

Charter School Accounting, Oversight and Best Practices Workshop

Sponsored by:

XYZ County Office of Education

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FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

What is FCMAT and What Does It Do?

- **We are education professionals just like you!**
- Fiscal Crisis and Management Assistance Team (FCMAT) spends the majority of its time in county offices, school districts, community colleges and charter schools providing:
 - Management assistance
 - Technical assistance
 - Professional development
 - Fiscal crisis intervention
 - AB 139 audits
 - Data management support

We are a part of your support system!!

What is FCMAT and What Does It Do? (cont.)

- Descriptions of FCMAT and its services are available at www.fcmat.org.
- Some of the services and resources that are available to the field include:
 - Fiscal tools
 - Daily news headlines
 - Mailing lists
 - Help desk
 - Online request system
 - Report archives
 - Manuals
 - Charter School Oversight Checklist
 - Projection-Pro
 - Funding Formula Calculators (K-14)

Why The Manual?

- Many charter schools have few or no manuals to help them with accounting and best practices.
 - FCMAT's *Charter School Accounting & Best Practices Manual* is a great place to start!
- This manual offers guidance and insight into what charters and authorizers should consider.
- More than 80% of charter school failures are because of financial issues.

Why The Manual? (cont.)

- Internal controls contribute to a good financial foundation and are critical to the success of a charter school.
- Charter board members and even administrators often have little or no governmental or school business experience.
 - Board members should insist on sound business policies and procedures that address all aspects of the charter's business operations.
- The manual is a tool for both the charter and authorizer.
 - Each should know what the other is looking for and expecting.

Why The Manual? (cont.)

- Because current laws do not cover every aspect of charter school operations, the guidance in the manual goes beyond the law and official regulations to include information based on best practices and sound internal controls essential to successful charter school operations throughout California.
- Charter schools come in many shapes, sizes and configurations, so not every practice in the manual will apply to every charter, nor will position titles used always match those in charter schools.

Why The Manual? (cont.)

- Many new charter schools begin without a thorough understanding of the knowledge, competency and time needed for charter school fiscal management.
- Fiscal policy and oversight is essential to maintain integrity when established charter schools experience fluctuations such as rapid growth, added schools, or changes in administration or management.
 - Don't forget: Fiscal policy may need to be updated as the charter school changes.

Why The Manual? (cont.)

- It is critical that staff follow established accounting procedures and internal controls.
- Administrators must ensure that staff have sufficient guidance and training so they can follow established procedures and controls.
- This manual can help in this endeavor!

Whom Is The Manual For?

- The manual is designed for charter school administrators, governing board members, fiscal services administrators, office managers, accountants, back-office service providers, bookkeepers, secretaries and others who are responsible for charter school activities.
- FCMAT recognizes the increasing demands on charter schools; the manual is designed to help leaders meet those demands while maintaining fiscal accountability, transparency and accuracy.

Whom Is The Manual For? (cont.)

- Don't forget, your back-office service provider is not the primary person or entity responsible for your financial success. The charter school board of directors and administrators are primarily and ultimately accountable for what happens in the charter school.
- The charter school governing board is responsible for insisting on strong internal controls that contribute to a sound business operations program, mitigate risk components of fraud, and ensure a healthy financial structure to carry out the educational program.

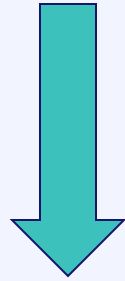
How To Use The Manual

There are three options to using this manual:

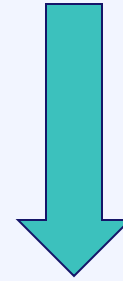
1. Completely adopt the manual as board policy.
2. Supplement existing accounting, operations and business procedures or handbooks with the manual.
3. Use the manual as a reference to outline what may be missing in existing materials or to outline what should be developed.

Charter Board Policy and Regulations

Charter policy and regulations govern everything.



AND



Charter policy and regulations provide guidance to ensure understanding of what is allowable and prohibited.

Charter Board Policy and Regulations (cont.)

Charter board policies and regulations are additional laws that the charter school must follow.

- If the charter's governing board has determined that a particular type of policy, activity, expenditure, etc., serves a public purpose, as long as it is not illegal, courts will usually defer to that **policy**.
- The charter school's administration is responsible for establishing and monitoring the procedures to carry out the policies and regulations adopted by the governing board.

Charter Board Policy and Regulations (cont.)

- A comprehensive and current charter accounting manual is critical to ensure sound practices are followed, including those related to fiscal issues.
- Referencing the charter accounting manual in charter board policy is recommended to ensure staff understand how important it is to follow the manual's guidance, and so there is no question about what practices should be adhered to.

Sample Charter Manual Board Policy

Your board policy can be structured to provide clarity and the flexibility to follow your own charter policies and procedures when they differ from those in the FCMAT manual.

The Governing Board of the _____ Charter School adopts, on an ongoing basis, the most recent Fiscal Crisis and Management Assistance Team (FCMAT) *California Charter School Accounting and Best Practices Manual* as the _____ Charter School's accounting policies and procedures manual or to supplement the _____ Charter School's accounting policies and procedures. In the event of any conflict between the most recent FCMAT *Charter School Accounting and Best Practices Manual* and the _____ Charter School's accounting policies and procedures, the _____ Charter School's policies and procedures will prevail.

Who Is Responsible For Oversight

Oversight is the responsibility of:

- The authorizer
- The charter school

Authorizers need to perform oversight, and charter schools need to know what is expected.

Oversight

Education Code Section 47604.32

- 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 CDE when a charter renewal is granted, denied or revoked, and when a charter school ceases operation for any reason.

(The law does not specify how oversight should be conducted)

Oversight (cont.)

- **Bylaws** are additional laws governing the charter school. What is written in the bylaws matters.
 - This is where both authorizers and charters make mistakes
 - Sole Statutory Member issues typically start here
 - Does the Sole Statutory Member (SSM) have **control** and an **economic interest** — e.g., remove board members with or without cause
 - This means the SSM of the charter management company (CMO) is a related party.
 - Full disclosure ?
 - Consolidation ?
 - GAAP issue ?
- Both the authorizer and charter need to know what they are getting into

Oversight (cont.)

- **Fiscal Condition – This is all things financial – everything**
 - Budget
 - Cash flow
 - Financial reporting

Can a charter school meet or exceed a 3% reserve and still have financial problems?

Both the charter and the authorizer need to know the numbers!

Things to Watch For

- Transfer of funds to entity not identified in the charter petition that has involvement in the operation of the charter school
- Creation of governance structures outside the local charter board
- Sole statutory member & related parties
- Agreement that allows day-to-day management to another entity
- Transfer of funds between schools rather than spending the revenue on the students that generated the revenue (consider LCAP impacts and commingling)
- Employee and service charges transferred between entities
- Undocumented line of credit
- Purpose and documentation of financial need to sell or factor receivables

Liability Considerations

- Under the California Charter Act, the authorizing agency is not responsible for the debts or obligations of nonprofit charter if the authorizer has fulfilled its oversight functions.

- ❖ Ed Code 47604(c):

An authority that grants a charter...to be operated by, or as, 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 authority has complied with all oversight responsibilities required by law, including, but not limited to, those required by Section 47604.32 and subdivision (m) of Section 47605.

Liability Considerations (cont.)

- *One Notable Exception:*
- CalSTRS expects all applicable service credit to be fully paid!
 - May hold authorizer liable for unpaid employee & employer withholdings
 - *Already has* held a county office responsible (even though it was not an authorizer!) for all remaining pension obligations
 - ✓ County office is the “direct reporting agency” for STRS obligations
 - Includes penalties and interest, and even any outstanding audit findings
 - There may be no remaining or residual funds to pay the obligations

Liability Considerations (cont.)

- *One Notable Exception (cont.)*
- CalSTRS uses Ed Code 23007 to support their position:
- *If any county superintendent, district superintendent, ...or other employing agency that reports directly to the system fails to make payment of any assessment by the board, the (State) Controller shall, upon order of the board, withhold subsequent payments from the State School Fund to the county for deposit in the county school service fund or, upon the request of a county superintendent of schools to the county auditor, he or she shall withhold payments to a school district for deposit in the district general fund until the contributions and report are received in acceptable form in the office of the system and the board directs the Controller to make those payments, less the amount of the assessments to the county that would have been paid had no payments been withheld. The Controller shall then pay to the system the amount of the assessments withheld for deposit in the State Treasury to the Teachers' Retirement Fund.*

Liability Considerations (cont.)

- *One Notable Exception (cont.)*
 - Will occur even if nonprofit charter files for bankruptcy
 - CalSTRS will withhold state apportionments to cover unpaid costs
 - Residual funds, such as state apportionments received after charter closure, *may be* allowable for unpaid pension obligations
 - ✓ Not yet adjudicated
 - Withholding from a *district*, as authorizing agency, has not yet occurred
 - Not necessarily applicable to CalPERS, as charters don't typically participate in CalPERS
 - Legislative fix planned to prevent this

Liability Considerations (cont.)

- Assembly Bill (AB) 406 (Chapter 291/2018)
 - Known as the “McCarty Bill”
 - Effective July 1, 2019
 - Prohibits *for-profit* charter schools — private entities can no longer profit from public education dollars
 - Rare coalition of California Federation of Teachers (CFT) and California Charter School Association (CCSA), both supporting bill.
 - Currently affects 34 charter schools in California run by for-profit corporations, serving over 25,000 students. Impact will depend on each one’s operations.
 - Also affects all new petitions, renewals and material revisions after July 1, 2019.

What Must a Charter Petition Include?

Among other things:

- Identify a single charter school that will operate within the geographic boundaries of the district
- May propose to operate in multiple locations in the district as long as they are identified in the petition
- If a charter school is unable to locate within the jurisdiction of the authorizing district, it can locate in another district within that county – advance notification to the district of location is required prior to approval of the petition
- The charter school must serve all grade levels of the authorizing district before it may serve students in other grade levels
- New charter petitions must include a description of the annual goals and actions in the eight state priorities defined in E.C. 52060 (E.C. 47605 and 47605.6)

Educational Program Requirements

California Code of Regulations (CCR), Title 5, Subchapter 19 - Charter Schools, Article 2 – General Provisions, describes the criteria for review and approval of charter school petitions

Section 11967.5.1(b) of the CCR defines several factors that determine whether a charter petitioner has “an unsound educational program” under E.C. 47605(b)(1):

- The program that is described presents the likelihood of physical, educational, or psychological harm to the affected pupils
- The program that is described is not likely to be of educational benefit to the pupils who attend
- For petition renewals, the charter has not met the standards for renewal, or the charter school has not met the measurable pupil outcomes

Administrative Requirements

- *Sound administrative and financial practices are essential to the success of a charter school*
- *California Code of Regulations (**CCR**) is critical to the charter petition review process*

Do Not Underestimate the CCR

CCR Requirements Section 11967.5.1(c)

“(c) For purposes of Education Code section 47605(b)(2), the SBE shall take the following factors into consideration in determining whether charter petitioners are “demonstrably unlikely to successfully implement the program.”

(1) If the petitioners have a past history of involvement in charter schools or other education agencies (public or private), the history is one that the SBE regards as unsuccessful, e.g., the petitioners have been associated with a charter school of which the charter has been revoked or a private school that has ceased operation for reasons within the petitioners' control.

(2) The petitioners are unfamiliar in the SBE's judgment with the content of the petition or the requirements of law that would apply to the proposed charter school.

(3) The petitioners have presented an unrealistic financial and operational plan for the proposed charter school.

CCR Requirements for Administrative Services

Under CCR, **Section 11967.5.1(c)(3)(A)**, an unrealistic financial and operational plan is one which fails to do the following:

1. “Describe the structure for providing administrative services, including, at a minimum, personnel transactions, accounting and payroll that reflects an understanding of school business practices and expertise to carry out the necessary administrative services, or a reasonable plan and timeline to develop and assemble those practices and expertise
2. For any contract services, describe criteria for the selection of a contractor or contractors that demonstrate necessary expertise and the procedure for selection of the contractor or contractors”

CCR Requirements for Administrative Services (cont.)

To describe the structure for providing administrative services, the criteria for selection of contractors and their expertise, and procedures for selection, consider the following:

- Identify the law firm(s), consultant(s), accountant(s), auditor(s), business service provider(s), third party substitute teachers and special education contractors which budgeted costs are based on; and whether any of the consultants and service providers are affiliated or related parties to any of the charter petitioners or other charter related operations or organizations
- To comply, consider presenting as much of the following as possible:
 - The names of all individual professionals, consultants and service companies
 - The Internal Revenue Service income tax form under which the individual and/or organization files federal income taxes, such as 1120 Corporation or 990 Not-for-Profit, etc.

CCR Requirements for Administrative Services (cont.)

- State of incorporation
- How long the service companies and individuals have been in business, copies of professional licenses, and areas of expertise
- Number of California clients served and references from a representative sample of California clients
- Names and relationships of principals and full disclosure of any pre-existing relationships or potential conflicts of interest with any of the charter school petitioners or staff members
- The financial terms of each attorney, consultant and service company contract, as well as comparison data from other similar service companies such as service cost agreements, fee agreements, etc.

CCR Requirements for Administrative Services (cont.)

- The financial terms of each attorney, consultant and service company contract, as well as comparison data from other similar service companies such as service cost agreements, fee agreements, etc.
- Copies of actual or prospective MOUs and contracts between each attorney, consultant and service companies and the charter school
- Contract termination rights, if any
- Organizational and operational contract terms between the service companies and the charter school
- All service companies' and consultants' employees' limits of authorization

CCR Requirements for Financial Administration

Under CCR, **Section 11967.5.1(c)(3)(B)**, an unrealistic financial and operational plan for the proposed charter exists when the charter or supporting documents do not adequately:

1. “Include, at a minimum, the first-year operational budget, start-up costs, and cash flow, and financial projections for the first three years
2. Include in the operational budget reasonable estimates of all anticipated revenues and expenditures necessary to operate the school, including, but not limited to, special education, based, when possible, on historical data from schools or school districts of similar type, size, and location
3. Include budget notes that clearly describe assumptions on revenue estimates, including, but not limited to, the basis for average daily attendance (ADA) estimates and staffing levels

CCR Requirements for Financial Administration (cont.)

4. Present a budget that in its totality appears viable and over a period of no less than two years of operations provides for the amassing of a reserve equivalent to that required by law for a school district of similar size to the proposed charter school.
5. Demonstrate an understanding of the timing of the receipt of various revenues and their relative relationship to timing of expenditures that are within reasonable parameters, based, when possible, on historical data from schools or school districts of similar type, size, and location”

CCR Insurance Requirements

Under CCR, **Section 11967.5.1(c)(3)(C)**, an unrealistic financial and operational plan for the proposed charter exists when:

“(C) In the area of insurance, the charter and supporting documents do not adequately provide for the acquisition of and budgeting for general liability, workers compensations, and other necessary insurance of the type and in the amounts required for an enterprise of similar purpose and circumstance.”

CCR Facilities Requirements

Under CCR, **Section 11967.5.1(c)(3)(D)**, an unrealistic financial and operational plan is one to which any or all of the following applies:

“(D) In the area of facilities, the charter and supporting documents do not adequately:

1. Describe the types and potential location of facilities needed to operate the size and scope of educational program proposed in the charter.
2. In the event a specific facility has not been secured, provide evidence of the type and projected costs of the facilities that may be available in the location of the proposed charter school.
3. Reflect reasonable costs for the acquisition or leasing of facilities to house the charter school, taking into account the facilities the charter school may be allocated under the provisions of Education Code section 47614.”

CCR Facilities Requirements (cont.)

To comply, consider presenting as much of the following as possible:

- Comparative market rents of facilities based on square feet (rent per square foot) in the surrounding area
 - Describe how rent is or will be calculated, if rents are tied to the Consumer Price Index (CPI), or if there are any additional common area maintenance (CAM) charges, etc.
 - Identify what type of rent deposit may be required
 - Who if anyone is guaranteeing the rent
 - If any collateral is required, and if so, what the collateral may consist of
 - Is there is an exit provision for early termination of the rental contract or lease in the event the charter school closes?

CCR Facilities Requirements (cont.)

- A detailed description of the proposed type of facility to be leased by identifying the following:
 - If the proposed facility to be leased is suitable for all programs offered including
 - Classroom instruction
 - Special education services
 - Physical education
 - Administration
 - Food services
 - All other programs

CCR Facilities Requirements (cont.)

- A detailed description of the proposed type of facility to be leased by identifying the following: (cont.)
 - The number of bathrooms and whether the bathrooms are ADA compliant to meet the needs of all students
 - The size, capacity and type of cafeteria, kitchen and food service facilities
 - Proximity to incompatible business establishments
 - Proximity to residential neighborhoods
 - If the landlord is related to or affiliated in any way with any of the petitioners, petitioners' friends or family members
 - If or when such a facility will be available or if the tenant improvements of the facility can be completed and ready for students and staff to safely occupy when the charter school opens

CCR Reserves for Economic Uncertainty

Required reserves for economic uncertainties are defined at 5 CCR §15450 Reserves:

“(a) Available reserves for any of the budget year or two subsequent fiscal years are not less than the following percentages or amounts as applied to total expenditures and other financing uses:

- the greater of 5% or \$55,000 for districts with 0-300 ADA
- the greater of 4% or \$55,000 for districts with 301-1,000 ADA
- 3% for districts with 1,001-30,000 ADA
- 2% for districts with 30,001-400,000 ADA
- 1% for districts with 400,001 and over ADA”

The charter petition budget notes or assumptions may stipulate a specific budget reserve as a percentage of total annual operating expenses or a specific dollar amount, whichever is greater. Compare!

PCSGP Start-Up Grant Eligibility

The CDE provides important guidance about the Public Charter School Grant Program (PCSGP) on its website: <https://www.cde.ca.gov/sp/ch/csexpenses.asp>

Factors Affecting Eligibility for Reimbursement:

- Grant funds are intended to supplement, not supplant, state or local funds
- Costs incurred must correlate to a grant objective or a work plan objective
- Costs incurred must be one-time in nature and may not include ongoing operational costs
- Costs incurred must be obligated during the grant project period
- Purchases or contracts for goods and services must follow pertinent procurement regulations
- All purchases must be reasonable and necessary to the completion of the grant objectives or the initial operation of the school

Fiscal Components

- Multiyear Financial Projection - Budget
 - With accompanying **detailed** budget notes and assumptions for all revenue and expense accounts (*not just a statement that an amount is based on enrollment*)
- Cash Flow Projection
 - At least 12 months, preferably longer, with accompanying **detailed** notes and assumptions for all cash flow and accrual line items (Preferable for each year of projection)
 - Cash flow must balance to net assets/fund balance
- Balance Sheet Component
 - Identify all balance sheet items including, but not limited to:
 - Loans
 - Advances
 - Receivables Factoring or Sales

Budget

Budget — Statement of Financial Position & Income Statement

Assets

Cash \$ 10,000

A/R 400,000

Total Assets \$ 410,000

Liabilities

A/P 293,000

Equity

Net Equity/Fund Bal 117,000

Total Lia/Equity \$ 410,000

Revenue

All Revenue \$ 4,000,000

Expenses

All Expenses 3,900,000

Net Income \$ 100,000

Beg F/B 17,000

End F/B \$ 117,000

Reserve (\$117,000 / \$3,900,000 = 3%)

Charter Petition and Budget Notes, Payroll and Benefits

EXPENSE				
Payroll				
Certificated Salaries				
Teachers' Salaries	578,253	585,601	603,169	Teacher salaries. No additional teachers are anticipated as a result of the increase in student enrollment (the average 2019-20 student-to-teacher ratio is 15:1). There is a 3% per year increase to cover COLA and raises. This amount gives the Head of School a guideline for increases.
Certificated Pupil Support Salaries	94,449	97,282	100,201	Counselor, SPED salaries. There is a 3% per year increase to cover COLA and raises. This amount gives the Head of School a guideline for increases.
Certificated Supervisors' and Administrators' Salaries	90,525	100,000	103,000	Administrator salary. The increase in 2019-20 reflects the hiring of a new Head of School. There is a 3% per year increase to cover COLA and raises. This amount gives the Head of School a guideline for increases.
Other Certified Salaries (subs & coach)	10,000	10,000	10,500	Subs and coaches. The increases are due to an anticipated small increase in the hourly sub rate every two years.
<u>Total Certificated Salaries</u>	<u>773,227</u>	<u>792,883</u>	<u>816,870</u>	
Classified Salaries				
ALL Classified Salaries	198,274	204,222	210,349	All classified employees. There is a 3% per year increase to cover COLA and raises. This amount gives the Head of School a guideline for increases.
<u>Total Classified Salaries</u>	<u>198,274</u>	<u>204,222</u>	<u>210,349</u>	
Benefits				
STRS	63,791	65,413	67,392	STRS. Paid in full every month on each certificated employee. XYZ has no classified STRS members. The current rate is 8.25% of the total certificated salaries.
PERS	18,777	20,049	20,726	PERS. Paid in full every month on each qualifying classified employee. XYZ has no certificated PERS members. The 2018-19 employer rate is 14.44%. The percentage paid for PERS has increased every year and the amount budgeted shows an increase of .4% every year.
FICA	12,293	12,662	13,042	Social security, 6.2%; classified and non-STRS members only.
Medicare	14,087	14,458	14,895	Medicare; .0145% on all employees
Health & Welfare	86,476	93,394	100,866	Medical/dental/vision/life insurance. The plan in 2019-20 is Aetna for medical, Choice Builder for Dental, VSP for vision, and Liberty for life insurance. An increase of 8% per year is expected. Coverage is paid in full for all staff members who work 30 hours per week or more, and is available for employee dependents on an out of pocket basis. The accounting manager monitors the hourly employees' time in service for both health/welfare and PERS retirement benefits eligibility.
CA Unemployment	13,000	13,000	13,000	Unemployment. Payments are largest in August, Sept, Jan and Feb.
Worker's Comp	24,418	25,925	27,735	Worker's compensation insurance. An increase of 5% per year to cover both salary increases (3%) and cost increases (2%) is anticipated and historically supported.
<u>Total Benefits</u>	<u>232,842</u>	<u>244,900</u>	<u>257,655</u>	
Total Payroll	1,204,343	1,242,006	1,284,874	

Charter Petition and Budget Notes, Books and Supplies

Books & Supplies					
4100	Approved Text Books	3,000	3,000	3,000	Textbooks purchased with Prop 20 lottery funds; the amount spent on textbooks is always well over the amount received from the lottery. This amount will fluctuate with the amount of Prop 20 funding available and with the increase in student enrollment. The balance of textbooks expenditures is recorded in Classroom Materials/Other books, and as the amount in Approved Textbooks increases due to increased availability of Prop 20 funds, the amount in Classroom Materials decreases as fewer of those funds are being used to purchase approved textbooks. Although XYZ doesn't use textbooks for all classes, they are purchased for many science, literature, and AP classes. (See Textbook Materials and Price List Supplemental Schedule)
4300	Materials, Supplies Other	-			No Funds will be spent for other material and supplies.
4300	Classroom Materials/Other Books	12,000	12,000	12,000	Balance of textbooks, lab supplies, art supplies, playbooks for drama, office supplies requisitioned by teachers, etc. All materials used by teachers in their classrooms except for janitorial supplies fall under this header. A material increase in this account as student enrollment increases is not expected, but an increase in the amount spent is anticipated starting in 2022-23.
4300	Janitorial	3,000	3,000	3,000	Cleaning supplies for all staff members/students. A material increase in this account as student enrollment increases is not expected. This amount is based on the same amount of actual as shown in the audit report.
4300	Kitchen Supplies	1,000	1,500	1,800	Durable supplies for the commercial kitchen. A material increase in this account as student enrollment increases is not expected. It is anticipated that the commercial kitchen will be fully stocked with the necessary equipment by 2019-20, and the amount in 2020-21 through 2021-22 represents replacement costs.
4300	Office Supplies	3,500	3,500	4,000	Office supplies used by the administrative staff, and paper used by the whole school. Cost for supplies is expected to increase from 2020-21 through 2021-22 as there is a new head of school starting in 2020-21, but the amount spent will level off in 2021-22. A material increase in this account as student enrollment increases is not expected.
4300	Software	10,000	7,300	7,250	Computer software; AERIES, QuickBooks, Office, Naviance, Tip Line, Google Manager, etc. Both student and administrative use. The decreases in software costs represent the reduction in cost or expiration of licenses that may not be replaced / renewed.
4700	Food	23,000	24,500	25,000	Food purchased to supply the lunch program. Expected to increase as student enrollment increases and food costs increase.
4400	Equipment	-			
4400	Computers	20,000	2,000	2,000	Computers and computer equipment (routers, switches, hubs, keyboards, mice, monitors, etc.). XYZ will spend at least \$20,000 of its Common Core funding on Chromebook in 2019-20 and will replace a few each year as needed thereafter. This is represented by the precipitous drop in spending on computers after 2020-21. A material increase in this account as student enrollment increases is not expected.
4400	Furniture	9,000	2,000	2,000	Office and classroom furniture. Classroom chairs tend to get replaced every 3-4 years, tables every 6-7 years. A disproportionate number of classroom chairs were purchased in 2019-20 and many old, donated banquet chair were retired. A material increase in this account as student enrollment increases is not expected.
4400	Other Materials/Equipment	3,000	4,000	4,000	First aid supplies, fax machines, etc. on an as-needed basis. A material increase in this account as student enrollment increases is not expected.
Total Books, Materials, Equipment		87,500	62,800	64,050	

Charter Petition and Budget Notes, Rents and Leases

Rent, Leases, Maintenance				
Computer 56Repairs/Tech 00Supp	-	-	-	Fees for commuter repairs done off-campus and not by our tech support person--rarely used.
56Equipment 00Repairs	1,000	2,000	2,000	Repair to equipment such as kitchen equipment, copiers, etc. The High School's copier lease expires at the end of 2013-14 and will become a repair contract or repaired on an as-needed basis after that (this also explains the reduction in leased equipment). A material increase in this account as student enrollment increases is not expected.
Facilities 56Repair/Maintenan 00ce	15,000	16,000	16,000	Repair and maintenance of classroom and administrative facilities. The cost of supplies and materials will increase over time, and the increases to this account are to cover those changes. A material increase in this account as student enrollment increases is not expected.
56Leased 00Equipment	10,000	6,000	3,000	Copier at high school (lease ends May 2022, resulting in a lower amount budgeted in subsequent years), other leased equipment such as equipment for assemblies, short-term leases for facilities, storage, etc. A material increase in this account as student enrollment increases is not expected.
56 00Rent	72,000	75,000	75,600	Rent of HS and farm buildings and grounds. The HS lease is expected to increase by \$50 per month starting in 2020-21 and staying at that rate for 5 years. The farm lease is a 25-year lease with 14 years left on the original term. A material increase in this account as student enrollment increases is not expected.

Charter Petition and Budget Notes, Professional Services

Professional Services				
5800 Audit/Accounting services	4,800	4,600	4,700	Annual audit fees. Rates are expected to increase every year. A material increase in this account as student enrollment increases is not expected.
5800 Bank Service Charges	500	700	700	Fees charged by the bank for checking etc. Rates are expected to increase every couple of years. A material increase in this account as student enrollment increases is not expected.
5800 Consulting	25,000	25,500	26,000	Independent contractors--SELPA, AERIES support, workshops, etc. Rates are expected to increase every couple of years as student enrollment increases, although not in proportion to the student enrollment increase.
5800 District Oversight	12,222	13,071	13,919	1% fees owed to the district for oversight. The fee is based on LCFF base funding, LCFF supplemental funding, and Property Tax. Expected to increase as student enrollment increases.
5800 Fingerprinting	850	1,000	1,000	Live Scan fees. XYZ reimburses employees and volunteers for these fees. A material increase in this account as student enrollment increases is not expected.
5800 Legal Fees	8,000	4,000	4,000	Legal fees. Higher in 2019-20 due to the charter renewal. A material increase in this account as student enrollment increases is not expected because we just do not anticipate legal issues.
5800 Licenses and Permits	750	800	850	Kitchen inspection and health permits, etc.. Fees are expected to increase every couple of years. A material increase in this account as student enrollment increases is not expected.
5800 Other Payroll Expense	1,200	1,500	1,500	Direct deposit fees; other fees associated with payroll. This is not expected to increase materially after 2020-21, and the amount in 2020-21 is slightly higher than the highest rate XYZ has incurred in the past.
5200 Printing and Reproduction	500	1,700	1,700	Printing of letterhead, envelopes, brochures, documents--external printers. A change in the letterhead is anticipated and that explains the increase in costs in 2020-21 and 2021-22, after which costs will level off. A material increase in this account as student enrollment increases is not expected.
5800 Professional Development	10,000	4,000	4,000	Staff development. The higher amount in 2019-20 reflects the Common Core training expenditures. A material increase in this account as student enrollment increases is not expected. Starting in 2019-20, \$100 per year will be allocated to ASB accounting training for the accounting manager and the ASB advisor.
5800 Public Relation & Orientation	1,800	2,000	2,000	Public relations and orientation for staff, students, board, and parents. Expected to increase in 2020-21 as a new head of school takes over, but to level off thereafter. A material increase in this account as student enrollment increases is not expected.
5800 Recruitment	5,000	2,000	2,000	Recruitment of students and staff. 2019-20 reflects the Head of School search expenses. A material increase in this account as student enrollment increases is not expected.
5800 Retirement Services	1,350	1,350	1,400	SBCSS retirement services fees. Expected to increase every couple of years. A material increase in this account as student enrollment increases is not expected.
5800 Security System Services	1,500	2,000	2,000	Alarm service and repairs. Costs have remained the same for several years but are expected to increase in 2020-21 and then level off for several more years. A material increase in this account as student enrollment increases is not expected.
5800 Travel & Conferences	100	1,300	1,300	Travel costs--plane tickets, car rentals, etc. A large expenditure in 2018-19 meant a small expenditure in 2019-20, but normal levels are expected thereafter. A material increase in this account as student enrollment increases is not expected.
5800 Other (miscellaneous)	100	500	500	Service expenses that don't have a home elsewhere. The increase is due to the new head of school and possible new programs and services that will be offered. A material increase in this account as student enrollment increases is not expected.

Cash Flow

- **Cash Flow — Charter Petition and Budget Notes**
- Cash Flow **notes** are just as important
 - Detailed notes for each and every accrual amount
 - Detailed summary of notes describing the timing of cash flow
 - Not every month of cash flow is the same
 - Explain the variances

Supplemental Schedules

- **Supplemental Schedules — Charter Petition and Budget Notes**
- Salaries by job classification — details and summary
- Benefits by job classification — details and summary
 - Describe who the benefits providers are (e.g., Blue Cross, Aetna, Delta Dental)
 - Describe who qualified and when
 - CalPERS and CalSTRS — describe rates, etc.
- Special education contribution/encroachment
 - Budget notes for why you think it is zero or how you specifically calculate the amount you used

NOTES FOR EVERYTHING and then add more!

Oversight Responsibility

- The charter school's 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 when accounting for revenues and expenditures and preparing financial reports.
- Remember, to assess the fiscal condition of charter schools, the authorizer can request any financial information in addition to the aforementioned reports.
- Much of this can be documented in an MOU.

Authorizer Oversight

E.C. 47604.32 — Authorizing entities must monitor the fiscal condition of charter schools

- E.C. doesn't say *how* – the details are left to be determined by the authorizer and the charter school and should be spelled out in the charter petition and/or MOU **before** authorization.
- Starts as soon as the petition is approved; there could be start-up loans or other grants.
- Oversight includes pupil performance, fiscal accountability, and legal compliance.
- Should be treated as a second set of eyes to help ensure success.
- Should be adequate.
- Should be documented – **consider using FCMAT's checklist.**

Authorizer Oversight (cont.)

- Identify at least one staff member as a contact person for the charter school.
- Visit each charter school at least annually.
- Ensure that the charter school complies with all reports required of charter schools by law, including the annual Local Control and Accountability Plan (LCAP) update.
- Monitor the fiscal condition of each charter school under its authority.
- Provide timely notification to the CDE if any of the following occur, or will occur:
 - (1) A renewal of the charter is granted or denied.
 - (2) The charter is revoked.
 - (3) The charter school will cease operations for any reason.

Authorizer Oversight (cont.)

Documenting Oversight

Documents, Document, Document, Document, Document

- Whether your documentation style is binders, or electronic, how well you document oversight may determine whether or not you as the authorizer are held liable for a charter's liabilities.

Authorizer Oversight (cont.)

Documenting Oversight

Best Practices:

- Keep time sheets or logs
- Corelate time spent to a dollar cost amount
- Keep calendars of visits and notes of whom you met with and meetings attended
- Keep mileage logs for travel to charter sites
- Document oversight team meetings
- Keep emails, communication logs, and mail
- Keep copies of materials examined during the review process. Includes your notes.
- Keep everything organized

Fiscal Oversight – Spell It Out

At a minimum, charter schools must:

- Prepare an LCAP by **July 1**.
- Adopt a budget by **July 1**.
- Complete first and second interim reports by **December 15** and **March 15**, respectively, of each fiscal year.
- Submit unaudited actuals annually by **September 15**.
- Submit audited financial statements annually by **December 15**.

Oversight Considerations

- Establish team approach.
- Maintain active and ongoing contact with charter school to ensure compliance with the requirements established in the charter petition, MOU or other local agreements.
- Support the successful establishment of the charter school.
- Evaluate both educational and financial progress regularly during the year, as well as annually.
- Perform periodic site visits.
 - No requirement to schedule these visits.
- Verify compliance with charter, MOU, and law.
 - Document your actions when you work to resolve issues.

Oversight Considerations (cont.)

While oversight starts with the petition, oversight is founded in internal controls and policies and procedures.

Internal controls can span education programs, attendance, human resources and all aspects of the financial operations of the charter school. Internal controls or policies, procedures, or administrative regulations include, but are not limited to, the following:

- Operating policies and procedures
- Accounting / business manuals
- Human resources manuals
- Employment manuals

And Never Forget...

Strong proactive oversight is essential for pupil performance, fiscal accountability, and legal compliance.

- In the worst-case scenario, how well you document your oversight may be a critical factor to mitigating authorizer liability.

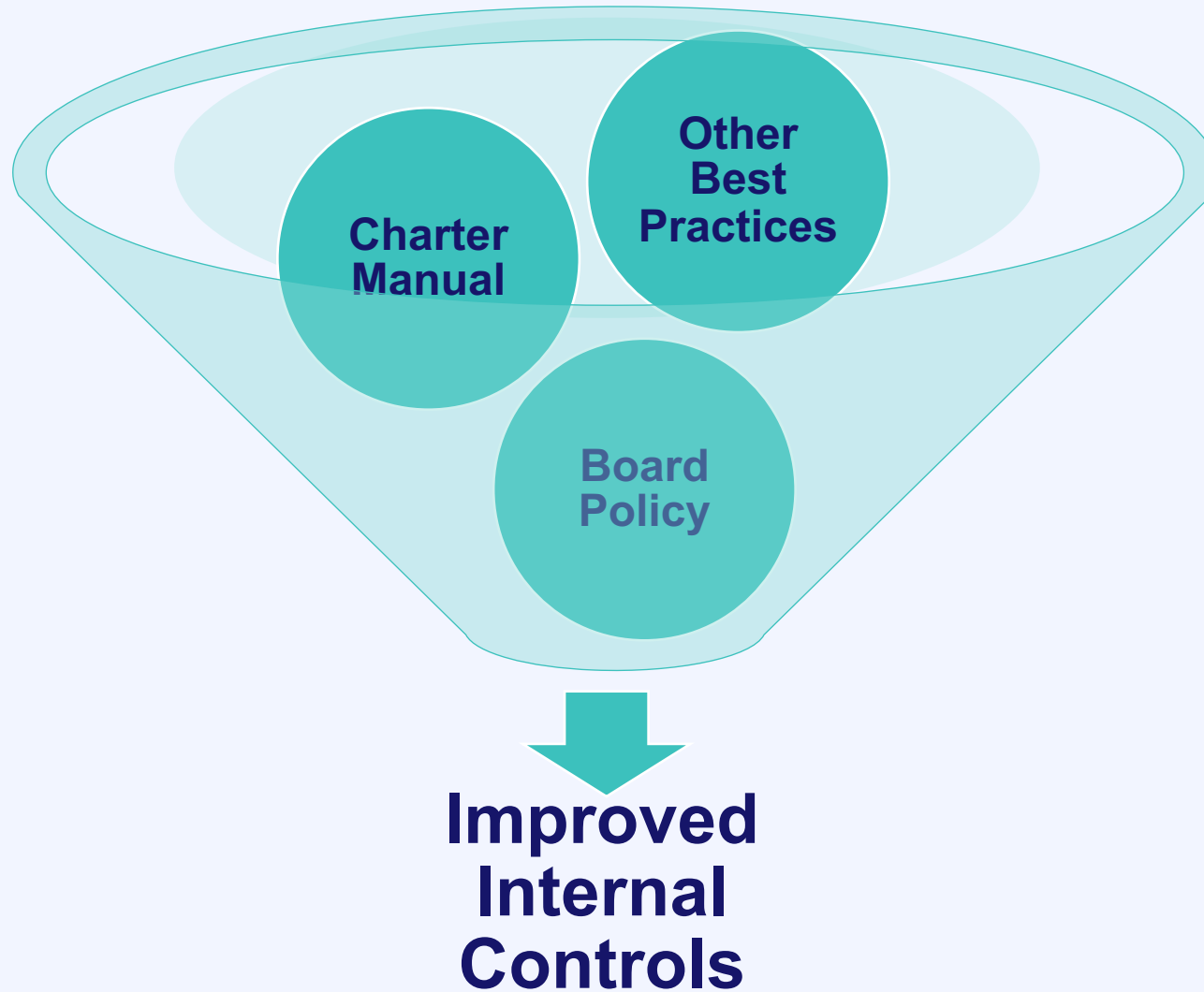
Don't wait for a problem to arise!

Reimbursement for Oversight

- The chartering agency may charge an oversight fee for the actual costs of supervision, not to exceed 1% of a charter school's applicable revenues (EC 47613[a])
 - Exception: Oversight fee may be up to 3% of the charter school's revenue if the charter school obtains substantially rent-free facilities from the authorizer (but still cannot exceed actual costs).
 - Revenue of the charter school is defined as the amount received in the current fiscal year from the Local Control Funding Formula (base grant + supplemental grant + concentration grant + Targeted Instructional Improvement Grant + home-to-school transportation).
 - Recommendation: Include provision in MOU.

Oversight and Accountability

- The California Research Bureau has published studies that found up to 20% of all authorizers fail to perform their oversight responsibilities as defined in E.C., yet charge the maximum allowable for oversight responsibilities.
- Few charter authorizers document the time or cost spent performing their oversight responsibilities.
 - When they do document, there is no consistency in authorizer activities or reported expenses.
 - Most authorizers report that they spend more than the maximum amount they are able to receive, but they don't account for how they spend the funds they do receive.
- Charter authorizers across the state differ significantly in the oversight responsibilities they perform.



What Can Go Wrong

- Falsified or exaggerated attendance
- Not recording vacation or sick time off
- Paying vendors for no work product
- Purchasing supply items for personal use
- Unsubstantiated travel expenses
- Duplicate or fictitious employees
- Misunderstandings of policy — not fraud but causes problems

Simple internal controls help mitigate fraud, protect against motive, opportunity, and access, and shield employees from accusations of fraud.

What Internal Controls Include

An **organizational culture** that **promotes awareness** and takes fraud seriously at all levels

What audit and oversight metrics should be considered when evaluating a charter school's financial performance?

Charters and authorizers need to know this.

Better Charter Oversight and Auditing Metrics

Commonly Evaluated

- Evaluate audit report
- Compare budget, first interim, second interim, & unaudited actuals

More Details

- Prepare a comparison of audit reports and trend analysis
- Compare budget and unaudited actuals within the year and against the prior year

Better Charter Oversight and Auditing Metrics (cont.)

- Trend analysis at the object code level.
- Common size analysis with revenue and expenses.
- Examine **aged** accounts payable at the individual vendor level.
- Audit ADA **within** the charter's attendance program.
- Evaluate the charter each year as a going concern.

Trend Analysis

YOUR CHARTER SCHOOL							Risk of		Tolerable Misstatement = \$24,000	
Trial Balance - Analytical Review							Material		Overall Materiality = approx. \$33,000	
For the Years Ended, June 30,							Misstatement			
					20xx - 20xx		L - Low		IM = Immaterial	
					Amount		M = Medium			
					%		H = High			
					Changed				Ref.	
					Changed					
		20xx	20xx							
									(1)	The net salaries change is \$18,389 and immaterial
1110	Teachers' Salaries	\$ 816,485	\$ 933,179	\$ 116,694	12.5%	L	(1)			
1175	Teachers' Salaries - Stipend/Extra Duty	42,673	-	(42,673)	100.0%	L	(1)			
1300	Certificated Supervisor and Administrator	90,000	171,339	81,339	47.5%	L	(1)			
1900	Other Certificated Salaries	56,292	-	(56,292)	100.0%	L	(1)			
2100	Instructional Aid	-	5,665	5,665	100.0%	L	(1)			
2200	Classified Support Salaries	42,453	50,154	7,701	15.4%	L	(1)			
2300	Classified Supervisor and Administrator	233,437	141,440	(91,997)	-65.0%	L	(1)			
2400	Clerical/Technical/Office Staff Salaries	187,223	159,981	(27,242)	-17.0%	L	(1)			
2900	Other Classified Salaries	10,833	36,027	25,194	69.9%	L	(1)			
3101	STRS -Certificated Positions	76,295	86,984	10,689	12.3%	L	(2)	(2)		The net benefits increase of \$40,958 is due to premium increases = reasonable
3301	OASDI - Certificated Positions	28,828	4,164	(24,664)	-592.3%	L	(2)			
3302	OASDI - Classified Positions	-	5,857	5,857	100.0%	L	(2)			
3303	OASDI/Medicare Alternative	21,185	35,358	14,173	40.1%	L	(2)			
3403	Health & Welfare	53,700	90,213	36,513	40.5%	L	(2)			
3503	State Unemployment Insurance	4,606	6,181	1,575	25.5%	L	(2)			
3603	Worker Compensation	42,769	38,844	(3,925)	-10.1%	L	(2)			
3902	Other Benefits	-	380	380	100.0%	L	(2)			
4100	Approved Textbooks	32,782								Supplies decreased by \$31,457

Trend Analysis (cont.)

5505	Student Transportation	-	41,226	41,226	100.0%	L	IM	
5506	Transportation Repair	-	7,725	7,725	100.0%	L	IM	
5510	Security Services	-	407	407	100.0%	L	IM	
5600	Space Rental/Leases Expense	272,662						
			389,495	116,833	30.0%	L		Lease compliance is considered difficult since the charter is cash poor.
5601	Building Maintenance	-						Examined for Capitalizable Items and transactions are reasonable.
			21,055	21,055	100.0%	L		
5605	Equipment Rental/Lease Expense	17,874	34,777	16,903	48.6%	L		New leases
5610	Equipment Repair	30,075	224	(29,851)	-13326.3%	L	IM	
5800	Professional/Consulting Services and Operations	-	276,576	276,576	100.0%	L		Vendors, can include ExEd, EdTec, and CSMC, Etc.
5803	Banking and Payroll Service Fees	-	11,310	11,310	100.0%	L	IM	
5812	Field Trip	77,047	-	(77,047)	100.0%	L	IM	
5805	Legal Services and Audit	31,312	76,696	45,384	59.2%	L		Vendors
5810	Educational Consultants	-	140,409	140,409	100.0%	L		Vendors
5830	Advertisement / Recruitment	75	-	(75)	100.0%	L	IM	
5850	Non Instructional Consultants	135,336	-	(135,336)	100.0%	L	IM	
5851	Instructional Consultants	307,720	-	(307,720)	100.0%	L	IM	
5853	ExEd, EdTec?	90,000	-	(90,000)	100.0%	L	IM	
5890	Interest Expense/Fees	14,887	4,464	(10,423)	-233.5%	L	IM	
5891	Charter School Capital (CSC) Receivables Sales Fees	169,319	220,998	51,679	23.4%	L		Obtain Schedule from CSC, Reasonable upon review.
5895	Bad Debt Expense	-	-	-	0.0%	L	IM	
5896	Special Ed Fair Share (District)	72,239	-	(72,239)	100.0%	L	IM	
5897	Fundraising Cost	9,329	-	(9,329)	100.0%	L	IM	
5900	Communications (Tele., Internet, Copies)	19,823						
			52,873	33,050	62.5%	L		For 20xx-20xx the program application was denied; therefore, higher prices.

Trend Analysis (cont.)

9519	Accounts Payable	-	-	-	0.0%	L	IM		
9520	Accounts Payable - Manual Accruals	-	-	-	0.0%	L	IM		
9521	Salaries Payable	(45,064)	-	45,064	100.0%	L	Review for Reasonableness		
9525	Fringe Benefits - STRS	(24,715)	-	24,715	100.0%	L	Review for Reasonableness		
9528	Fringe Benefits - OASDI	-	-	-	0.0%	L	IM		
9529	Fringe Benefits - MEDICARE	-	-	-	0.0%	L	IM		
9530	Fringe Benefits - H&W	-	-	-	0.0%	L	IM		
9531	Fringe Benefits - SUI	(382)	-	382	100.0%	L	IM		
9590	Due to Grantor Governments	(116,115)	-	116,115	100.0%	L	IM		
9620	Due to Student Groups/Other Agencies	(7,266)	-	7,266	100.0%	L	IM		
9630	Sale of Future Receivables	-	-	-	0.0%	L	IM		
9640	Loans Payable	-	(934,418)	(934,418)	100.0%	L	(5)	(5)	Debt increased by \$229,653 by accessing Bank of America LOC funds.
9641	Loans Payable - Church Leasing	(120,000)	(120,000)	-	0.0%	L			The payments to the church were not made and the loan remains.
9642	Loans Payable - Sam Jones	(281)	(5,046)	(4,765)	94.4%	L			Funds were not available to pay down this loan.
9650	Deferred Revenue	-	(480,600)	(480,600)	100.0%	L			Ok, Reviewed with charter management company.
9669	Debt	(704,765)	-	704,765	100.0%	L	(5)		
9730	General Reserve	(107,532)	-	107,532	100.0%	L			
9790	Undesignated Fund Balance	75,514	(728,475)	(803,989)	110.4%	L			
9791	Beginning Fund Balance	(156,337)	-	156,337	100.0%	L			
9792	Ending Fund Balance	156,337	-	(156,337)	100.0%	L			
9796	Restricted ARRA	-	-	-	0.0%	L			
Totals	Balance Should Be = \$0	\$ -	\$ -						

Attendance Mismatches

Super Charter School

Summary Mismatches

Row data presented on Top: from Attendance Records

Row data presented on Bottom: from Your Attendance Program

Month 7 & Year 2011

Orig	Sort	Last	First	Grade	ID	2/7	2/8	2/9	2/10	2/11	2/14	2/15	2/16	2/17	2/18	2/21	2/22	2/23	2/24	2/25	2/28	3/1	3/2	3/3	3/4	Total Number of matches
	1	Smith	Jane	7	na	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	H	P	P	P	P	P	P	P	P	P	
	1	Smith	Jane	7	1072	0	0	0	0	0	0	0	0	0	0	H	P	P	P	P	P	P	P	P	P	10
					na	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH											
	40	Jones	Ruby	6	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	
	40	Jones	Ruby	6	968	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	A	P	P	P	P	
					na																MISMATCH					1
	58	Gonzales	Jose	8	na	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	H	NE	NE	NE	NE	NE	NE	NE	NE	NE	
	58	0	0	0	0	0	0	0	0	0	0	0	0	0	0	H	0	0	0	0	0	0	0	0	0	
					na	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH		MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	22
	242	Chang	Bob	7	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	
	242	Chang	Bob	7	1022	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	
					na																					0
	266	BeGood	Carol	9	na	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	A	P	P	P	P	
	266	BeGood	Carol	9	1069	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	P	P	P	P	P	
					na																MISMATCH					1
	292	Roy	Ted	8	na	A	P	P	P	P	A	A	A	A	A	H	NE	NE	NE	NE	NE	NE	NE	NE	NE	
	292	Roy	Ted	8	870	A	P	P	P	P	A	A	A	A	A	H	0	0	0	0	0	0	0	0	0	
					na												MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	9
	360	Best	Alice	10	na	NE	NE	NE	NE	NE	NE	P	P	P	P	H	P	A	P	P	P	P	P	A	P	
	360	Best	Alice	10	497	0	0	0	0	0	0	P	P	P	P	H	P	A	P	P	P	P	P	A	P	
					na	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH															6
	363	Ten	Mike	7	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	
	363	Ten	Mike	7	782	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	A	P	P	P	P	
					na																MISMATCH					1
	376	Varga	Sam	8	na	P	P	P	P	A	A	A	P	A	P	H	NE	NE	NE	NE	NE	NE	NE	NE	NE	
	376	Varga	Sam	8	909	P	P	P	P	A	A	A	P	A	P	H	0	0	0	0	0	0	0	0	0	
					na												MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	9
	385	Vega	Alex	9	na	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	P	P	P	P	P	
	385	Vega	Alex	9	405	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	P	P	P	P	P	
					na												MISMATCH									1
	399	Yenez	Josh	7	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	
	399	yenez	Josh	8	613	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	
					MISMATCH	na																				1

How do you evaluate your charter school's performance and ability to continue as a going concern?

Remember, if your charter is a lack of going concern, it is going out of business

Going Concern Checklist

Organization: Super Charter School
Completed by: MWA

Statement of Financial Position Date: June 30, 2011
Date: 11/05/2011

MODIFIED FROM PPC AUDIT GUIDE

Instructions

My audit procedures performed to achieve other audit objectives have identified conditions and events that, when considered in the aggregate, indicate there *could* be a substantial doubt about the organization's ability to continue as a going concern. Definitions relevant to this checklist include the following:

- **Ability to Continue as a Going Concern.** Ordinarily, information that contradicts the going concern assumption relates to the nonprofit organization's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of operations, restructuring of debt, externally forced revisions of its operations, or similar actions.
- **Reasonable Period of Time.** A period not to exceed one year beyond the date of the financial statements being audited.
- **Conditions and Events.** Conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the organization's ability to continue as a going concern for a reasonable period of time. Examples of such conditions and events particularly relevant to a nonprofit organization include the following:
 - Losses or reductions of support (for example, contributions, gifts, bequests, or volunteer services) because of economic decline, changes in tax rates or deductions that adversely affect charitable giving, scandal or adverse publicity involving the specific organization or nonprofit organizations in general, demographic changes, changes in social concerns, etc.
 - Loss of significant grant revenues or other major funding sources.
 - Reduction in support from repeat contributors.
 - Inadequate unrestricted revenues to cover supporting services expenses, including supporting services necessary for programs funded by restricted contributions.
 - Unfavorable reductions or changes in government cost reimbursement rates or structure.
 - Disallowance of grant expenditures.
 - Loss of tax-exempt status or presence of activities that could jeopardize that status.
 - Large investment losses (realized or unrealized).
 - Severe **discord among members of management**, board, trustees, club, association, etc., or loss of important board members or volunteers.
 - Severe strain (increase) on demand for the organization's services by charitable beneficiaries.
 - Unfavorable commitments for pensions or under split-interest agreements, automatic renewal grants, or other long-term programs.
 - Mushrooming costs on construction and similar long-term projects.
 - Unfavorable litigation outcome.
 - Uninsured or underinsured disaster such as earthquake, tornado, or flood.
 - **Unsatisfactory ratios** between fund-raising expenses and contributions or program expenses and total expenses.
 - **Defaults on loan covenants.**
 - **Restructuring of debt.**

Going Concern Checklist

Going Concern Checklist

- o Use of the organization's line of credit for operational purposes.
- o Drawing of the organization's line of credit to the maximum.
- o Need to seek new sources or methods of financing.
- o Need to significantly revise operations, cut personnel, or curtail programs.
- o Need to dispose of significant assets, such as collections.
- o Use of endowment principal for operating needs.
- o Inadequate funds to comply with donor restrictions or using restricted contributions for other than restricted purposes.
- o Governmental authority concerns about potential violations of state laws regarding maintenance or preservation of certain assets (such as collections).

1. Describe the conditions and events (identified by customary audit procedures performed to achieve other audit objectives) that, in the aggregate, cause you to *believe there is substantial doubt* about the ability of the nonprofit organization to continue as a going concern for a reasonable period of time.

I BELIEVE THERE IS AN ISSUE FOR A GOING CONCERN DISCLOSURE. SUPER CHARTER HAS SOLD INTO THE 2011-2012 FISCAL YEAR RECEIVABLES THAT IT NEEDED CASH FOR THE 2010-2011 FISCAL YEAR AS DEFERRED REVENUE IN THE AMOUNT OF \$480,600 AND INCLUDING DEFERRED REVENUE, TOTAL LIABILITIES HAS INCREASED BY APPROXIMATELY 32%.

THRE KEY MEMBERS OF MANAGEMENT, THE PRINCIPAL, FINANCE PERSON, AND ATTENDANCE CLERK HAVE LEFT EMPLOYMENT WITH SUPER CHARTER.

AS SHOWN AT GP-45.4, THE VENDOR MCGRAW HILL EDUCATION HAS SUSPENDED SUPER'S ACCOUNT AND SENT SUPER'S \$38,079.01 BALANCE OWED TO COLLECTIONS.

IN ADDITION, NET ASSETS HAVE DECREASED SUBSTANTIALLY FROM APPROXIMATELY BEGINNING NET ASSETS OF \$749,000 TO ENDING DEFICIT NET ASSETS AT JUNE 30, 2011 OF APPROXIMATELY (\$42,156).

LAST YEAR 2009-2010 PAYABLES WERE RESTRUCTURED TO NOTE PAYABLE DEBT FOR THE LEASE AND THIS YEAR 2010-2011, OF THE LEASE DEBT TO THE LANDLORD THAT WAS RESTRUCTURED, NO PAYMENTS WERE MADE BY SUPER ON THE LEASE DEBT.

EVALUATING SUPER FOR LIQUIDITY USING THE CURRENT RATIO OF CURRENT ASSETS DEVIDED BY CURRENT LIABILITIES INDICATES SUPER'S DOLLARS OF CURRENT ASSETS AVAILABLE TO COVER EACH DOLLAR OF CURRENT DEBT IS VERY LOW. MY CALCULATION OF CURRENT RATIO IS AS FOLLOWS:

CASH, A/R, & PREPAIDS / CURRENT LIABILITIES OR ((97,601 + \$724,798 + \$21,964) / \$1,484,014) = .57. THIS RATIO IS VERY LOW AND IS A FUTHER INDICATOR OF SUPER AS A GOING CONCERN.

FINALLY, SUPER'S 209-2010 NET ASSETS WERE HEAVILY RELIANT ON SUPER'S INVESTMENT IN MERYILL LYNCH, WHICH PROVIDED A SIGNIFICANT PORTION OF THAT YEAR ASSETS AND PROVIDED FOR THE OBTAINING OF THE MILLION DOLLAR UNION BANK LINE OF CREDIT. THE UNION BANK LINE OF CREDIT IS APPROXIMATELY \$7,000 FROM BEING COMPLETELY USED OR EXHAUSTED AND SUPER HAS NO OTHER INVESTMENTS THAT CAN CONTRIBUTE CASH TO CURRENT OPERATIONS.

Yes **No** **Description**

2. Identify management's plans for dealing with the adverse effects of the conditions or events described in Question 1 (describe plans identified):

Going Concern Checklist

	<u>Yes</u>	<u>No</u>	<u>Description</u>
a. Plans to dispose of assets.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Sell Future Receivables with Champion System Capital, LLC ("CSC") for the 2011-2012 year.
			Restructured Lease with Lessor, but did not pay down on any of the restructured note payable for the lease.
b. Plans to borrow money or restructure debt.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
c. Plans to reduce or delay expenditures.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Yes, and delays are becoming more prominent.
d. Plans to obtain other sources of support or revenue (such as new grants, contracts, unrelated business activities, or fundraising campaigns; or increased dues, fees, sales, or subscription prices).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Super is trying to restructure all debt into an even larger debt.
e. Plans to acquire funds from affiliated organizations or federated fund-raisers, such as United Way.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
f. Other (describe). []	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
3. Consider whether information obtained about plans identified in Question 2 indicates that it is likely the plans will mitigate the adverse effects of the conditions and events for a reasonable period of time and can be effectively implemented. Considerations include the following:			
a. Plans to dispose of assets.			
i. Restrictions on disposal of assets, such as donor or state legal restrictions on a nonprofit organization's disposition of securities, collections, property and equipment, or covenants in loan agreements.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[] Selling Receivables with CSC is getting harder for Super.
ii. Apparent marketability of assets management plans to sell.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
iii. Possible direct or indirect effects of disposal of assets.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
iv. Other considerations (describe). []	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
b. Plans to borrow money or restructure debt.			
i. Availability of debt financing, including existing or committed credit arrangements such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Super is "Planning" on selling more receivables; however, it is getting harder for them to do so.
ii. Existing or committed arrangements to restructure debt or to guarantee loans to the organization.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Super is trying to enter into arrangements but they have not had the success originally thought.

Going Concern Checklist

	Yes	No	Description
iii. Possible effects on borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
iv. Other considerations (describe). []	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
c. Plans to reduce or delay expenditures.			
i. Apparent feasibility of plans to reduce salaries, overhead, or management and general expenditures; postpone maintenance, preservation, or construction projects; postpone or reduce program, fund-raising, or membership development expenditures; reduce payments to affiliates; or lease rather than purchase assets.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Super has not been reducing salaries and other costs and is also spending on WASC accreditation and attorney fees.
ii. Possible direct or indirect effects of reduced or delayed expenditures.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Lowered costs but some accounts have gone into collection such as McGraw Hill Education as identified on GP-45.4.
iii. Other considerations (describe). []	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
d. Plans to obtain other sources of support or revenue from new grants; contracts; fund-raising campaigns; dues, fees, or price increases; unrelated business activities; or affiliated organizations.			
i. Apparent feasibility of such plans.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
ii. Other considerations (describe). []	<input type="checkbox"/>	<input checked="" type="checkbox"/>	[]
4. Do the considerations of management's plans, summarized in Questions 3 and 4, cause you to <i>conclude</i> that there is substantial doubt about the nonprofit organization's ability to continue as a going concern for a reasonable period of time?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Yes, I have substantial doubt and even Super told me getting through to June 2012 will be very tough.
5. Consider the effect on the financial statements, including related disclosures, and the auditor's report:			
a. Do the financial statements appropriately reflect the effects of the conditions and events?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Fully disclosed in auditor's opinion letter and notes to the financial statements.
b. Are disclosures about the entity's ability to continue as a going concern adequate?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Disclosure of a going concern is reported and considered adequate.
c. Should the auditor's report include an explanatory paragraph?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	An explanatory paragraph is added.

BASED ON THE USE OF THIS CHECKLIST PLUS MY OWN OPINION AND THE CIRCUMSTANCES IDENTIFIED AND NARRATED ON PAGE ONE OF THIS CHECKLIST, I CONCLUDE THAT THERE IS A GOING CONCERN ISSUE FOR SUPER CHARTER SCHOOL AS OF JUNE 30, 2011.

Charter Oversight Checklist

- The checklist is also a great guide for charter schools
- <http://fcmat.org/wp-content/uploads/sites/4/2016/03/Charter-School-Annual-Oversight-Checklist-revised-final-3-17-2016.pdf>
- You should have a copy and then add to it to meet your local needs.

FISCAL AND BUSINESS OPERATIONS

Yes No Not
Applicable

A. Student Attendance

1. What attendance accounting system is used?

Comments

2. The charter school has ensured that the staff person primarily responsible for attendance reporting is adequately trained.

Comments

3. There are approved board policies that address student attendance, including short-term independent study.

Comments

Checklist
Example

Checklist Example-cont.

FISCAL AND BUSINESS OPERATIONS

	Yes	No	Not Applicable
12. Cash flow projections are prepared and updated regularly to ensure that sufficient funds are available to meet the charter school's financial obligations. These projections correlate to financial reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
a. The charter school's financial condition is such that it will not require short-term borrowing for the current fiscal year from the sale of receivables or other financing mechanisms.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. If answer to a. above was 'no,' what level of funding will be required to sustain the charter school's cash flow to meet its current financial obligations?			<input type="text"/>
c. What is the source of repayment?			<input type="text"/>

Comments

Manual Overview

- The manual has 15 chapters, plus appendices.
- The manual includes 184 pages of information.
- The table of contents is very descriptive of the manual's contents.
- Numerous hyperlinks to additional resources are embedded in the manual.

Manual Overview (cont.)

- Each chapter has numerous subjects, so you should become familiar with all of the topics in each chapter.
- The FCMAT Charter Manual is available for free as a searchable PDF at www.fcmat.org

(Go To “Publications,” then select “Manuals,” and then select “California Charter School Accounting and Best Practices Manual”.)

Let’s review the chapter and subchapter topics

Manual Overview (cont.)

- Chapter 1 – Introduction
 - Intent of the *California Charter School Accounting and Best Practices Manual*
 - The Need to Focus on Finance

Manual Overview (cont.)

- Chapter 2 – Charter Schools Overview
 - Types of Charter Schools
 - Charter School Funding
 - Charter Schools Operated as Nonprofit
 - Enrollment and Administration
 - Special Education
 - Cash Flow for New Charter Schools
 - *(and more: e.g., Fees for Oversight, and Other Services, Governance, Sole Statutory Member)*

Manual Overview (cont.)

- Chapter 3 – Budgeting
 - CDE Budget Calendar
 - Budget Preparation and Adoption
 - Charter Schools Operated as Nonprofit
 - Monitoring Performance
 - Budget Changes
 - Interim Financial Reports

Manual Overview (cont.)

- Chapter 4 – The Basics
 - Accounting vs. Bookkeeping
 - Reporting
 - Unaudited and Audited Financial Reporting
 - Accounting Basis
 - Financial Reporting Structure
 - Basic Accounting Formula
 - Alternative Form Account Codes
 - Internal Controls

Manual Overview (cont.)

- Chapter 5 – Basis of Accounting, Financial Reporting, and Audits
 - Annual Audit and Unaudited Actuals
 - Auditing Standards
 - Consolidated Financial Reporting
 - Filing Information Returns and Forms
 - Unrelated Business Activities

Manual Overview (cont.)

- Chapter 6 – Conflict of Interest and Gift of Public Funds
 - Conflict of Interest
 - Government Code 1090
 - Political Reform Act
 - Self-Dealing by Nonprofit Board Members
 - Common Law Conflicts of Interest
 - Sample Conflicts of Interest Policy
 - Nepotism
 - Gifts of Public Funds

Manual Overview (cont.)

- Chapter 7 – Commingling of Funds
 - Commingling
 - Blending
 - Commingling vs. Blending

Manual Overview (cont.)

- Chapter 8 – Related Organizations and Intraorganizational Loans
 - Charter School-Related Organizations
 - CSRO Management Fees
 - Loans to and from CSROs and Charter Schools
 - Intraorganization Receivables and Payables or Loans
 - Intraorganization Transactions

Manual Overview (cont.)

- Chapter 9 – California Nonprofit Integrity Act: Senate Bill 1262
 - Audit and Compensation Review - \$2 Million Threshold
 - Audit and Independent Auditor
 - Audit Committee
 - Compensation Review
 - Fundraising Counsel or Commercial Fundraiser Provision

Manual Overview (cont.)

- Chapter 10 – General and Administrative Policies and Procedures
 - Potential Financial Fraud and Misconduct
 - Accounting Policies and Procedures
 - Retention and Management of Files and Records
 - Travel
 - Insurance
 - Public and Confidential Information and Document Control
 - Maintenance Requests
 - Electronic Backup of Accounting Data
 - Political Contributions and Involvement
 - Independent Contractors and 1099 Reporting

Manual Overview (cont.)

- Chapter 10 – General and Administrative Policies and Procedures, cont.
 - Fundraising and Donations
 - Charter School Support Organization Donations for Hiring Employees
 - Accrued Liabilities
 - Notes Payable and Lines of Credit
 - Supplies
 - Professional Development
 - Financial Reserves
 - Journal Entries and Reclassification Entries

Manual Overview (cont.)

- Chapter 11 – Cash Receipts and Banking
 - Check Signing Authority
 - Cash Receipts and Deposits
 - Wire Transfers
 - Petty Cash
 - Cash Boxes
 - Credit and Debit Cards
 - Bank Account Reconciliation

Manual Overview (cont.)

- Chapter 12 – Fixed Assets, Leases and Depreciation
 - Fixed Assets and Leases
 - Fixed Asset Capitalization and Depreciation

Manual Overview (cont.)

- Chapter 13 – Expenditures, Payables, Purchasing, and Vendors
 - Accounts Payable and Cash Disbursements
 - Purchasing
 - Vendor Selection
 - Receiving and Inspection
 - Prepaid Expenses
 - Employee Relocation Costs

Manual Overview (cont.)

- Chapter 14 – Revenues, Receivables, and Restricted Funds
 - Accounts Receivable, Invoicing, and Receivable Accruals
 - Cash Receipts
 - Grants and Donation Revenue
 - Restricted Funds

Manual Overview (cont.)

- Chapter 15 – Fraud
 - Vendors, Checks, Reimbursements and Advances
 - Falsifying Attendance
 - Fundraising and Deposits
 - Kickbacks and Pay-To-Play
 - Fictitious Employee and Payroll Tax Fraud

Manual Overview (cont.)

- Appendices
 - A – Sources of Research and Documents
 - B – Charter School Annual Oversight Checklist
 - C – Glossary of Acronyms

FCMAT will continue to make revisions to the manual. Please communicate to us what you think should be included in future editions.

Any Questions?

Thank You For Attending