

## Charter School Financial Management Issues to Discuss with Your Charter School's Business Manager

Adherence to and management of budgets is an essential element of financial planning. Budgets are similar to your GPS in allowing the school to maintain its appropriate course. In this regard, Directors have special duties extending beyond the fact of budget preparation. Directors are essential actors in maintaining the fiscal "course of action" agreed upon by your school's governing board.

### Directors should, in conjunction with their school's business manager:

- See that your Governing Board reviews Budget to Actuals Monthly.
- See that your Governing Board reviews an itemized list of Expenditures.
- See that these documents and similar items are retained as attachments to Board Minutes and appropriately referenced in a written fashion.
- See that your Governing Board has an opportunity to review high-value contracts for a reasonable time-period prior to a meeting at which the contract will be discussed, and that they see the contract in its entirety.

### Directors should additionally do or ask the following:

- Ensure that your school's Business Manager is following your school's Board-approved Purchasing Policy.
- Ensure that your school's Business Manager is following rules for fiscal management of federal programs including:
  - a. Management and tracking of all assets valued at least \$5,000 in part or in whole.
  - b. Unique identification and tracking of assets (both physically through tags and within accounting software); ID tags must specify the funding source(s) on each item.
  - c. Conducting an inventory of physical assets at least once every two years, and maintaining a system for recording changes in location or programmatic use of assets.
- Ask whether the business manager retains a "Fixed Asset" listing within the school's accounting software such that accruals on physical assets may be assessed at intermediate points in the year.
- Ask whether the business manager records all expenditures by Program, Function and Object and by funding source. Ask whether Program expenditures are tracked by Program, or by revenue source only (in which case program expenses may be recorded as non-program-specific expenses once programmatically-restricted funding has been fully expended).
- Ask whether the business manager allocates payrolls programmatically.
- Ask whether the business manager allocates indirect costs programmatically.
- Ask whether tax payments are being remitted in a timely manner.
- Ask whether the business manager retains PAR ("Payroll Activity Reports" required for federal grant funding) records for employees
- Ask whether the school has liabilities currently due that have remained due beyond 45/60 days.
- Ask to be given a duplicate record of the school's DUNS Number, CCR "Cage" Number, and the PASSWORD and other log-in information for accessing these accounts.
- Ask whether the school is complying with all of the conditions of E-Verify.
- Ask whether the school utilizes the "Excluded Parties List System" (accessed at: <https://www.epls.gov/>) when procuring goods or services with a value exceeding \$25,000 and paid for with federal funding.
- Ask how the manager determines allowability of costs for federal programs. The Manager should have knowledge of OMB Circular A-122, "Cost Principles for Non-Profit Organizations," and OMB Audit Guide A-133, "Audits of States, Local Governments and Non-Profit Organizations".
- Ask how your business manager plans for non-cash expenses (depreciation, value of capital leases). The manager should be aware that these need to be appropriately offset if the school is not to risk having a Net Asset deficiency at an once accruals recognized on Annual Financial Statements.

## General Rules of Recommended Fiscal Conduct

1. **No expenditure should be made prior to receiving board approval – expenditures in excess of a board-approved budget are not allowable.** Once a budget has been approved in an open and public meeting, it is an expression of a “contract” with the public in regard to spending, and may not be altered or overstepped except as specified in law. An officer or employee of a charter school may not make or incur indebtedness outside of the limits of established appropriations on behalf of the school without the PRIOR approval and order of the board.
2. **Budgets *must* be appropriately amended to reflect changes in actual revenues and expenditure over planned values.**
3. **The budget officer *may not* make or incur expenditures or encumbrances in excess of total appropriations in the budget as adopted or as subsequently amended.** The governing board may, by resolution, amend a budget. It may also authorize an expenditure that results in a deficit (this may occur only if the board determines that an emergency exists, and follows statutory guidelines for documenting this decision). In general, however, all funds must be expended ONLY in the context of the fiscal authority offered to the business manager by virtue of a board-approved budget.
4. **A school cannot “plan” to end year in a deficit position.** In terms of your Annual Financial Report or “AFR,” your school’s ending fund should not be negative unless appropriate levels of reserve assets exist to appropriately offset this deficiency balance (i. e. any negative value must be appropriately “covered” by existing reserves).
5. **A school should not end the year with a negative fund balance.** Expenditures of agencies and institutions of state government must be kept within available revenues including existing reserves. A negative fund balance indicates that operating expenditures exceeded the value of all existing assets including any relatively liquid reserves, leaving the school with obligations that it must settle beyond the close of the fiscal year.
6. **A school is not advised to plan to end the year with a negative Net Asset position after accruals are recorded in annual financial statements.** Schools intending to bond must consider this when they consider whether to take on liability in excess of the value of the asset they are acquiring through bonding.
7. **A school should act to deliberately arrest and reverse a growing Net Asset Deficiency.** After accruals are recorded in annual financial statements, a school may find themselves in a negative Net Asset position. This is considered a compliance issue and should be addressed through concerted and immediate action on the part of a governing board.
8. **A school should plan appropriately for Non-Cash Expenses.** All existing assets must exceed all existing liabilities as the school is called to account for management of its resources year by year. Otherwise, the school has obligated resources that it has not been administratively allocated to date, exceeding its budgetary authority.
9. **A school should not seek short-term loans to cover operating expenses.** A school should not, in addition, accept such loans from “Related Parties” including directors and members of the governing board.

### Planning for non-cash expenses

- Directors and Board Members should each understand the difference between Accrual and Modified Accrual Accounting, and how these relate to different components of Reporting Requirements – and why. A business manager should be capable of training directors and board managers in these concepts if necessary.
- Capital Assets must be entered into a school’s accounting system, which will then automatically compute accrued amounts of Depreciation. An alternative is to leave enough “free cash” to cover depreciation similar to that occurring in previous year.