

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Charter School Fiscal Oversight – The Basics

Fiscal Oversight Workshop
Fall 2023

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Basics of Charter School Fiscal Oversight

- **Who** is responsible for the fiscal oversight of charter schools?
- **What** are the statutory requirements for charter fiscal oversight?
- **When** and **how** is fiscal oversight of charter schools best performed?
- **Why** is the fiscal oversight of charter schools important?
- **Where** are tools available to support effective charter fiscal oversight?

Who is responsible for the fiscal oversight of charter schools?

Responsibilities in Oversight

- **Charter school** – the charter school governing board has the first level of oversight responsibility.
 - Education Code Section 47604(c) entitles a chartering authority to a single representative on the governing board.
- **Authorizing agency** – the charter school authorizer may be a school district or county office of education (COE).
 - State Board of Education (SBE) can approve charter schools on appeal but is no longer an authorizing agency.
 - **COEs** should consider the effectiveness of an authorizer's oversight when evaluating a school district's fiscal health.

What are the statutory requirements for charter fiscal oversight?

Oversight Requirements – Authorizer

Education Code Section 47604.32 states the responsibilities of the authorizing agency:

- Identify at least one staff member as a contact person for the charter school.
- Visit each charter school at least annually.
- Ensure that charter schools under its authority comply with all reports required of charter schools by law and all other mandatory reporting requirements.
- **Monitor the fiscal condition of charter schools.**
- Provide timely notification to the California Department of Education (CDE) when a charter renewal is granted, denied, or revoked, and when a charter school ceases operation for any reason.

Oversight Requirements – Authorizer (cont.)

- The authorizing agency is responsible for adequate and appropriate oversight, including determining if a charter school is following prudent business practices and generally accepted accounting principles (GAAP) when accounting for revenues and expenditures and preparing financial reports.
- To assess and monitor the fiscal condition, the authorizer can request any financial or other information needed from the charter school.
 - Recommend documenting in a memorandum of understanding (MOU)

Oversight Requirements – Charter School

Education Code Section 47604.33 states the charter school must submit to its authorizer:

- By **July 1**, a preliminary budget and Local Control Accountability Plan (LCAP).
- By **December 15**, an interim financial report. This report shall reflect changes through October 31.
- By **December 15**, an annual, independent financial audit report for the preceding fiscal year.
- By **March 15**, a second interim financial report. This report shall reflect changes through January 31.
- By **September 15**, a final unaudited report for the full prior year.

Oversight Requirements – Charter (cont.)

A charter school must comply with provisions of its charter petition, MOU, and other local agreements.

- **Charter petition** – written request outlining elements of the proposed school’s organizational, educational and operational programs (Education Code Section 47605 outlines petitioning process and required elements).
 - Some authorizing agencies have “required” language.
- **MOU** – agreement defining the working relationship between the charter school and the authorizing agency; outlines fiscal and administrative responsibilities not addressed in the charter petition.
- **Other agreements** – local agreements engaging oversight relationship such as sole occupancy agreements, provision of special services, etc.

When and how is fiscal oversight of charter schools best performed?

Oversight Starts with Charter Approval

- Start upon petition approval with a team approach and be proactive, especially in fiscal monitoring.
 - Charter schools may receive start-up loans and other grants even prior to opening.
- Maintain active and ongoing contact with the charter school to ensure compliance with laws, regulations, financial reporting, charter petition, MOU, and other requirements.
- Document all actions, especially to resolve identified issues.
- Visit the charter school more than once a year; scheduled and unscheduled visits are expected.

Reimbursement for Oversight

Education Code Section 47613 provides that an authorizing agency may charge for the **actual costs** of supervisorial oversight not to exceed:

- 1% of the charter school's revenue.
 - Revenue: defined as the amount received in the current fiscal year from the local control funding formula
 - Exception: increased up to 3% of revenue if the charter school obtains substantially rent-free facilities from the authorizing agency
 - **Recommendation: document time spent performing oversight responsibilities**
- The California Research Bureau found that up to 20% of authorizers fail to perform oversight responsibilities as defined in the Education Code yet charge the maximum allowable for reimbursement.

Financial Reports for Oversight

- Education Code addresses the **minimum** financial information a charter school must submit to its authorizing agency.
 - Only unaudited actuals financial report has state-mandated format (either alternative form or SACS form)
- To assess the charter school's fiscal condition, the authorizer should review and analyze financial information periodically:
 - Financial statements (income statement, balance sheet, cash flow)
 - Bank reconciliations
 - Accounts payable aging reports
 - Multiyear financial projections

Financial Reports for Oversight (cont.)

- **Financial Statements** - Primary records to convey the business activities and financial performance of an organization like a charter school
 - Income statement – statement of activities
 - Balance sheet – statement of financial position
 - Cash flow statement
- **Audit Reports** – Present financial statements for the period ending June 30; provide the highest level of financial statement assurance as auditor will express opinion (unqualified, qualified, adverse, disclaimer)

Financial Reports for Oversight (cont.)

- **Bank Reconciliations** – should be prepared and reviewed monthly for all charter school bank account transactions; reconciles the school’s general ledger cash account balances to the bank account balances as reflected in the bank statement; ensures bank fees and interest earnings are recorded to the general ledger.
 - Needed for accuracy of cash flow projections
- **Accounts Payable Aging Report** – provides a visual aid to determine invoices that may be due for overpayment; useful when an organization is short on cash and needs to monitor the payables not paid on time.

Financial Reports for Oversight (cont.)

- **Multiyear Financial Projections** – should be prepared with budgets, interim reports, and year-end financial reports; projects revenues and expenses for current and two subsequent fiscal years.
- **Cashflow Projections** – should be updated and monitored monthly and projected into subsequent fiscal years (at least 18-24 months depending on strength of cash position).
 - Does the charter school identify short-term borrowing options early to address shortfalls?
- **Projection-Pro** software available at no cost on FCMAT's [website](#) to assist in cashflow and multiyear financial projections.

Healthy Financial Characteristics

- **Income-based spending** – charter school is committed to a balanced budget where expenditures are tailored to meet revenues
- **Adequate cash flow** – have sufficient financial resources to ensure stable educational programming
- **Positive fund balances** – retain positive fund balances or net assets at the end of each year
- **Working capital reserve** – establish or plan to establish a working capital reserve for cash shortfalls and program growth

Source: National Association of Charter School Authorizers, Measuring Charter School Financial Health, October 2009

Healthy Financial Characteristics (cont.)

- **Strong systems** – establish adequately staffed financial systems and proper internal controls that support the school’s mission
- **Healthy working relationships** – maintain healthy relationships with external entities—bank, audit firm, and authorizer
- **Responsible governing board** – have a governing board that holds themselves and administration responsible for financial stability of the school
- **Financial reporting** – provide timely and accurate financial reports geared toward the intended audience

Source: National Association of Charter School Authorizers, Measuring Charter School Financial Health, October 2009

Red Flags and Signs of Fiscal Distress

- 1) Consistently and materially falls short of enrollment/ADA projections
- 2) Continually spends more money than it receives in revenue
- 3) Leadership is unable to communicate fiscal health in clear and simple language
- 4) Payables going unpaid and receivables going uncollected
- 5) Regularly dips into reserves or restricted funds
- 6) Lack of money has become the focal point of conversation at staff and board meetings
- 7) Lack of regular board meetings or board minutes without a financial review
- 8) Lack of effective policies and procedures, management tools, metrics, and reporting

Source: National Association of Charter School Authorizers, Measuring Charter School Financial Health, October 2009

Determining Going Concern – Reserves

- **Net position** (or fund balance) and reserves – indicate whether charter school can continue as a “going concern” (defined as an organization that will be able to continue to meet its financial obligations).
- Charter schools using accrual basis accounting will report components of ending net position according to three categories:
 - Net investment in capital assets
 - Restricted net position
 - Unrestricted net position
 - Use to determine reserves as % of total expenditures (budgetary reserve, like a school district reserve calculation).
- FCMAT recommends a minimum 5% **cash** reserve for charter schools.

Exercise – Calculating a Reserve

Reserves – Break Out Exercise Solution

As of June 30, 2021:

Budgetary Reserves = 17.6%

(\$405,897.90 unrestricted net position / \$2,311,742.27 total expenditures)

Cash Reserves = 7.3%

(\$167,678.18 cash / \$2,311,742.27 total expenditures)

Other Oversight Considerations

Bylaws are rules adopted by an organization primarily for the purpose of governing how the organization is internally managed.

- Needed by non-profit corporations seeking tax-exempted status as a 501(c)(3) organization with the Internal Revenue Service.
- Provide guidance on roles and responsibilities of officers and directors (board members), and rules and procedures for meeting and record-keeping, in addition to other policies and procedures and operational standards.
- **What is written in a charter school's bylaws matter.**
 - Sole statutory member (SSM) issues typically start here.

Other Oversight Considerations (cont.)

Board policies are a set of values or perspectives articulated and approved by the governing board that direct results to be achieved by the organization, set limits around the means used to achieve results, and direct the board's processes.

- Create a board policy manual with all adopted policies in chronological or subject matter order (useful tool for new board member orientation).
- Key policy areas to address include the following: governance, instruction, students, special education, personnel, and fiscal.
- Ensure accountability and unbiased decision making.

Does the charter school follow its own board-adopted policies and procedures?

Oversight – What to Watch For

- Transfer of funds to any entity not identified in the charter petition as involved in the charter school's operations.
- Transfer of funds between schools rather than spending revenue on the students who generated the revenue (consider LCAP impacts and commingling).
- Creation of governance structures outside the charter governing board, or agreements giving day-to-day management responsibilities to another entity.
- Undocumented line(s) of credit.
- Nondisclosed related parties.

Why is the fiscal oversight of charter schools important?

Limitations on Authorizer Liability

Education Code Section 47604(d) specifies that:

A chartering authority that grants a charter to a charter school to be operated as or by a nonprofit public benefit corporation **is not liable for the debts or obligations of the charter school** or for claims arising from the performance of acts, errors, or omissions by the charter school **if the chartering authority has complied with all oversight responsibilities required by law.**

Liability Exception – CalSTRS Payments

CalSTRS expects all applicable service credit to be fully paid

- May hold authorizer liable for unpaid employee and employer withholdings.
- Has held one COE responsible (even though it was not the authorizer) for remaining pension obligations of a closing charter school.
 - COE is the “direct reporting agency” for STRS obligations
- Includes penalties and interest, and even any outstanding audit findings.
- May be no remaining or residual funds to pay the obligations.

Student Success is the Goal

Collaborative efforts between charter schools and their authorizers are in the best interest of all students.

- Clear expectations
- Open communication
- Understanding each other's role and responsibilities
- Proactive relationship building



Where are tools available to support effective charter fiscal oversight?

FCMAT Tools for Charter Schools

FCMAT has developed several tools for charter schools and authorizers to use in partnership to facilitate the oversight process:

- Charter School Accounting and Best Practices Manual
- Charter School Annual Oversight Checklist
- Fiscal Health Risk Analysis (FHRA)
- Indicators of Risk or Potential Insolvency
- Special Education Efficiency Tool
- ASB Accounting Manual, Fraud Prevention Guide and Desk Reference
- Charter Petition Evaluation Matrix

Accounting & Best Practices Manual

Many charter schools have few or no written policies and procedures to assist with accounting and fiscal best practices. FCMAT's **Charter School Accounting and Best Practices Manual** is a great place to start and is available for free as a searchable PDF [here](#).

- Available on the FCMAT website: go to www.fcmat.org, select the “Publications & Reports” menu, then select “Charter School Accounting and Best Practices Manual”
- Offers guidance and insight for both charter schools and authorizers
- Updated as recently as December 2021

Annual Oversight Checklist

FCMAT's **Charter School Annual Oversight Checklist** provides both authorizing agencies and charter schools with a tool to help determine whether adequate management controls are in place for the school's operations, and whether the charter school is meeting the requirements of its petition and the memorandum of understanding between it and the authorizing agency.

- Organized into the following areas: general requirements; fiscal and business operations; educational program (LCAP); educational program (ongoing assessment); facilities, maintenance and operations; governance; personnel; student services; other.
- Available on the FCMAT website [here](#). Go to www.fcmat.org, select the “Fiscal Tools” menu, then select “Charter School Annual Oversight Checklist.”

Indicators of Risk or Potential Insolvency

FCMAT has developed **Indicators of Risk or Potential Insolvency** for charter schools.

- [List](#) is based on more than 25 years of experience working with California local educational agencies (LEAs).
- Each of the 15 items listed indicates a lack of function, commitment, or attention to one or more critical elements of an organization's operations, which may eventually contribute to insolvency.
- Lack of attention to these indicators will potentially lead to financial insolvency and a charter school's closure.

Fiscal Health Risk Analysis (FHRA)

FCMAT has developed a **Fiscal Health Risk Analysis** ([FHRA](#)) specific to charter schools to evaluate a charter school's fiscal health and risk of insolvency in the current and two subsequent fiscal years.

- Each of the 19 sections and specific questions is included based on FCMAT's work since its inception; they are the common indicators of risk or potential insolvency for charter schools that have neared insolvency or have failed.
- Lack of attention to these critical areas will eventually lead to a charter school's failure; analysis focuses on essential functions and processes to determine the level of risk at the time of assessment.
- Available on the FCMAT website. Go to www.fcmat.org, select the "Fiscal Tools" menu, then select "Fiscal Health Risk Analysis" to find the charter school FHRA tool.

Other Resources for Authorizing Agencies

The **Charter Authorizer Support Initiative** ([CASI](#)) – a program managed collaboratively by the California Department of Education (CDE), Charter Schools Division and two CDE subgrant recipients: the Santa Clara County Office of Education's ([SCCOE](#)) Charter Schools Department and the California Charter Authorizing Professionals ([CCAP](#)).

- Organizes tools, monthly charter chats, quarterly regional trainings, and annual charter authorizing and oversight 101 conference

County offices of education and large school district authorizers have published resources on their websites: [San Diego COE](#), [San Bernardino COE](#), [LAUSD](#)

Q & A

Thank you!