FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Oversight

2026-27 Fiscal Year

Day 2

© Fiscal Crisis & Management Assistance Team

Agenda for Day 2

- Introduction and Background
- Emergency Advance Apportionments
- Going Concern Process
- Budget Approval Process
- Interim Reports and Certifications
- Annual Audit Requirements
- Public Disclosure Responsibilities
- Charter School Oversight

Introduction and Background

Introductions



1) **Tell us a little about yourself:**
   - Your name, county office of education, position, and years in your current role.
   - Any previous experience working for a school district or charter school.

2) Interactive Activity

Goal for Today

1. Find a partner.
2. Choose **one word** that describes your primary goal or how your're feeling about today's workshop.
3. Take 30 seconds each to share your word and explain why you chose it.
4. Be prepared to share your partner's response with the group.



Introduction – Presenters Background

- **Erin Lillibridge, CFE**
- Joined FCMAT in 2021.
- Chief business official at a charter school and two school districts.
- Administrator of fiscal oversight at a county office of education.
- Worked at the California Department of Education (CDE) and Department of Finance.

- **Roslynne Manansala-Smith, CFE**
- Joined FCMAT in 2023.
- Director, external business at a county office.
- Chief business official at a unified school district.
- Charter school oversight at a county office and a school district.
- Held various business roles in a school district and a county office: accounts payable, accounting, budget and facilities.

Origins and Impact of Assembly Bill 1200

- **1991:** Assembly Bill (AB) 1200 (Chapter 1213) improved fiscal oversight by school district governing boards and county superintendents of schools.
- **1993-2012:** Nine school districts and one community college district required state emergency apportionments (state loans).
- **2012-2024:** No local educational agencies (LEAs) required state loans.
- **2025:** Plumas Unified School District received authorization for a $20 million state loan.
- For a historical summary of state loans to school districts, visit FCMAT's website.

Fiscal Oversight - Structure

- **Fiscal oversight begins at the local level,** with district governing boards supported by county superintendents and the state.
- **County superintendents** review and approve district budgets and Local Control and Accountability Plans (LCAPs), assess three-year fiscal solvency, and evaluate disclosures related to collective bargaining and debt.

Fiscal Oversight – Structure (cont.)

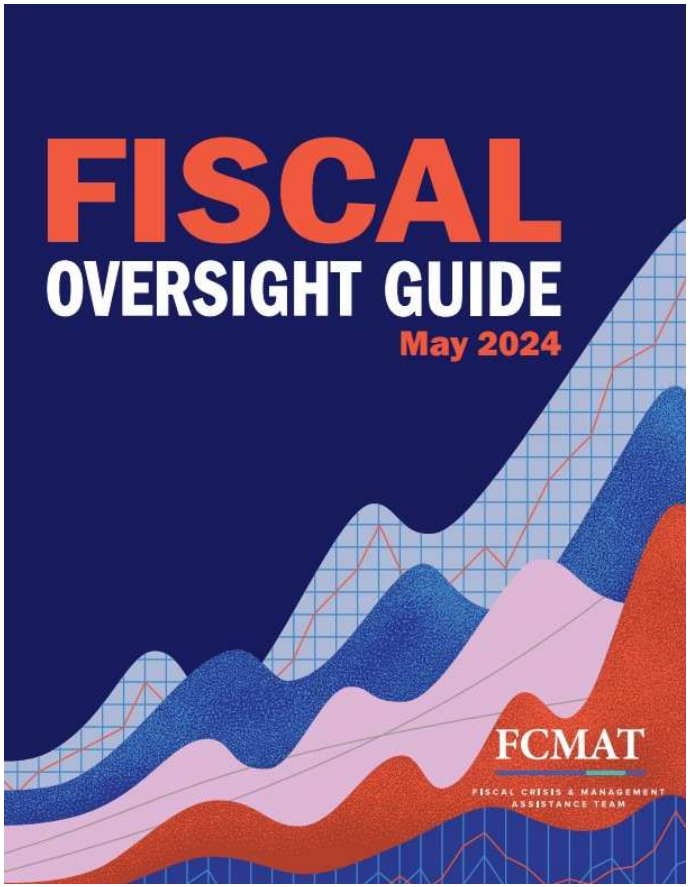
- **At the state level, AB 181, 126 and 2467 and Senate Bill (SB) 133 (Chapters 66, 65, 608, and 250, respectively, Statutes of 2026)** establish changes intended to strengthen transitional kindergarten through grade 12 (TK-12) governance, improve statewide coordination, and support student outcomes.
  - Beginning in January 2027, a governor-appointed education commissioner will assume specified duties currently held by the Superintendent of Public Instruction (SPI), with responsibilities redistributed between the commissioner and the CDE.

Fiscal Oversight - FCMAT's Role

- Assembly Bill 1200 established FCMAT to support LEAs with fiscal management tools, training and crisis prevention.
- Assembly Bill 2756 clarified oversight responsibilities for districts with emergency loans and expanded FCMAT's responsibilities in fiscal oversight and assistance.
- Assembly Bill 1840 expanded county superintendents' role in the receivership process and aligned oversight with local control principles.

Fiscal Oversight Guide

- The *Fiscal Oversight Guide*, last updated in May 2024, is available on FCMAT's website.
- The AB 1200 fiscal oversight process has evolved through statutory provisions enacted over more than 30 years.
- **The *Fiscal Oversight Guide* is being updated to reflect *r*ecent legislation, including AB 121 (Chapter 8, Statutes of 2025), AB 126, 181 and 2467 and SB 133.**



Fiscal Health Risk Analysis

- The 2018-19 State Budget Act introduced an automatic engagement process as part of an early warning system to identify LEAs at risk of fiscal insolvency.
- FCMAT conducts a Fiscal Health Risk Analysis (FHRA) to assess an LEA's risk of insolvency in the current and the following two years.
- An FHRA is automatically triggered when an LEA meets any of the following criteria:
  - Has a disapproved budget.
  - Has a negative interim report certification.
  - Has qualified interim report certifications for three consecutive reporting periods.
  - Has an interim report certification downgraded by the county superintendent.
  - Receives a lack of going concern designation from the county superintendent.

Emergency Advance Apportionments

Emergency Advance Apportionments

- When a district becomes **cash insolvent**, it may request an emergency apportionment (state loan).
  - This request triggers a formal process involving the county superintendent, education commissioner, and Legislature.
- If the state loan exceeds 200% of the district's recommended reserve, an **administrator** is appointed to assume full control of the district, replacing both the superintendent and the governing board.
- **Local control is restored only when the county superintendent, with the concurrence of the education commissioner, determines** the district is likely to comply with its recovery plan.

Emergency Advance Apportionments (cont.)

- A **trustee is then appointed to oversee the district's fiscal recovery** and ensure sound financial management practices.
- The trustee has authority to **stay or rescind board actions** that could jeopardize the district's fiscal stability.
- Even after the trustee is released, which cannot occur before three-years, the **county superintendent retains oversight authority until the state loan is fully repaid.**
- If the district fails to comply with its recovery plan within **five years** of regaining local control or fully repaying the loan, the county superintendent may reassume full authority.

Going Concern Process

Going Concern Process (EC 42127.6)

- A district is considered a "**going concern**" when it is fiscally sound and able to meet its financial obligations.
- A district is **not considered a going concern** when its fiscal condition places it at risk of insolvency.
- Under Education Code (EC) 42127.6(a)(1), the county superintendent must provide **written notice** if they determine that the district may be unable to meet its financial obligations in the current or next two fiscal years, or if the district receives a qualified or negative certification.
- The district may appeal the determination or any imposed interventions to CDE **within five days** (EC 42127.6(b)).
- The CDE must **sustain or deny the appeal within 10 days.**

Fiscal Interventions (EC 42127.6(a)(1))

- To help a district meet its financial obligations, the county superintendent must take one or more of the following actions:
  - **Assign a fiscal expert,** funded by the county office, to advise the district.
  - **Conduct a financial study,** with costs shared between the district (75%) and county office (25%).
  - **Require financial projections** for the current and next two fiscal years.
  - **Direct fiscal controls,** including requirements for contract encumbrances, cash flow analyses, budget revisions, and recording of receivables and payables.
  - **Request a fiscal recovery proposal** from the district.
  - **Withhold compensation** from district leadership for failure to provide financial data, subject to appeal to the CDE.
  - **Assign FCMAT** to review teacher hiring, retention, and misassignments.

Emergency Powers (EC 42127.6(e))

- If fiscal distress continues, or the county superintendent determines that a significant fiscal event will have an immediate and severe impact on the district's ability to meet its financial obligations in the current or subsequent fiscal year, the county superintendent must:
  - Provide written notice to the State Board of Education (SBE), CDE, district board, district superintendent, and employee and parent organizations.
  - Include the rationale and assumptions supporting the determination, such as finding that the district is no longer a going concern (or a lack of going concern).
- The district may appeal the determination to CDE within five days. CDE must sustain or deny all or part of the appeal within 10 days.

Emergency Powers (EC 42127.6(e)) (cont.)

- The county superintendent, in consultation with CDE, must take one or more of the following actions:
  - **Impose budget revisions,** in consultation with CDE and the district board.
  - **Stay or rescind board actions** that are inconsistent with the district's fiscal recovery.
  - **Help develop a multiyear financial recovery plan.**
  - **Help develop the next year's budget.**
  - **Appoint a fiscal advisor** to carry out these duties.
- These actions also apply to districts with **negative interim certifications**.

Budget Adoption Process

Budget Adoption Process

- **By July 1:** The district board must submit its adopted budget to the county superintendent within five days of adoption or by July 1, whichever occurs first (EC 42127(a)(2)).
- **Beginning with the 2027-28 budget:** District must prominently display the budget inspection and public hearing notice on their website homepage. Publication in a local newspaper remains optional (EC 42103(d)(2)).
- **Within 45 days** of state budget enactment: Districts must make any related budget revisions available for public review (EC 42127(h)).

Budget Adoption Process (cont.)

- **Failure to submit an adopted budget:** If the district fails to submit a budget, the county superintendent must develop one by September 15 at the district's expense. The budget becomes the district's adopted budget unless subsequently modified and approved (EC 42127(d)(1)).
- **Failure to adopt a budget:** If the district board refuses to adopt a budget, the county superintendent must withhold state and county apportionments and notify the county to stop approving district warrants (checks) (EC 42128).

Budget Adoption Process (cont.)

- **By September 15:** The county superintendent must approve, conditionally approve, or disapprove the district's budget. If conditionally approved or disapproved, the county superintendent must provide recommendations for revisions (EC 42127(d)).
- **Fiscal review assistance:** The county superintendent may assign a fiscal advisor or appoint a committee to review and comment on the recommendations.
- **LCAP approval requirement:** The district's governing board must approve the LCAP or annual update for the same fiscal year before the county superintendent can approve the district's budget.
- **Mandatory budget disapproval:** The county superintendent must disapprove the budget if it does not include sufficient expenditures to implement the district's LCAP.

Budget Adoption Process (cont.)

- **By October 8:** The district must respond to the county superintendent's recommendations at a regular board meeting, clarify proposed budget revisions, and take action to address identified concerns.
- **By October 22:** The county superintendent must submit to the CDE a list of districts whose budgets may be disapproved.
- **By November 8:** The county superintendent must formally notify the CDE of any budget disapprovals and indicate whether a Budget Review Committee (BRC) will be formed or waived.

Budget Adoption Process (cont.)

- **LCAP and budget adoption**: The district board must adopt the LCAP and budget at the same meeting, following the required public hearings, which must occur on a separate day (EC 52062(b)(2)).
- **LCAP adoption prerequisite:** The budget cannot be adopted before the LCAP or annual update is adopted if no current LCAP or update is in effect for that fiscal year (EC 42127(a)(2)(A)).
- **LCAP funding requirements:** The budget must include sufficient expenditures to implement the district's LCAP (EC 42127(d)(1)).
- **Negative fund or cash balances:** If the adopted budget or audited financial statements show a negative unrestricted fund balance or cash balance, the board must provide a statement explaining the cause and identifying corrective actions to resolve it within the fiscal year (EC 42127.5).

Budget Adoption Process (cont.)

- **Failure to adopt an LCAP or annual update:** LEAs identified through their annual audit as failing to adopt an LCAP or annual update by July 1 may face a financial penalty beginning at 20% of their second principal Local Control Funding Formula (LCFF) apportionment.
  - The penalty increases by 1% for each additional business day, up to 80%, unless the delay is due to a qualifying emergency (EC 52065.1).
- **Failure to adopt or submit required documents:** The county superintendent must withhold state, local, or county funds from LEAs that fail to adopt or submit their LCAP, budget, or other required reports until the applicable requirements are met (EC 42128).

Budget Adoption Process (cont.)

- **Withholding of warrant approval:** For districts subject to funding withholding under EC 42128, the county superintendent must also withhold approval of district warrants during the period of noncompliance.
- **Failure to submit required plans and reports:** School districts and charter schools that fail to submit required plans and reports within 14 days of the prescribed deadlines may have salaries or stipends withheld from superintendents, administrators, or board members until compliance is achieved (EC 42129).
- **Emergency exemptions:** LEAs may be exempt from these penalties in cases of qualifying emergencies.

Interim Reports and Certifications

Interim Reports Process

- **Interim reporting requirements:** Districts must submit two interim budget reports annually.
  - **First interim report:** Due December 15, reflecting the district's financial status as of October 31.
  - **Second interim report:** Due March 15, reflecting the district's financial status as of January 31.
- **Financial certification:** Districts must certify their ability to meet financial obligations for the current fiscal year and the two subsequent fiscal years (EC 42131(a)(1)).
- **County superintendent review:** County superintendents may revise a district's certification if they disagree with the its assessment and must notify the district and CDE **within 75 days** (EC 42131(a)(2)(A)).

Interim Reports Process (cont.)

- **Appeal process:** Districts may appeal certification changes to CDE, which must respond **within 10 days**.
- **Reporting requirements:** County superintendents must report all interim report certifications to the CDE and State Controller's Office (SCO) **within 75 days** of each reporting period (EC 42131(c)).
- **Qualified or negative certifications:** County superintendents must submit comments on these certifications to CDE and SCO, including any action proposed or taken by the district. (EC 42131(a)(2)(B)).
- **Failure to submit interim reports:** The county superintendent may withhold state or county funds and suspend approval of district warrants if a district fails to submit a required interim report (EC 42128).

Interim Reports Process (cont.)

- **"Third interim" reporting:** LEAs with **qualified or negative second interim reports** must submit an updated financial report by June 1, reflecting financial activity through April 30 and projecting cash and fund balances through June 30 (EC 42131(f)).

Fiscal Certifications

- **Positive certification:** The district is projected to meet its financial obligations for the current fiscal year and the two subsequent fiscal years.
- **Qualified certification:** The district may not meet its financial obligations for either the current fiscal year or the two subsequent years.
- **Negative certification:** The district cannot meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
- **Historical data:** See FCMAT's website for historical data on qualified and negative interim certifications.

Fiscal Certifications (cont.)

- **Certification status:** Qualified or negative certifications remain in effect until the next report.
- **Fiscal oversight authority:** County superintendent may exercise authority granted in EC 42127.6, commonly referred to as the "**fiscal oversight toolkit.**"
- **Collective bargaining oversight:** The county superintendent must be given at least 10 working days to review and comment on labor agreements, assess their fiscal impact, and notify the district board of potential fiscal risks.
- **Debt issuance restrictions:** Districts must obtain county superintendent approval before issuing non-voter approved debt.

Fiscal Certifications (cont.)

- **Warrant authority:** The **Education Commissioner** or county superintendent can revoke a fiscally accountable or fiscally independent district's authority to draw warrants (EC 42652).

Annual Audit Requirements

Audit Process and Requirements

- **Annual audit deadline:** By **May 1**, LEAs must contract for an annual audit (EC 41020(c)).
- **Charter school inclusion:** Charter schools are included in the annual audit and audit resolution process alongside districts, county offices of education and educational joint powers authorities (EJPAs) (EC 41020(v)).
- **Auditor qualifications:** Annual audits must be performed by a certified and licensed certified public accountant (CPA) listed in the SCO directory, published annually by December 31 (EC 41020(i)(1)).
- **Audit partner rotation:** An accounting firm cannot audit an LEA if the same lead, coordinating or review audit partner served in that capacity for the six previous fiscal years (EC 41020(i)(2)).

Audit Process and Requirements (cont.)

- **Audit contract requirement:** In sufficient time to meet the audit filing deadline, the applicable oversight agency* must contract with an audit firm on behalf of any LEA that has not secured an audit contract (EC 41020(d)).
- **Annual audit submission:** By **January 31**, LEAs must submit their annual audit reports to their applicable oversight agency and the SCO (EC 41020(k)).
- **Public review requirement:** Within **45 days of audit report issuance**, LEA boards must publicly review the audit, including any exceptions, corrective action plans, recommendations and findings (EC 41020.3(a)).

*Applicable oversight agency refers to either the county superintendent for districts and EJPAs, charter authorizers for charter schools, and education commissioner for county offices.

Audit Process and Requirements (cont.)

- **Corrective action plans:** By **April 15**, districts, EJPAs, and charter schools must submit corrective action plans for any audit exceptions not already addressed in their audit reports to their applicable oversight agency.
- **Charter authorizer certification:** By **May 15**, charter authorizers must certify to the county superintendent that they have completed the following oversight responsibilities for charter schools under their jurisdiction (EC 41020(m)(2)(A)):
  - **Audit review:** Reviewed all audit reports and exceptions and confirmed that each exception has been corrected or is address by an acceptable corrective action plan.
  - **Attendance-related exceptions:** Identified any exceptions involving attendance-related state funds and required the charter school to submit appropriate reporting forms to the **education commissioner** for processing.

Missed Audit Deadlines (EC 41020.2(a)-(b))

- **Missed audit submission deadline:** If an LEA fils to submit its annual audit report by January 31, the applicable oversight agency may take one of the following actions:
  - **Grant an extension*** after consulting with the LEA board and auditor and obtaining consent from the county superintendent, education commissioner and SCO. Extensions are subject to the following conditions:
    - The LEA and auditor must certify that unforeseen circumstances or complex situations prevent timely completion.
    - Extensions must be limited to the shortest reasonable period, granted in **increments of no more than 30 calendar days, and may not extend beyond March 31.**

Missed Audit Deadlines (EC 41020.2(a)-(b)) (cont.)

- **Contract with another audit firm** to complete the audit after consulting with the SCO, LEA board and auditors.
- **Request an SCO investigation** into the delay and take apropriate action.

Public Disclosures Responsibilities

Collective Bargaining

- **Public disclosure requirement:** Districts must publicly disclose the terms and costs of tentative collective bargaining agreements for the current and future fiscal years **before approval** (Government Code [GC] 3547.5(a)).
- **Applicable agreements:** Disclosure requirements apply to agreements negotiated with exclusive employee representatives (recognized bargaining units).
- **Public meeting requirement:** The terms and costs must be disclosed at a **public meeting** before the agreement becomes binding.
- **Affordability certification:** The **district superintendent and chief business official must certify** that the district can afford the agreement for its full term (GC 3547.5(b)).

Collective Bargaining (cont.)

- **Budget adjustments:** The certification must identify and itemize any budget revisions necessary to meet the agreement's costs in each year.
- **Compensation oversight:** County superintendents must monitor salary and benefit changes for all employees, including those outside recognized bargaining units.
- **Disclosures:** LEAs should **disclose all compensation changes**, including those affecting individuals and unrepresented employees.
  - **1-2-3 Rule:** FCMAT recommends disclosing all changes impacting salary and benefit object codes.

Collective Bargaining (cont.)

- **Disclosure resources:** Templates are available on FCMAT's website.
- **Budget revisions:** LEAs must **submit any necessary budget revisions within 45 days** of adopting a collective bargaining agreement (EC 42142).
  - **Failure to adopt revisions:** Districts that fail to adopt required budget revisions shall receive a qualified or negative certification on the next interim report (GC 3547.5).

CDE Guidance: Public Disclosures (Appendix I)

- **Proposed agreement:** Include a complete copy of the proposed collective bargaining agreement.
- **Compensation provisions:** Summarize key changes, including:
  - Salary: On-schedule and off-schedule increases, bonuses, and one-time payments.
  - **Health and welfare benefits:** Changes to coverage and employer contributions.
  - **Pay structure:** Step-and-column movement, longevity pay, overtime, and differentials
  - **Staffing:** Changes to teacher and classified staffing ratios.

CDE Guidance: Public Disclosures (Appendix I) (cont.)

- **Additional costs:** Identify **other provisions that increase costs**, such as class size reduction or additional staff development days.
- **Total compensation impact:** Report the **average percentage increase in total employee compensation** and estimate the LEA's cost of a 1% increase in total compensation.
- **Funding and assumptions:** Identify **funding sources** and key **assumptions** for the current and future years.
- **Nonfinancial provisions:** Highlight significant changes that do not directly affect costs, such as grievance procedures and arbitration.

Qualified or Negative LEA Requirements

- **Review period:** LEAs with qualified or negative certifications must provide the county superintendent **at least 10 working days** to review and comment on proposed collective bargaining agreements before ratification (GC 3540.2(a)).
- **Notification of fiscal concerns:** If fiscal concerns are identified, the county superintendent must notify the county board, district board, district leadership, and parent and teacher organizations within the 10-working-day review period (GC 3540.2(c)).
- **Financial disclosure:** Districts **must provide all financial information** necessary to assess the proposed agreement's impact (GC 3540.2(d)).

Qualified or Negative LEA Requirements (cont.)

- **County office requirements:** Similar provisions apply to county offices and single-district county offices, which must provide the SPI* at least 10 working days to review and comment on proposed agreements (GC 3540.2(e)).

*The SPI may be replaced by either the education commissioner or CDE.

Group Activity #1
Collective Bargaining Disclosure

As a large group, we will:

1. Review the provided tentative agreement (TA).
2. Use the TA and supplemental analysis information sheet to enter the required information into the highlighted fields of the disclosure form.



Non-Voter Approved Debt

- **Advance notification:** Districts must notify the county superintendent and county auditor **at least 30 days** before approving non-voter approved debt (EC 17150.1(a)).
- **Applicable debt instruments:** Notification requirements apply to certificates of participation and debt instruments secured by real property, including revenue bonds and bond anticipation notes.
- **Required disclosures:** Districts must provide repayment schedules, issuance costs, and documentation demonstrating their ability to repay the debt.
- **Public review:** Within **15 days** of receiving the debt information, the county superintendent and auditor may publicly comment on the district's ability to meet its debt obligations.

Non-Voter Approved Debt (cont.)

- **Resources:** Reporting requirements and a sample disclosure form is available on FCMAT's website.

Additional Debt Approval Requirements

- **County superintendent approval**: Districts with qualified or negative interim report certifications must obtain county superintendent approval before issuing non-voter approved debt (EC 42133(a)).
- **Coordinated oversight:** FCMAT recommends that the county office collaborate with county auditors, whenever possible, to ensure that both entities are requesting the same information from districts.
- **County office requirements:** Similar provisions apply to county offices and single-district county offices, which must obtain review and/or approval from the CDE before issuing non-voter approved debt (EC 42133(b)).

Charter School Oversight

Basics of Charter School Fiscal Oversight

- **Why** is charter school fiscal oversight important?
- **Who** is responsible for the fiscal oversight of charter schools?
- **What** are the statutory requirements for charter school fiscal oversight?
- **When** and **how** should fiscal oversight activities be conducted for best results?
- **Where** can oversight agencies find tools and resources to support effective fiscal oversight?

Stay Out of the News

- Recent news coverage has highlighted allegations of fraud, financial mismanagement, and oversight deficiencies involving California charter schools:
  - "Did Sacramento charter schools misuse public money? Report alleges major violations" (August 6, 2024).
  - "Audit of major charter school network finds rampant problems, 'opportunities for fraud' – plus familiar oversight failures" (July 23, 2024).
  - "Ford Raptors, a 'life coach,' iPhones: Audit alleges wild spending, fraud at Madera school" (October 4, 2023).
  - "A3 charter school ringleaders plead guilty to massive fraud scheme that siphoned millions in state funds" (February 27, 2021).

Limitations on Authorizer Liability

- **Authorizer liability protections:** EC 47604(d) provides that an authorizer granting a charter to a school operated as or by a nonprofit public benefit corporation **is not liable for the charter school's debts, obligations** or claims arising from its acts, errors, or omissions, **provided the authorizer fulfills all oversight responsibilities required by law**.
- **Oversight documentation:** Maintaining adequate **documentation** of oversight activities may determine whether the authorizer is held liable for the charter school's liabilities.

Responsibilities in Oversight

- **First level of oversight:** The charter school board has primary responsibility for overseeing the school's operations and fiscal health.
  - **Authorizer representation:** EC 47604(c) permits an authorizer to appoint one representative to the charter school's board.
- **Second level of oversight:** The charter school **authorizer**, which may be a district or a county office, has the second level of oversight responsibility.
  - **State Board of Education:** The SBE may approve charter petitions on appeal but no longer serves as a charter school authorizer.
  - **County office fiscal oversight:** County offices should consider the effectiveness of a school district authorizer's oversight when evaluating the district's overall fiscal health.

Charter Petitions and MOUs: Foundations of Effective Oversight

- **Charter petition:** A written proposal outlining a charter school's organizational structure, educational program, and operations. EC 47605 describes the petitioning process and required elements. Some authorizers also include specific "required" language in charter petitions.
- **Memorandum of understanding (MOU):** An agreement defining the working relationship between the charter school and its authorizer, including fiscal and administrative responsibilities not addressed in the charter petition.

Oversight Requirements – Authorizer

- The **2026-27 education budget trailer bills** amend EC 47604.32, which outlines charter school authorizer oversight responsibilities. Under the revised requirements, the authorizer must:
  - **Designate a contact person:** Assign at least one staff member to serve as the primary contact for each charter school.
  - **Conduct annual site visits:** Visit each charter school at least once annually.
  - **Verify reporting compliance:** Ensure charter schools submit all legally required reports and fulfill mandatory reporting requirements.
  - **Monitor fiscal health:** Monitor each charter school's fiscal condition, including enrollment and attendance data, and periodically review credit and debit card transactions.

Oversight Requirements – Authorizer (cont.)

- **Address fiscal concerns and suspected misconduct:** Provide the charter school board with feedback on identified concerns and an opportunity to respond. Report any reasonable suspicion of fraud, misuse of public funds, embezzlement, or other financial crimes to the CDE and county superintendent.
- **Report changes in charter status:** Promptly notify the CDE when a charter renewal is granted or denied, a charter is revoked, or a charter school ceases operations for any reason.
- **Notify charter school boards of material concerns:** Within 60 days of identifying material concerns through oversight and monitoring activities, notify the charter school board of issues that could result in charter non-renewal or revocation, including academic performance, compliance, fiscal management, governance, health and safety, equity, and accessibility.

Oversight Requirements – Authorizer Effective July 1, 2027

The **2026–27 education budget trailer legislation** adds oversight responsibilities for charter school authorizers under EC 47604.32(b). Authorizers must:

- **Conduct facility visits:** Visit each approved resource center, meeting space, and satellite facility upon opening and at least once every two years.
- **Attend board meetings:** Attend at least one charter school board meeting in person annually.
- **Review board records:** Review charter school board agendas and meeting minutes annually.
- **Report suspected financial misconduct:** Refer credible allegations of fraud, misuse of funds, or illegal fiscal practices to the county superintendent.
- **Oversee annual audits:** Conduct annual financial and compliance audit oversight.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

- The **2026–27 education budget trailer legislation** adds oversight responsibilities for authorizers of **nonclassroom-based charter schools** under EC 47604.32(c). Authorizers must:
- **Review attendance:** Annually review average daily attendance (ADA).
- **Evaluate independent study documentation:** Review a sample of written independent study agreements and student work samples from each track to assess increases of 10% or more in independent study ADA.
- **Verify attendance reporting:** Request additional information when attendance records do not align with reported ADA.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

- The **2026–27 education budget trailer legislation** adds oversight responsibilities for authorizers of **nonclassroom-based charter schools** under EC 47604.32(c). Authorizers must:
- **Review attendance:** Annually review average daily attendance (ADA).
- **Evaluate independent study documentation:** Review a sample of written independent study agreements and student work samples from each track to assess increases of 10% or more in independent study ADA.
- **Verify attendance reporting:** Request additional information when attendance records do not align with reported ADA.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

Charter School Authorizer Audit Responsibilities

- **Annual audit requirements:** EC 41020 now expressly includes charter schools in its definition of LEAs for purposes of annual audit requirements. Charter schools must contract for an annual by May 1.
- **Audit contract oversight:** Authorizers must contract with an audit firm on behalf of any charter school under their authority that has not secured an audit contract by May 1, in sufficient time to meet the audit filing deadline (EC 41020(d)).
- **Annual audit oversight:** Authorizers must conduct annual financial and compliance audit oversight for charter schools under their authority.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

Charter School Authorizer Audit Responsibilities (cont.)

- **Audit findings and corrective actions:** Authorizers must review charter school audit reports and exceptions and determine whether each exception has been corrected or an acceptable corrective action plan has been developed (EC 41020(m)(1)).
- **Annual certification:** By **May 15**, charter authorizers must certify to the county superintendent that they have fulfilled the following audit oversight responsibilities for charter schools under their jurisdiction (EC 41020(m)(2)(A)):
  - **Audit review and corrective actions:** Reviewed all audit reports and exceptions and verified that each exception has been corrected or is addressed by an acceptable corrective action plan.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

Charter School Authorizer Audit Responsibilities (cont.)

- **Attendance-related audit exceptions:** Identified exceptions involving attendance-related state funds and required the charter school to submit appropriate reporting forms to CDE for processing.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

Charter Authorizer Audit Responsibilities (cont.)

- **Missed audit submission deadline:** If a charter school fails to submit its annual audit report by **January 31**, the charter authorizer may take one of the following actions (EC 41020.2(a)-(b)):
  - **Grant an extension** after consulting with the charter school board and auditor and obtaining consent from the county superintendent, CDE and SCO. Extensions are subject to the following conditions:
    - The LEA and auditor must certify that unforeseen circumstances or complex situations prevent timely completion.
    - Extensions must be limited to the shortest reasonable period, granted in increments of no more than 30 calendar days, and may not extend beyond **March 31**.

Oversight Requirements – Authorizer Effective July 1, 2027 (cont.)

Charter Authorizer Audit Responsibilities (cont.)

- **Contract with another audit firm** to complete the audit after consulting with the SCO, charter school board and auditors (EC 41020.2(b)(3)).
- **Request an SCO investigation** into the delay and take appropriate action (EC 41020.2(b)(4)).

Group Activity #2
Discussion on Authorizer Requirements

1. How does your county office ensure charter authorizers are fulfilling their oversight role?
2. In light of the new charter authorizer requirements, what support does your county office currently provide, and what additional support could it offer?



Oversight Requirements – Authorizer (cont.)

- **Fiscal oversight responsibilities:** Charter authorizers must provide adequate and appropriate fiscal oversight, including determining whether charter schools follow prudent business practices and adhere to generally accepted accounting principles (GAAP) when accounting for revenues and expenditures and preparing financial reports.
- **Financial monitoring:** To assess **and** monitor a charter school's fiscal condition, the authorizer may request any financial or other information necessary to fulfill its oversight responsibilities.
- **Memorandum of understanding (MOU):** FCMAT recommends documenting fiscal oversight expectations, reporting requirements, and information-sharing procedures in an MOU between the authorizer and charter school.

Oversight Requirements – Charter School

- Education Code 47604.33 requires charter schools to submit the following financial reports and documents to their authorizer:
  - **By July 1:** Preliminary budget and LCAP.
  - **By September 15:** Final unaudited financial report that covers the full prior fiscal year.
  - **By December 15:** First interim financial report, reflecting the charter school's financial position as of October 31.
  - **By January 31:** Annual independent financial audit report for the preceding fiscal year.
  - **By March 15:** Second interim financial report, reflecting the charter school's financial position as of January 31.

Oversight Requirements – Charter School (cont.)

- **Compliance requirements:** Charter schools must comply with the provisions of their charter petitions, MOUs, and other applicable local agreements.
  - **Other local agreements:** Agreements governing specific aspects of the oversight relationship, such as sole occupancy agreements, provision of special services, and other specific terms.

Key Charter School Changes Authorizers Should Know

- **Financial transparency and accountability: EC 47604.3** requires charter schools and **entities that manage charter schools** to respond promptly to all reasonable inquiries regarding financial records and contracts from their charter authorizers, county superintendents, or CDE.

- **Teacher credentialing penalties: EC 45037** extends teacher credentialing penalties **to charter schools**, with penalties withheld from state funding when a teacher lacks a valid credential or certification.

Key Charter School Changes Authorizers Should Know (cont.)

- **Contract approval requirement: EC 47605(e)(6) and 47605.6(e)(6) require charter schools** to obtain board approval at a board meeting for any contract that would compensate an individual contractor more than $100,000 in a fiscal year.

- **Adopt a compliant contractor evaluation/approval policy:** EC 51827 requires that each charter adopt a policy covering all 13 statutory requirements, which include anti-incentive rules, background clearances, market-value terms, NCB cost itemization, etc.
- Family daycare homes & certain license-exempt providers are exempt.

Key Charter School Changes Authorizers Should Know (cont.)

- **Charter school financial reporting: EC 41020(c)(2)(B)(ii)** requires charter school financial data included in the authorizer's audit to be presented separately, as a major fund or in supplementary financial statements.

- **Grade 11 enrollment requirement: EC 46149 requires charter schools** offering grades 10 and 12 to also offer grade 11 and enroll students in that grade.

Oversight Starts with Charter Approval

- **Early and proactive oversight:** Begin oversight upon charter approval, using a team-based approach and be proactive, especially in fiscal monitoring.
- **Preoperational funding:** Monitor startup loans, grants, and other funding that charter schools may receive before opening.
- **Ongoing communication:** Maintain active and ongoing communication with charter schools to ensure compliance with applicable laws, regulations, financial reporting requirements, charter petitions, MOUs, and other agreements and requirements.
- **Oversight documentation:** Document all oversight actions, including identified concerns, corrective actions, and their resolution.
- **Site visits:** Conduct multiple scheduled and unscheduled site visits throughout the year to support effective oversight.

Reimbursement for Oversight

- **Oversight fees:** EC 47613 allows authorizers to charge for the **actual costs** of supervisorial oversight, subject to the following limits:
  - Up to 1% of the charter school's current-year LCFF revenue; or
  - Up to 3% if the authorizer provides the charter school with substantially rent-free facilities.
- **Oversight documentation: FCMAT recommends documenting all time spent performing oversight responsibilities to substantiate associated costs.**
- **Oversight accountability:** A California Research Bureau study found that up to 20% of authorizers charge the maximum allowable for reimbursement without fulfilling the oversight responsibilities established in the Education Code.

Documenting Oversight Activities

Examples of effective oversight documentation practices include:

- **Time tracking:** Using timesheets to record time spent oversight activities.
- **Site visits:** Maintain a calendar of all charter school visits.
- **Meeting records:** Document meeting discussions, key decisions, and attendees.
- **Travel records:** Maintain mileage logs for travel to charter school locations.
- **Oversight team activities:** Document internal oversight team meetings and follow-up actions.
- **Communication records:** Save emails and correspondence and maintain communication logs.

Documenting Oversight Activities (cont.)

Examples of effective oversight documentation practices include:

- **Supporting documentation:** Preserve copies of all materials examined during review, including notes.
- **Cost allocation:** Document the time spent on all charter oversight activities and calculate the associated costs.

Other Oversight Considerations

- **Internal controls** are essential for efficient operations, reliable financial information, and legal compliance. They help prevent and detect errors, fraud, and material weaknesses.
- **Examples of internal controls include:**
  - **Checks and balances:** Establishing procedures to ensure accountability and oversight..
  - **Separation of duties:** Dividing financial responsibilities among multiple employees.
  - **Staff cross-training:** Training employees to perform essential functions and maintain continuity.
  - **Prenumbered documents:** Using sequentially numbered documents to support tracking and accountability.

Other Oversight Considerations (cont.)

- **Asset security:** Safeguarding physical and financial assets against loss, theft, or misuse.
- **Timely reconciliations:** Regularly reconciling financial records to identify and resolve discrepancies.

Other Oversight Considerations (cont.)

- **Bylaws:** Rules adopted by an organization to govern its internal operations and management.
- **Nonprofit requirements:** Nonprofit corporations seeking 501(c)(3) tax-exempt status from the Internal Revenue Service must have bylaws.
  - **Governance framework:** Bylaws provide guidance on the roles and responsibilities of officers and directors (board members) and outline rules and procedures for meetings, recordkeeping, and other operational standards.
  - **The content of a charter school's bylaws is important.**
    - Issues related to sole statutory member structures often originate here.

Other Oversight Considerations (cont.)

- **Board policies:** A set of values articulated and approved by the governing board. They outline the desired outcomes for the organization, establish boundaries on the methods to achieve those outcomes, and guide governance and decision-making.
  - **Key policy areas:** Governance, instruction, students, special education, personnel, and fiscal matters.
  - **Purpose:** Board policies ensure accountability and support unbiased decision-making.
- **Oversight consideration: Does the charter school follow its own board-adopted policies and procedures?**

Financial Reports for Oversight

- The Education Code addresses the **minimum** financial information a charter school must submit to its authorizer.
  - **Required reporting format:** Only the unaudited actuals financial report has a state-mandated format, using either the Alternative Form or the SACS [Standardized Account Code Structure] Form.
- To assess a charter school's fiscal condition, authorizers should periodically review and analyze the following:
  - Financial statements (income statement, balance sheet, cashflow).
  - Bank reconciliations.
  - Accounts payable aging reports.
  - Multiyear projections (MYPs).
  - Cashflow projections.

Basis of Accounting

- **Cash basis:** Recognizes when cash is received and records expenses when cash is disbursed. LEAs are not permitted to use this method.
- **Modified accrual basis:** Recognizes revenue when it becomes available and measurable and generally records expenses when liabilities are incurred. This method is typically used by districts in governmental funds.
- **Full accrual basis:** Recognizes revenue and expenses when they are earned or incurred, regardless of when payment is received or disbursed. **This method is commonly used by charter schools operating as or by nonprofit public benefit corporations**.

Determining Going Concern – Reserves

- **Net position** (or fund balance) and **reserves** amounts indicate whether a charter school can continue as a "going concern" (defined as an organization that can continue to meet its financial obligations).
- Charter schools using accrual basis accounting report ending net position in three categories:
  - Net investment in capital assets.
  - Restricted net position.
  - **Unrestricted net position.**
    - **Budgetary reserves:** FCMAT uses **unrestricted net position** as a percentage of total expenditures to calculate a charter school's "budgetary reserve," similar to a school district's reserve calculation.
- **FCMAT recommends that charter schools maintain a minimum cash reserve of 5%.**

Group Activity #3
Charter School Reserve

1. Review the sample Unaudited Actuals Alternative Form.

2. Identify any concerns or questions regarding the charter school's overall financial health.

3. Calculate the charter school's:
   - Unrestricted budgetary reserve percentage.
   - Cash reserves.
   - Net position.



Group Activity #3
Charter School Reserve Solution

As of June 30, 2025:

Budgetary Reserves: 17.5%
($403,897.90 unrestricted net position ÷ $2,313,742.27 total expenditures)

Cash Reserves: 7.6%
($175,254.63 cash ÷ $2,313,742.27 total expenditures)

Net Position: 20.0%
($462,813.30 total net position ÷ $2,313,742.27 total expenditures)



Red Flags and Signs of Fiscal Distress

Indicators of fiscal distress in charter schools include:

- **Enrollment and attendance shortfalls:** Consistently falling materially short of enrollment or ADA projections.
- **Structural deficits:** Repeatedly spending more than the charter school receives in revenue.
- **Lack of financial transparency:** Leadership cannot clearly and effectively communicate the charter school's fiscal health.
- **Unresolved financial obligations:** Accumulating unpaid accounts payables or uncollected accounts receivables.
- **Reliance on reserves:** Frequent reliance on reserves or restricted funds.
- **Persistent financial concerns:** Fiscal challenges dominate staff and board discussions and meetings.

Red Flags and Signs of Fiscal Distress (cont).

Indicators of fiscal distress in charter schools include:

- **Inadequate board oversight:** Irregular board meetings or meeting minutes that lack evidence of a financial review.
- **Weak internal controls:** Inadequate polices and procedures, financial management tools, performance metrics and reporting practices.

Source: Aase, B. (2009, October). *Measuring charter school financial health*. National Association of Charter School Authorizers.

FCMAT Tools for Charter Schools

- FCMAT provides tools and resources to help charter schools and authorizers to support collaboration and strengthen fiscal oversight:
  - Charter School Accounting and Best Practices Manual.
  - Charter School Annual Oversight Checklist.
  - Charter Petition Evaluation Matrix.
  - Indicators of Risk or Potential Insolvency.
  - Special Education Efficiency Tool.
  - ASB Accounting Manual, Fraud Prevention Guide and Desk Reference.

Other Resources for Authorizers

- **Charter Authorizer Support Initiative:** A program collaboratively managed by the CDE's Charter Schools Division and two CDE subgrant recipients: the Santa Clara County Office of Education's Charter Schools Department and the California Charter Authorizing Professionals.
  - 2026 Charter Chat Schedule: **October 28, 2026 & December 9, 2026.**
- **Additional authorizer resources: County offices** and **large district authorizers** also provide resources to support charter school oversight. Examples include:
  - San Diego County Office of Education.
  - San Bernardino County Office of Education.
  - Los Angeles Unified School District.

Your Feedback Matters – Day 2

Please take a few minutes to share your feedback about today's training.

1. **Open your camera:** on phone or tablet.
2. **Scan the QR code:** Tap the link that appears.
3. **Submit your feedback:** Share what worked and what could improve.



Thank you!

APPENDIX

APPENDIX: Annual Audit Requirements

Annual Audit Requirement	EC Code	Previous Deadline	2025-26 Audit & Forward Deadline
LEA audit contract: LEA deadline to contract with an independent auditor or make arrangements with applicable oversight agency to do so. **(NEW)**	41020(c)(1)(A), (c)(2)(A), (c)(3)	April 1	May 1
Oversight agency responsibility: If an LEA has not contracted for an independent audit by May 1, its applicable oversight agency must arrange for the audit.	41020(d)(1)-(3)	May 1 (COE)	In time to meet the January 31 submission deadline
Audit contract termination: If an audit contract is terminated or denied for renewal, the LEA and auditor must notify its applicable oversight agency, CDE, and the State Controller's Office (SCO). **(NEW)**	41020(i)(6)(A)	Within 30 calendar days of the effective termination date	Within 30 calendar days of the effective termination date

APPENDIX: Annual Audit Requirements (cont.)

Annual Audit Requirement	EC Code	Previous Deadline	2025-26 Audit & Forward Deadline
Annual audit report submission	41020(k)	December 15	January 31
Governing board or body reviews the annual audit report and audit exceptions at a public meeting.	41020.3(a)	January 31	Within 45 days after the audit report is issued
Districts & EJPAs submit corrective actions to their COE.	41020(l)(1)(B)	March 15	April 15
Charter schools submit corrective actions to their authorizers. **(NEW)**	41020(m)(1)(B)	N/A	April 15
Charter authorizers annually certify to their COE that they have performed their audit oversight duties for their charter schools. **(NEW)**	41020(m)(2)(A)	N/A	May 15

APPENDIX: Annual Audit Requirements (cont.)

Annual Audit Requirement	EC Code	Previous Deadline	2025-26 Audit & Forward Deadline
COEs submit corrective actions to the CDE.	41020(n)(2)(B)	N/A	Within 60 days of receiving the letter, but no later than June 15
COEs annually certify to CDE and SCO that they have performed their audit oversight duties for their districts, EJPAs and charter schools.	41020(l)(2)	May 15	June 15

Sources: CDE's CAARO Update Issue #2026-10, CDE's Key Dates for Annual Audit and Education Code 41020.