

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.** This implies that, historically, the cost of providing educational services has exceeded the revenues the school been administratively allocated to cover these, exceeding the fiscal authority of the school. 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.