

Excellent education through charter schools



# FINANCE 101 FOR CHARTER SCHOOL BOARD MEMBERS



# Presented By

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# Who is ExED?

- A **nonprofit organization** that manages and develops charter schools in low-income communities.
- **Results-focused:** As the full-service “CFO” for each school, ExED creates efficiencies and sound business practices that direct more resources to the classroom.
- Founded in 1998 by Bill Siart, former CEO and Chairman of First Interstate Bank.



# ExED Facts in 2012

• Number of Charter School Clients*		76
• Schools in LA County		59
• Schools in San Diego County		10
• Schools in Ventura County		3
• Schools in Orange County		4
• Students Served by ExED Clients		26,500
• Amount ExED Manages (in banks)		\$200 MM
• ExED-Financed School Facilities	17	
• Amount of ExED Facility Financing		\$110 MM
• Number of ExED employees		54
• ExED's Operating Budget		\$5,700,000

\*ExED works with 50 organizations that operate multiple schools



# Goals



**This presentation is designed to provide board members and school leaders the fiscal governance framework to promote non-profit and charter school industry best practices.**



**The importance of internal controls.**



**Financial reporting best practices.**



**Board trustees have a fiduciary responsibility to the school to ensure sound financial management.**



# Board Member Fiduciary Responsibility

- Financial Oversight of the charter school
- Oversee the operating budget to protect the resources of charter school
- Hold school staff accountable for budget management
- Ensure that the necessary financial policies are in place to prevent fraud, waste and misappropriation



# 3 Principles of Sound Financial Management

- #1** Understand financial condition of school.
- #2** Oversee the operating budget to protect the resources of school. Hold school staff accountable for budget management.
- #3** Ensure that the necessary financial policies are in place to prevent fraud, waste and misappropriation.



# Don't Be Surprised

- Each trustee, not just the treasurer and finance committee, has fiduciary responsibility to the school for sound financial management. The total board is liable if something goes awry.
- It is essential that financial reports be timely and understandable so all trustees can be fully informed.
- Develop finance and audit committees to monitor financial activity in greater detail.





# Board Financial Oversight



- Charter School boards are responsible for approval of annual financial reporting, revenue applications, banking decisions and vendor contract approval as outlined in the school's fiscal policies
- Committee structure designed to conduct research, planning and bring forth recommendations for board consideration
- Recommended checklists to ensure compliance with government non-profit and California State charter school regulations

# BOARD Oversight Checklist

Task	Annually	As Needed	Each Mtg.
Approve: Bank Account Changes, Fiscal Policies & Procedures, Loan Applications/Agreements, Vendor Contracts (see school's fiscal policies for \$ amount)		✓	
Review Student Enrollment & ADA			✓
Financial Statement Package			✓
Finance & Audit Committee Reports			✓
Government Revenue Update			✓
Approve Multi-Year Budget	✓		
State Reporting Requirements (varies by state)	✓		
Chartering District/State Interim & Unaudited Financial Reporting	✓		
Staff Salary Schedule/Structure	✓		
Annual Audit	✓		
Annual Tax Return: IRS Form 990 & State Form	✓		
Federal Title Funding: SSD Plan	✓		

# Audit & Finance Committee Membership

## *Member Qualifications include:*

- A clear understanding of the role of a board trustee and the school
- Financial Literacy— ability to read and understand financial statements
- Courage to ask probing questions and to follow up for the answers
- Commitment to safeguard the school and its assets
- Commitment that the school will report fairly, accurately and regularly on its activities and condition



# Finance Committee

***Goal: Financial Oversight***



The Finance Committee works with staff to prepare the annual operating budget and long-range-financial plan; monitors all financial activity in greater detail than the board as a whole, develops financial policies and brings recommendations to the board for approval.



# FINANCE Committee Check List

Task	Annually	As Needed	Each Mtg.
Review Bank Accounts: Opening/Closure/Signatory		✓	
Review & Recommend Loan Applications and Agreements		✓	
Hold School Management Team Accountable for Fiscal Operations		✓	
Review Financial Statements and Cash Flow Forecast			✓
Review Student Enrollment and Average Daily Attendance (ADA)			✓
Understand School's Revenue Sources			✓
Understand Financial Reporting Requirements of Chartering District/State/Federal			✓
Review and Update Fiscal Policies & Procedures	✓		
Review Salary Schedule for Highest Compensated Employees	✓		
Review Health & Retirement Benefits Package	✓		

# Audit Committee

*Goal: Annual Audit Oversight*



The audit committee consults with the independent auditor, recommends the annual independent audit to the board for approval, and monitors the implementation of recommendations on internal controls contained in the auditor's management letter.

# AUDIT Committee Check List

Task	Annually	As Needed	Each Mtg.
Coordinate Audit Firm Selection Process & Develop Recommendation for Board Consideration	✓		
Coordinate Annual Audit Report Review with: Auditor Business Management Provider/Accountant School Management Team	✓		
Develop Recommendation of Annual Audit Report for Board Consideration	✓		



# Internal Controls

Systems of policies and procedure designed to prevent fraud, waste and misappropriation.

- **Protect the assets of an organization.**
- **Create reliable financial reporting.**
- **Promote compliance with laws and regulations.**
- **Achieve effective and efficient operations.**





# Audit Standards

## *Statement on Auditing Standards 112 (SAS 112)*

- **Audit Requirement – auditor to gather more evidential documentation on internal control deficiencies and include additional findings in annual audit report.**
- **Effective December 2006 for Non-Profits in the wake of Sarbanes-Oxley Act.**



# Who is responsible?

- While everyone in the school is responsible for the internal controls the board of trustees, administrators and management are ultimately responsible.
- Charter schools which seek excellence in their operations must establish and maintain a strong internal control system that is effectively communicated to all.
  - ✓ Teachers
  - ✓ Office Managers
  - ✓ Food Service
  - ✓ Vendors & Subcontractors
  - ✓ Volunteers



# Financial Statement Presentation

<b>For-Profit Financial Statement</b>	<b>Equivalent Government Statement</b>	<b>Equivalent Nonprofit Statement</b>
Income Statement or Profit & Loss (P&L)	Statement of Activities	Statement of Activities
Balance Sheet	Statement of Net Assets	Statement of Financial Position
Cash Flow Statement	Statement of Cash Flows	Statement of Cash Flows



# Monthly Financial Package

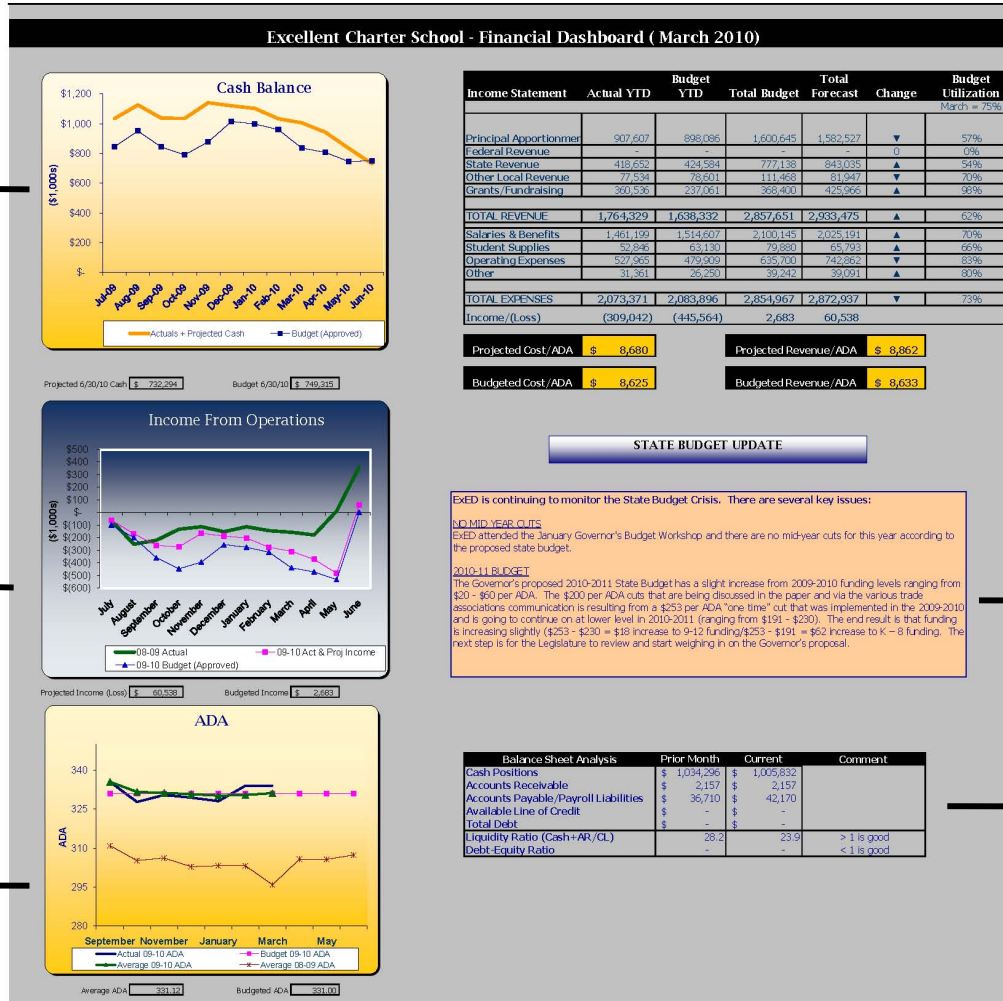
Boards should expect to receive monthly financial statement packages. Reports need to highlight variances to the operating budget, so board members can ask questions based on these variances.

- Income Statement (budget vs. actual)
- Balance Sheet
- Cash Flow Forecast
- Attendance Reporting Update
- Government Funding Update

\* See sample *Financial Dashboard* handout



# School Financial Reports



Cash balance

Income statement

Budgets vs. actuals

State Budget Update

ADA Changes

Balance Sheet Analysis



# Net Income vs. Cash

## There is a difference between your Net Income and Cash Balance

*Net Income or Net Loss* relates to revenue and expenses in the current period.

- *Net Income or Net Loss is the result of the bottom line. Did total revenue exceed total expenditures, if yes, then the school has a positive net income/profit. If no, then the school has a net loss.*

Cash takes into consideration the current period and all historical periods.

- *Cash can be discussed as Cash-On-Hand, Cash Forecast, Cash Expense, Cash Receipts. A school needs cash in order to pay for operating expenses i.e., payroll, rent, student materials and food.*



# Financial Statement **Red Flags**

## **CASH**

**Low or Negative balance**

## **ACCOUNTS RECEIVABLE**

**Remains constant throughout year and does not decrease**

## **DEPRECIATION**

**Depreciation must be expensed either monthly or at year-end**

## **ACCOUNTS PAYABLE**

**Remains constant or steadily increases**

## **PAYROLL LIABILITES**

**Payroll Taxes constant or steadily increase STRS/PERS/403b  
Retirement constant or steadily increase**

## **CURRENT & LONG TERM DEBT**

**Borrowed amount excessively high**

## **Fund Balance**

**Declining (unless special project) or negative balance**

## **OPERATING EXPENSES**

**Higher than budget**

## **ENROLLMENT & ADA RATE**

**Lower than budgeted**



# Tools to Manage Cash Flow

- When preparing your budget create a model with monthly detail. Make sure budget is balanced. *Depending on your school's long-range strategic plan we recommend, at the minimum, a 5-10% ending cash reserve.*
- Plan your Cash Flow out for the next twelve months. *If a loan is necessary, you will need at least 2-3 months of lead time. This also allows you time to cut expenses, recruit more students, or fundraise.*
- Create a forecast by month that lists the actual data with a revised forecast for future months. Account for Balance Sheet Items in forecast e.g., *Prior year accounts receivables, loan repayments, etc.*
- When recording your actual information compare month end cash balance to your budget for that month. *Be sure your Cash Balance is real. Reconcile Cash.*





# Cash Flow “All the Time”

- Boards should receive monthly cash flow forecasts.
- It is crucial to understand when your revenue is coming.
- Understand the State, Federal & Local Revenue Schedule.
- If you know when your school will have cash flow problems you can plan for the “hard times”.
- Cash Flow is an on going concern—even in the “good times”.
- Be financially responsible when planning your budget.



# Monthly Cash Flow Forecasting

Let's review a sample monthly cash flow forecast!



# Cash vs. Accrual vs. Modified Accrual Basis of Accounting

## Cash Basis

- Recognizes revenue when received and expenses when paid.
- Simple process and may be used for internal/interim reporting.
- Example: Child Nutrition bills for September and October arrive in November. Expense recorded in November.

## Accrual Basis

- Recognizes revenue when earned and expenses when incurred.
- More complex as estimated expenses need to be reconciled.
- Example: School serves students lunch during September and October, however bill arrives in November. Estimated expenses are recorded in September and October. True up done in November.

## Modified Accrual Basis

- Recognizes revenue when available and measurable and expenses when incurred.
- Unpaid bills are accrued but uncollected income is on cash basis.
- Example: School serves students lunch during September and October, however bill arrives in November. Estimated expenses are recorded in September and October. True up done when the actual bill is received.



# Charter School Audit Reports

- Charter schools that operate as or are operated by a nonprofit public benefit corporation pursuant to Section 501(c) (3) of the *Internal Revenue Code* typically use the not-for-profit accounting model (FASB) and the accrual basis of accounting.
- Charter schools that are governmental use the same basis of accounting as K-12 Schools (GASB) and use the modified accrual basis of accounting.
- During the budget crisis charter schools may need to plan to address going concern issues with their auditors and oversight agencies. A specific management plan will be necessary to avoid a qualified report or to explain the auditor's report if it is qualified due to a going concern.
- If the corporation (all charters included) have over \$500,000 in federal expenditures a Federal A-133 Single Audit is required.



# A-133 Single Audit Fixes

## ➤ The Most Common First-Year A-133 Single Audit Fixes

1. All Programs - Federal expenditures should be identified in the accounting system at the transaction level.

**2. All Programs - Time reporting requirements should be established for multi-funded and single cost objective employees. (See handout for guidance)**

3. Title I - NCLB Highly Qualified Teacher/Paraprofessional documentation requirements.

**4. Title I - The Consolidated Application should be supported by auditable records.**

5. Various Programs - Maintenance of Effort Calculations should be performed to check for compliance.

6. All Programs - Tracking of interest earned on federal funds not expended.

7. National School Lunch Program - Cafeteria claims should be supported by auditable records.

8. National School Lunch Program - Income verification for free and reduced lunch requirements.



# Charter School Compliance Needs

- Manage all elements of attendance and/or enrollment accounting
- Child Nutrition Applications
- Prepare and apply for funding opportunities
- Monitor and document the receipts of funding programs
- Research potential funding and grant opportunities
- Manage Student Demographic Data
- Research charter related legislation
- Train school staff on program procedures
- Identify relevant workshops and training opportunities
- Provide and develop State Department of Education approved templates
- Prepare for annual audits
- Complete and submit annual State Reports/Applications



# What is your attendance accounting methodology?

- Written policies should be kept on file at the school site and should be readily accessible by staff
  - How will attendance be taken and reported to school front office?
  - What is the process for weekly teacher verification?
  - How will attendance records be stored?
  - What is the process for student absence/tardy verification and documentation?
  - What contingency plan is in place for employee turn-over, vacation or illness?



# It's Now Audit Time

- **Audit Preparation**

- ✓ Field Work: May-September
- ✓ Maintain source documents throughout year, so they are organized and easily available
- ✓ Make sure corrections to any student reporting are completed and reported prior to June; to avoid discrepancies when auditors test your source documents
- ✓ Respond to audit requests in a timely manner





# Your School & Next Steps

- Review monthly financial statement package **including cash flow forecast.**
- Be sure the school's accountant/back office provider has current information on:
  - State/Federal/Local Revenue Schedules
  - School Specific Funding Entitlements
  - Follows State Accounting Guidelines
  - Accurate Enrollment and ADA Reporting
- Review school's fiscal policies and procedures to ensure adequate financial oversight committee structure and internal controls to prevent fraud, waste and misappropriation.
- Hold school staff accountable for budget management.





**Thank you**

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