% of exp.)	Net assets (% of exp.)	Govt. aid (% tot. revenue)	Management (% of exp.)	Facilities rent (% of exp.)
School A	6-12	7	135	7,899	0.5	0.5	2.5%	-3.6%	24.0%	98.5%	29.8%	7.3%
School B	4-12	3	59	17,410	8.1	8.1	100.0%	14.6%	68.6%	100.0%	12.7%	9.6%
School C	K-8	7	790	10,208	2.3	2.3	68.6%	2.5%	11.6%	99.9%	29.7%	NA
School D	K-8	7	354	9,229	2.9	2.9	67.4%	3.4%	17.4%	98.7%	12.5%	17.7%
School E	K-7	1	328	7,074	0.3	0.3	54.5%	10.4%	-11.3%	99.9%	20.6%	19.6%
School F	K-7	3	252	9,470	2.2	1.9	64.8%	-6.7%	12.3%	94.4%	13.7%	13.1%
School G	K-7	2	218	8,308	0.6	0.4	44.0%	-4.8%	6.0%	93.8%	10.5%	2.8%
School H	K-12	7	621	5,224	25.4	23.7	51.2%	4.8%	20.9%	99.9%	10.9%	8.9%
School I	6-8	3	448	6,770	10.4	10.2	68.7%	22.0%	76.6%	94.1%	6.7%	1.8%
School J	6-8	5	407	8,258	13.0	12.5	70.7%	-4.9%	23.4%	93.2%	4.9%	10.6%
School K	6-8	8	396	6,746	25.9	25.9	73.9%	5.5%	33.4%	99.3%	20.3%	NA
School L	5-8	4	287	9,906	1.9	1.9	16.3%	5.5%	17.4%	94.9%	12.1%	NA
School M	5-8	4	286	10,953	9.6	9.4	52.3%	15.0%	57.7%	76.3%	8.6%	0.6%
School N	5-8	5	270	9,442	3.9	3.9	81.3%	1.5%	23.8%	96.5%	20.8%	3.1%
School O	6-7	2	77	13,034	5.1	5.1	44.7%	33.5%	59.3%	75.3%	6.7%	7.2%
School P	9-11	3	206	12,206	1.1	0.9	36.2%	-3.5%	14.7%	71.4%	14.6%	1.4%
School Q	9-10	1	187	8,112	0.2	0.2	10.0%	15.5%	21.3%	99.2%	6.5%	8.7%
School R	9-12	5	88	13,662	1.1	1.1	100.0%	-26.9%	1.1%	98.8%	9.1%	NA
School S	K-5	4	554	7,455	1.2	1.1	60.5%	0.1%	-0.2%	89.9%	33.1%	4.4%
School T	K-6	5	333	10,979	1.7	1.6	42.6%	0.1%	14.6%	80.4%	11.1%	1.9%
School U	K-5	5	308	10,367	4.2	4.2	58.8%	11.3%	29.7%	91.4%	4.7%	0.8%
School V	K-5	2	287	6,246	2.2	2.2	95.2%	4.0%	4.0%	93.1%	28.3%	5.0%
School W	K-6	1	265	6,919	1.8	1.8	17.3%	18.2%	8.1%	90.2%	7.4%	7.2%
School X	K-5	1	180	11,886	0.57	0.57	100.0%	-9.7%	-9.7%	79.9%	34.2%	15.4%
School Y	1-5	3	164	5,831	0.9	0.6	8.4%	-20.8%	26.3%	92.9%	19.2%	6.8%
Mean		3.9	300	9,344	5.1	4.9	55.6%	3.5%	22.1%	92.1%	15.5%	7.3%
Std. Dev.		2.1	171	2,829	7.1	6.9	29.1%	13.0%	22.6%	8.6%	9.2%	5.5%
Median		4.0	286	9,229	2.2	1.9	58.8%	3.4%	17.4%	94.1%	12.5%	7.2%