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PUBLIC CHARTER SCHOOL

Charter Schools Accounting Manual

Adopted Based on the California Charter School Accounting and Best Practices Manual, Fiscal Crisis and Management Assistance Team (FCMAT)

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Chapter 1– Introduction

The Charter School's Accounting Manual ("Manual") is adopted based on the FCMAT California Charter School Accounting and Best Practices Manual, 2017 ("CSAM"). Each chapter of this manual covers one or more critical aspects of charter school financial management and related areas. Because current laws do not cover every aspect of charter school operation, this manual goes beyond the law and official regulations to include information based on best practices and sound internal controls essential to the success of the charter school.

The Charter School recognizes it is a best practice to have the following:

- Comprehensive governing board policies and administrative regulations regarding accounting, operations, and human resources operating procedures across the People Services Division that provide guidance for school governance and operations beyond what is in the law, including policies, procedures, best practices, and internal controls.
- A detailed, comprehensive, and user-friendly charter school accounting policies and procedures manual; employee manual; human resources policies and procedures manual; facilities and operations manual.
- Ongoing training for staff members who work in finance and accounting.

The policy of the Charter School's governing board is to adopt the Charter School's Accounting Manual, which shall be updated on an ongoing basis based on the most recent Fiscal Crisis and Management Assistance Team (FCMAT) *California Charter School Accounting and Best Practices Manual and* replace any existing accounting policies and procedures of the Charter School.

The Need to Focus on Finance

The Charter School recognizes the following:

- When charter schools fail it is often because of one or more of the following: lack of knowledge about school finance and business; lack of appropriate accounting practices; lack of financial management; uncontrolled spending.
- Sound financial management, including understanding, establishing, implementing, and monitoring proper internal controls and accounting policies and procedures, is essential to our ability to achieve our mission.
- Staff should ensure that they follow established accounting procedures and internal controls, and administrators should ensure that staff have sufficient guidance and training to do so.
- Appropriate communication, standardization, training, and oversight are critical to ensure that the correct processes and procedures are followed.
- The service provider and oversight staff will attend annually FCMAT training as appropriate.
- Local communities and members of the public are typically sensitive to charter school issues and often pay special attention to this area. The media are also often quick to report on these issues.

Chapter 2 – Charter Schools Overview

The legislative intent of the Charter Schools Act of 1992 is to "provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure…" The intent is for charter schools to provide expanded choice and learning opportunities for all pupils that encourage different and innovative teaching methods. Expanded choices that engage students and that are performance-based create new professional opportunities for teachers and options for parents and pupils.

A charter school is a public school that may provide instruction in any combination of grades (transitional kindergarten through grade 12). Parents, teachers, or community members may initiate a charter petition, which is typically presented to and approved by a local school district's governing board. The law also grants chartering authority to county boards of education and the state board of education under certain circumstances, such as on appeal following a school district governing board's denial of a charter petition, or the direct approval of countywide or statewide charter schools.

The Charter School is:

- Independent, non-classroom-based charter schools
- Funded based on average daily attendance.
- Freed from most state regulations that apply to school districts and county offices of education.
- Able to hire their own teachers and other staff.
- Subject to closure if they fail to meet their promises for student outcomes or violate generally accepted accounting principles.

The California Education Code (EC) discusses charter schools in Part 26.8, sections 47600-47664, which provide general provisions for charter schools, establishment of charter schools, operations, funding determinations, reporting requirements, facilities, notice/evaluation of effectiveness, special education, and computations that affect the authorizing local education agency's enrollment exclusions and in-lieu property taxes.

Charter schools have grown significantly over the last decade. In 2016-17, there were more than 1,200 in California serving more than 570,000 students, or approximately 9% of public-school students.

Many school districts consider charter schools valuable partners that offer pupils more choices of educational programs to meet their diverse educational needs and priorities.

Charter schools are governed by EC section 47612.5 and California Code of Regulations (CCR) Title 5.

Non-classroom-Based Charter Schools

Education Code section 47612.5(e)(2) and 5 CCR §11963.1-11963.7 define non-classroom-based instruction and prohibit a charter school from receiving any funding for non-classroom-based instruction unless the State Board of Education (SBE) determines that it is eligible for funding.

Non-classroom-based charter schools differ from traditional charter schools in that they deliver instruction outside of the classroom. Non-classroom-based instruction includes home schooling and various forms of independent study, including computer-based instruction using software modules and teacher-directed distance learning.

Non-classroom-based charter schools are considered independent study (IS) charter schools; however, the definition of IS as it relates to charter school funding is different than it is for non-charter TK-12 schools.

Independent study charter schoolteachers should continue to maintain samples of student work that are signed, dated and turned in at the end of the learning period, but funding is not lost if the student fails to complete the entire assignment. The school will receive funding for each day the student logs in to the system; however, there should be enough work to validate attendance.

Independent and Dependent Charter Schools

Although the terms *independent* and *dependent* are not defined in the Charter Schools Act, they are often used to describe the relationship between an authorizing district and a charter school.

Typically, when a charter school is described as dependent, it has been created by a district's governing board and is treated as another one of the district's schools. Often this type of charter school is also, what the Charter Schools Act describes as a conversion charter school. This means that it has been converted from an existing public school and required the signatures of at least 50% of the permanent teachers employed at the public school to be converted (E.C. 47605(a)(2)).

In contrast, charter schools described as independent have usually been formed by parents, teachers, community members, or charter management organizations. This type of school is also often, what the Charter Schools Act describes as a startup school. This means it has been established with the signatures of the parents or guardians of at least half the number of students that the charter school estimates will enroll in the school, or at least half the number of teachers that the charter school estimates it will hire (E.C. 47605(a) (1)(A)(B)).

Regardless of the type of charter school or the terms used, the Education Code states that they will "operate independently from the existing school district structure" (E.C. 47601). Authorizers must ensure that their relationship with a charter school is balanced with their role as the charter school's oversight agency and with the statutory directive that a charter school operate independently from the public-school system.

Charter School Funding

Charter schools are tuition-free, nonsectarian public schools open to any student who wishes to attend, subject to capacity and to geographic restrictions outlined in education code. They are schools of choice, which means that parents select the school they want their student to attend and, just as in a traditional TK-12 public school, the education is free.

The Local Control Funding Formula

Funding for charter schools and traditional K-12 school districts is calculated using the Local Control Funding Formula (LCFF). The LCFF creates funding targets based on student characteristics and provides more flexibility to use these funds to improve student outcomes.

The CDE is responsible for calculating and certifying LCFF apportionments for all local educational agencies (LEAs). The initial apportionment that occurs in July is the advance apportionment and is only for the current fiscal year. This certification is based on second principal apportionment (P-2) data from the prior year with statewide adjustments, not on updated LEA data. Certifications based on updated LEA data occur twice a year, in February and June. These two certifications contain three fiscal years: the current year, prior year and second prior year. It takes three fiscal years to finalize the certifications. For example, fiscal year 2016-17 data was initially certified in the July 2016 advance but will not be finalized until the June 2019 annual apportionment Recertification 3. The certification schedule is as follows:

Fiscal Year	July Certification	February Certification	June Certification
1	Advance	First Principal Apportionment (P-1)	Second Principal Apportionment (P-2)
2	--	Annual Apportionment (Annual)	Recertification 1 (Annual R1)
3	--	Recertification 2 (Annual R2)	Recertification 3 (Annual R3)

In each period, the certified values are updated, replacing the prior values, and funding is disbursed using the method discussed in the State Aid section below. For more information, visit the CDE web page: http:/ www. cde.ca.gov/fg/aa/pa/.

The CDE has developed an LCFF website with up-to-date information and frequently asked questions (FAQs). This manual provides helpful links to specific items on the CDE website. For further general information, visit http:/ www.cde.ca.gov/fg/aa/lc/. In addition, the CDE provides an LCFF funding snapshot by LEA at http://ias. cde.ca.gov/lcffsnapshot/lcff.aspx . It may be useful to retrieve a familiar charter school's funding snapshot for reference while reading the LCFF section at http:/ www.cde.ca.gov/fg/aa/lc/.

At the time of this publication, the LCFF is not fully implemented and all LEAs, including charter schools, receive funding based on a transition funding formula. During transition, each charter school's annual funding and progress are unique. Full implementation is estimated by fiscal year 2020-21.

Funding Calculation

The LCFF calculation is integral to budget development. It is the largest source of unrestricted revenue (revenue that can be used for any educational purpose).

The LCFF has multiple components, including target, economic recovery target and minimum state aid guarantee. During transition, the LCFF also has floor, remaining need, and gap funding components. Following is a description of each component. For more calculation, details visit the CDE's Principal Apportionment website at http://www.cde.ca.gov/fg/aa/pa . Each section below contains reference to the applicable Principal Apportionment exhibits.

Target [EC 42238.02] The target is the core component of LCFF. It represents the full value of LCFF funding and is recalculated annually based on current average daily attendance (ADA), unduplicated pupil percentage (UPP), and funding rates. At full implementation, school districts and charter schools will be funded at target.

The target is composed of grade span-specific calculations: base grant with adjustments for grades K-3 class size and for grades 9-12; supplemental grant; and concentration grant. In addition, although not applicable to charter schools, school district target calculations may include an add-on based on 2012-13 funding rates for home-to- school transportation, targeted instructional improvement block grant, and small school district bus replacement. The base grant rate is changed each year by the cost-of-living adjustment (COLA) defined in the state budget. The grade span adjustments for grades K-3 and 9-12 are funded as a percentage of the base rate. The grades K- 3 adjustment is funded at the K-3 base rate multiplied by 10.4%, and the grades 9-12 adjustment is funded at the 9-12 base rate multiplied by 2.6%. Together, the base grant rate and the grade span adjustments are called the adjusted base grant.

Adjusted Base Grant Rate — Sample

Base Grant by grade span per ADA	$7,083	*2016-17 K-3 rate*
x Adjustment, 10.4% for K-3 or 2.6% for 9-12	x 110.40%	*K-3 adjustment, 10.4%*
Adjusted Base Grant per ADA	$7,820	

Supplemental and concentration grant funding is based on the percentage of students who are English learners, foster youth, or low-income. This subset of the total student population is called the unduplicated pupil count (UPC) if expressed as a number, or unduplicated pupil percentage (UPP) if expressed as a percentage of total student population. Unduplicated means each student is counted only one time even though he or she may qualify under more than one category (e.g., be both an English learner and a foster youth).

To determine the rate of supplemental and concentration grant funding, statewide rates per ADA are adjusted by the LEA's UPP over three years to determine a local funding rate per ADA.

Unduplicated Pupil Percentage — Sample

2nd Prior Year + Prior Year + Current Year UPC 92 + 125 + 136 = 353 = 65.74% UPP

2nd Prior Year + Prior Year + Current Year Enrollment 152+181+ 204 = 537

The supplemental grant provides additional funding to support English learners, foster youth and low-income students. Statewide, it is funded at 20% of the adjusted base grant. This statewide rate per ADA is then adjusted by the UPP to determine the local funding rate.

Supplemental Grant Rate — Sample

Adjusted Base Grant by grade span per ADA $7,820 2016-17

Adjusted Base Grant, K-3 x 20% Supplemental grant factor x 20.00% Statewide

Supplemental Grant per ADA $1,564 Statewide

Supplemental Grant K-3 x Unduplicated Pupil Percentage (UPP) 65.74% LEA

UPP

Local Supplemental Grant per ADA $1,028.17
Local Supplemental Grant, K-3

Like the supplemental grant, the concentration grant provides additional funding to support English learner, foster youth and low-income students. However, concentration grant funding is provided only when the UPP exceeds 55% of the total student population. It is provided in addition to the supplemental grant funding. In other words, if a charter school has a UPP of 55%, it will receive supplemental grant funding but no concentration grant funding; if it has a UPP of 65%, it will receive supplemental grant funding, and it will receive concentration grant funding, which will be funded at 10% (65% less 55%).

Statewide, the concentration grant is funded at 50% of the adjusted base grant per ADA. The statewide rate is then adjusted by the UPP greater than 55% to determine the local funding rate.

Concentration Grant Rate — Sample

Adjusted Base Grant by grade span per ADA $7,820 2016-17

Adjusted Base Grant, K-3 x 50% Concentration grant factor x 50.00%

Statewide Concentration Grant per ADA $3,910
Statewide Concentration Grant, K-3

x Unduplicated Pupil Percentage (UPP) greater than 55% per ADA x 10.74%

LEA UPP of 65.74% less 55%

Local Concentration Grant per ADA $419.93 Local

Concentration Grant, K-3

The UPP applied to a charter school's concentration grant calculation is limited to no more than that of the highest UPP of a district in which the charter is physically located (also called the school district of physical location) [EC 42238.02(f)(2)]. Because of the 55% minimum UPP threshold, if the highest yielding school district of physical location has a UPP of 55% or lower, the charter school will receive no concentration grant funding. Alternatively, if the school district's UPP is more than 55% but less than the charter school's UPP, the charter school will receive less concentration grant funding than it would be entitled to where it permitted to use its own UPP.

The following example calculations show the various possible effects of the limit to UPP concentration grant funding. These examples assume the concentration grant is based on the 2016-17 K-3 statewide concentration grant rate of $3,910 as calculated above.

Concentration Grant limitation by School District of Physical Location

	Example 1	*Example 2*	*Example 3*
Charter School UPP	65.74%	65.74%	65.74%
School District UPP	83.12%	59.53%	52.83%
Charter School UPP for Concentration Grant	65.74%	59.53%	52.83%
Less: minimum threshold for funding	- 55%	- 55%	- 55%
UPP Greater than 55%	10.74%	4.53%	0%
Statewide Concentration Grant rate per K-3	x $3,910	x $3,910	x 3,910
Local Concentration Grant per K-3 ADA	$419.93/ADA	$177.12/ADA	$0/ADA

In Example 1 in the calculation above, the charter school's main office is located away from the school campus, in a TK-12 unified school district with a UPP of 83.12%, which is greater than the charter school's UPP of 65.74%. Because the school district's UPP is greater than the charter school's UPP, the charter school's local concentration grant funding rate is not reduced, and it is entitled to receive the full concentration grant funding rate of $419.93 per K-3 ADA based on its own UPP.

In Example 2 in the calculations above, the elementary school district only educates students in grades K-8, but one of the school districts of physical location is a high school district that serves students in grades 9-12 and that has the highest UPP, at 59.53%. Because the school district's UPP is lower than the charter school's UPP but greater than 55%, the charter school qualifies for a reduced rate of $177.12 in concentration grant funding per ADA and $1,028.17 per K-3 ADA in supplemental grant funding.

In Example 3 in the calculations above, a traditional classroom-based charter school serves students in grades K-3 on the premises of an elementary school facility owned by the authorizing school district. The charter school's UPP is 65.74% and the authorizing school district's UPP is 52.83%. For purposes of this example, it is assumed the charter school has no other school districts of physical location, so it receives $0 per K-3 ADA in concentration grant funding and
$1,028.17 per K-3 ADA in supplemental grant funding.
The Local Control Funding Formula (LCFF) legislation does not define physical location, but the CDE occasionally updates the definition. For further information see the CDE's web page: http:/ www.cde.ca.gov/ fg/sf/pa/padc1314faq.asp#csphysloc .
For more details on the target component, view the following exhibits on the principal apportionment section of the CDE's website (http://www.cde.ca.gov/fg/aa/pa/):

- Charter School Unduplicated Pupil Percentage
- Charter School LCFF Target Entitlement

Floor [E.C. 42238.03(a)]

The floor is the core component of the transitional formula. It is recalculated and adjusted annually.

The floor is based on 2012-13 funding rates, historical LCFF transitional progress, and current year ADA. In the floor component, ADA is funded at the same rate for all grade spans. In addition, the rate does not receive any adjustments for COLA included in the state budget because it represents the historical starting point of the funding transition.
For charter schools, the floor calculation is based on three ADA-based rates and one LEA-based amount. The base floor rate is based on the 2012-13 general purpose funding and is funded at the same rate per ADA in each year of the transition. The categorical program entitlement rate is based on the 2012-13 categorical block grant, in-lieu of economic impact aid, and new charter supplemental categorical block grants. It is also funded at the same rate per ADA in each year of the transition.

In contrast to per ADA funding, all other 2012-13 categorical program entitlements are funded at a flat rate per LEA in each year of the LCFF transition. For example, if a charter school received $2,855 in funding for the Arts and Music Block Grant in 2012-13, it would continue to receive $2,855 in the floor component in each year of the transition, regardless of the level of ADA. It should be noted, however, that many charter schools did not receive the Arts and Music Block Grant or any other per-LEA categorical funding in 2012-13. These charter schools would receive $0 funding in other categorical programs.

For each year of the LCFF transition, the floor's prior year cumulative gap rate is recalculated based on the cumulative progress toward target funding. The rate is determined by calculating a gap rate per ADA for the prior year and adding it to the existing cumulative gap funding rate per ADA. For more information on gap funding, see the Remaining Need and Gap Funding [EC 42238.03(b)] section of this manual.
Prior Year's Cumulative Gap Rate Component of the Floor

Gap Funding, Prior Year

/ ADA, Prior Year

= Gap funding per ADA, Prior Year

+ Prior Year's Cumulative Gap Rate per ADA, Prior Year

= Prior Year's Cumulative Gap Rate per ADA, Current Year

Floor — Example

2012-13 Adjusted General Purpose Funding	$5,109.00	Base Floor rate
+ 2012-13 Categorical Program Funding	$666.52	Categorical Block Grant rate
+ Prior Year Cumulative Gap Rate per ADA	$2,199.45	
	$7,974.97	per current ADA
+ 2012-13 Other Categorical Program Funding	$0	per LEA funding

Following is an example of the complete floor calculation including all the components discussed above.

For charter schools that did not operate in 2012-13, the floor is based on the prior year's floor rate per ADA of the determinative school district. The determinative school district is the school district of physical location (as defined in the Target section above) that yields the highest floor rate per ADA. The determinative school district used for a newly operational charter school's floor calculation need not be the same as the school district used for the unduplicated pupil percentage in the calculation of concentration grant funding.

For more details on the floor component, view the following exhibits in the principal apportionment section of the CDE's website (http://www.cde.ca.gov/fg/aa/pa/). Additional information can be found in the CDE's frequently asked questions, which can be found at: http:/www.cde.ca.gov/fg/aa/lc/lcfffaq.asp:

- 2012-13 Categorical Program Entitlements Subsumed into LCFF
- Prior Year Gap Rate per ADA Calculation
- Charter School LCFF Transition Calculation

Remaining Need and Gap Funding [EC 42238.03(b)]

During LCFF transition, the floor is subtracted from the target to determine the remaining funding needed to reach full implementation.

If there is a remaining need, the statewide gap funding rate is used to calculate the charter school's progressive funding to close the gap between the funding received so far and the target. This is known as the current year gap funding.

Remaining Need and Gap Funding	Example 1	Example 2	Example 3
Target	$1,000,000	$1,000,000	$1,000,000
-Floor	- $800,000	- $990,000	-$1,100,000
Remaining Need	$200,000	$10,000	NA

Statewide Gap Funding Rate %	54.47%	*54.47%	*54.47%
Gap Funding	$108,940	$5,447	$0

Because the gap funding rate is expressed as a percentage of the remaining need, it does not by itself provide a way to quickly identify whether a significant amount of transitional funding will be received in a fiscal year. In Example 1 and Example 2 above, the target and statewide gap funding rates are held constant, but the gap funding to be received varies significantly. To reasonably estimate new transitional funding, the gap funding rate must be used in conjunction with the remaining need. To view historical and projected gap rates, visit the CDE's LCFF Gap and COLA web page at http://www.cde.ca.gov/fg/aa/pa/lcffgapfunding.asp.

If there is no remaining need (Example 3 above), the charter school is deemed fully implemented and is funded at target in the current year and in future fiscal years. The floor funding continues to be calculated for other purposes but will not affect the LCFF.

For more details on the remaining need and gap funding components, view the following exhibit on the principal apportionment section of the CDE's website (http://www.cde.ca.gov/fg/aa/pa/):

- Charter School LCFF Transition Calculation

Economic Recovery Target [EC 42238.025]

The LCFF contains two ongoing protections. The first is the economic recovery target (ERT), which protects charter schools from losing funding because of the change from general purpose block grant funding to the LCFF. Based on assumptions defined in statute that projected funding through 2020-21, a determination was made regarding whether a charter school, as of 2020-21, would have benefited from remaining under the general-purpose block grant funding model. If so, then a value for ERT was calculated in 2013-14.

Imagine a charter school has two containers, one representing the funding that would have been received under the general-purpose block grant system and the second representing the funding to be received under LCFF on a per-ADA basis.

If the general-purpose block grant system container is larger than the LCFF container, then total ERT funding was calculated in 2013-14 using the per-ADA difference multiplied by ADA. The ERT component was calculated and finalized in 2013-14 and is not recalculated in subsequent years.

Less than 25 charter schools receive ERT funding. For those schools, ERT funding is implemented throughout the estimated eight-year LCFF transition period, with an additional 1/8 of total ERT funding received each fiscal year. For example, eligible charter schools received 1/8 of the ERT entitlement in 2013-14 and 1/4 in 2014-15. If full implementation occurs statewide in less than eight years, ERT will be fully funded in the final transition year. ERT receives no COLA and is funded at the calculated rate in perpetuity.

For more details on the ERT component, view the following exhibits on the principal apportionment section of the CDE's website (http://www.cde.ca.gov/fg/aa/pa/):

- Charter School LCFF Transition Calculation, line D-1
- Economic Recovery Target (only available as part of the 2013-14 exhibits)

Minimum State Aid and Additional State Aid [EC 42238.03(e)]

The second ongoing protection is the Minimum State Aid (MSA) guarantee, which protects charter schools that received more state funding under the 2012-13 general purpose block grant system than in the current fiscal year under LCFF.

The MSA guarantee is recalculated each year based on 2012-13 funding rates and current year ADA. The 2012-13 rates are held constant and not adjusted for the COLA in the state budget.

The difference between the MSA guarantee and LCFF transitional state funding is called additional state aid (ASA). Approximately 12 charter schools received ASA in the 2016-17 fiscal year.

Because the MSA/ASA is recalculated each fiscal year, a charter school will continue to receive ASA until state funding under the transitional LCFF is greater than received under the 2012-13 general purpose block grant system.

Because charter schools cannot be an excess tax district (which occurs when a school district receives property taxes in excess to the LCFF entitlement), charter schools that receive ASA may also incur an offset to the MSA guarantee [EC 47635(a)(4)]. The offset limits the ASA to no more than the LCFF entitlement.

For more details on the MSA guarantee component and ASA funding, view the following exhibit on the principal apportion section of the CDE's website (http://www.cde.ca.gov/fg/aa/pa/):

- Charter School LCFF Transition Calculation

LCFF Funding Source

In 1972, the California Supreme Court ruled in Serrano v. Priest that the system of funding schools through property taxes violated the state constitution because it resulted in grossly inequitable funding per student. Schools in communities with greater taxable wealth received more funding per student than schools in less wealthy communities. The court imposed a system of revenue limits, the system prior to LCFF. The revenue limit and LCFF system are similar in that they both provide a set level of funding per student to minimize inequitable funding. However, under revenue limits the funding per student was unique to each school district and based on historical local factors, whereas under the LCFF funding per student is equalized across all school districts and charter schools.

Similar to how the LCFF funding calculation is integral to the budget development process, calculating the source of LCFF funding is integral to the cash flow process. The sources of LCFF funding are state aid apportionment funding, Education Protection Account (EPA) funding, and local property tax dollars transferred from authorizing school districts. The source determines the frequency of the payment.

For the following section, think of the LCFF as defining a container of funding for each LEA. Once the container is defined, it is filled with funding from different sources. Note that the percentage received from each source varies by LEA.

In Lieu of Property Taxes [EC 47635]

The first source of LCFF funding is in lieu of property taxes. The county does not distribute property taxes directly to a charter school. Instead, the authorizing LEA passes through a portion of property taxes to the charter school; this is called in lieu of property taxes (sometimes written as in-lieu property taxes or in-lieu of property taxes) and is recorded as a credit to Object 8096, Transfers to Charter Schools in Lieu of Property Taxes. Property taxes are recorded as revenue for the fiscal year in which they are received and are not accrued.

For most authorizing LEA's, the in lieu of property tax calculation is performed by dividing property tax receipts by the total of charter school and LEA ADA:

In-Lieu of Property Tax — Example

Property Tax $9,879,234 = $982.25/ADA

LEA ADA + All Sponsored Charter School ADA (9,881.40) + x176.40 ADA

$173,269 In-Lieu Property

If the result of the above formula would provide more than the charter school is entitled to under LCFF, the in lieu of property tax amount is reduced to the level of LCFF funding.

In its first operational year or when expanding grades served, a charter school may submit projected ADA and other pupil count information via the Pupil Estimates for New and Significantly Expanding Charter Schools (PENSEC) and Charter School 20 Day Attendance Report (Charter 20 Day) special data collections. Estimated ADA and UPP information from these special data collections is used to calculate the in lieu of property tax transfer for August through January. Two payments are made in approximately September and December.

The September payment, equivalent to approximately 28% of total estimated in lieu of property tax, is for the months of August through November. The December payment, equivalent to approximately 18%, is for the months of December and January.

Aug	Sep	Oct	Nov	Dec	Jan
	28%			18%	

For all other charter schools, the authorizing agency transfers in lieu of property taxes no later than the 15th of each month, per the following schedule:

Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
6%	12%	8%	8%	8%	8%	8%	14%	7%	7%	7%	7%
Prior Year Second Principal							Current Year First Principal				Prior Year Second Principal.

6%	12%	8%	8%	8%	8%	8%	1/3	1/6	1/6	1/6	Remainder

Because property taxes are certified multiple times throughout the year, actual transfer receipts may vary from the above schedule because of changes in the certification. A final payment is made in February of the subsequent fiscal year after ADA and school district property tax receipts are certified.

The payment of in lieu of property tax is managed locally; the state does not have a role. Therefore, it is important to monitor for potential over- or underpayment, especially when recertification occurs. If left unmonitored, in lieu of tax transfers could negatively affect a charter school's cash flow.

State Aid [EC 14041]

The second source of LCFF funding is state aid, which is received from the State of California and makes up the difference in per-pupil funding between in lieu of property taxes and the remainder of LCFF, providing equity between LEAs. State aid is recorded as a credit to Object 8011, LCFF State Aid—Current Year, or Object 8019, LCFF/Revenue Limit State Aid—Prior Years.

State aid is funded on a monthly schedule usually referred to as the 5-5-9 schedule. Because the entitlement is recertified based on the advance, first principal and second principal apportionment certifications, the amounts received per month will vary from the schedule below.

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
5%	5%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Advance							First Principal				Second Principal
5%	5%	9%	9%	9%	9%	9%	1/5	1/5	1/5	1/5	Remainder

<u>Education Protection Account [Section 36 of Article XIII of the California Constitution]</u>

Proposition 30, which passed in 2012-13, initially provided two temporary tax increases: a sales tax that expired in December 2016, and an income tax that was extended until 2030 by the passage of Proposition 5 5 in November 2016, which amended section 36 of Article XIII of the California Constitution. Education protection account (EPA) funding is recorded in Object 8012, Education Protection Account State Aid—Current Year, or in Object 8019, LCFF/Revenue Limit State Aid—Prior Years. It is funded as a percentage of state aid. In the standardized account code structure (SACS), Resource 1400, Education Protection Account, has been established. All local educational agencies (LEAs) that receive EPA funds, including charter schools, are required to use these account and resource codes. Charter schools that report financial data via the Alternative Form, which does not contain resource codes, should still use Objects 8012 and 8018 to record the EPA entitlement.

The tax revenues received from EPA are allocated to LEAs in proportion to revenue limits, the funding allocation method prior to LCFF. Because revenue limits are no longer calculated, an equivalency calculation is performed to determine an adjusted revenue limit included in the LCFF floor. The adjusted revenue limit is based on the 2012-13 general purpose funding per ADA, which is also used in the LCFF floor calculation (see Example 1 below). For charter schools that did not exist in 2012-13, EPA is funded at the minimum of $200 per ADA (see Example 2 below).

Because EPA offsets other state revenue received under LCFF, it usually does not increase funding. If a charter school receives a large amount of in lieu of property tax and less than $200 per ADA, or no amount of state aid, it will receive the minimum EPA allocation of $200 per ADA, which may produce a minimal amount of funding in addition to LCFF funding (see Example 3 below).

Education Protection Account	Example 1	Example 2	Example 3
2012-13 General Purpose/ADA	$5,109	$0	$5,109
x ADA	x 175.05	x 175.05	x 175.05
Adjusted Revenue Limit in LCFF Floor	$894,330	$0	$894,330
x EPA Proportionate Share Rate	x 25.71753%	x 25.71753%	x 25.71753%
EPA Proportionate Share	$230,000	$0	$230,000
Is In-Lieu of Property Tax Greater?	No, $173,269	NA	Yes, $530,023
$200/ADA Minimum	$35,010	$35,010	$35,010
EPA Entitlement	$230,000	$35,010	$35,010

EPA is funded quarterly as a statewide percentage of the adjusted revenue limit. In addition, it is recertified with each payment based on new information known. The annual payment schedule is as follows:

Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June
0%	0%	25%	0%	0%	25%	0%	0%	25%	0%	0%	25%
1st Quarter			2nd Quart r			3rd Quarter			4th Quarter		

The final percentage of adjusted revenue limit and any LEA ADA adjustments are certified in March of the subsequent fiscal year. Adjustments are included in the March payment but may also affect the June payment if they include a reduction larger than the March payment.

For further information, visit the CDE Education Protection Account web page at http://www.cde.ca.gov/fg/aa/ pa/epa.asp. For specifics on SACS and accounting related to EPA funds, see also http:/ www.cde.ca.gov/fg/ ac/ac/sacsfaq.asp .

Additional funding is also available to charter schools outside of the LCFF when allowed by law or the specific funding method.

Lottery [Government Code sections 8880-8880.72]

In November 1984 California voters passed Proposition 37, the California State Lottery Act of 1984, to provide supplemental funding to public education without imposing additional or increased taxes. Lottery proceeds are disbursed as follows:

- 50% is returned to players as prizes
- A minimum of 34% is allocated to public education
- A maximum of 16% is used to administer the lottery

Initial lottery funding received under Proposition 37 could be used for any instructional purpose. However, Proposition 20, the Cardenas Textbook Act of 2000 (March 2000), created restrictions for a portion of the lottery funds allocated to public education and divided lottery into two resources, creating separate funding specifically for instructional materials. Instructional material funding is received only after state lottery receipts exceed the amount received in 1997-98. One half of the increase over the 1997-98 level is allocated to instructional material. For more information on the background, statewide calculation or use of funds, visit the CDE Lottery FAQs web page at: http://www.cde.ca.gov/fg/aa/lo/lotteryfaqs.asp.

The CDE calculates unrestricted lottery and restricted Proposition 20 lottery funding before disbursing the funding; no calculation is required for LEAs. When received, the funding is recorded as follows:

Funding	Object	Resource (SACS coding)
Unrestricted Lottery (non-Proposition 20)	8560 State Lottery Revenue	1100 Lottery: Unrestricted
Restricted Lottery (Proposition 20)	8560 State Lottery Revenue	6300 Lottery: Instructional Materials

Lottery funding is based on current year grades K-12 annual ADA multiplied by the statewide average excused absence factor of 1.04446. However, because current year annual ADA is not known until the end of the fiscal year, the funding is initially allocated using the prior year's annual ADA and adjusted in the subsequent fiscal year. The adjustment is added to or withheld from the second and third quarter payments in the subsequent fiscal year.

Calculate ADA for Current Year Lottery Funding — Example

Prior Year P-Annual ADA	837.75	Prior Year K-12 ADA
x Statewide Average Excused Absence Factor	x 1.04446	Excused absence factor
Prior Year P-Annual ADA for Lottery funding	875	Funding ADA for

Calculate ADA for Subsequent Fiscal Year Adjustment — Example

Actual P-Annual ADA	815.94	Actual K-12 ADA

x Statewide Average Excused Absence Factor	x 1.04446	Excused absence factor
Actual P-Annual ADA for Lottery funding	852	Actual ADA for Lottery
- Prior Year P-Annual ADA for Lottery funding	- 875	
ADA Adjustment	(23)	ADA Adjustment

Lottery funding is received quarterly, but the instructional material portion is received only after the 1997-98 level is reached. As of the 2016-17 fiscal year, instructional material lottery begins payment in the third quarter. If lottery funding continues to increase, payment may start in the second quarter in the future.

Following is a summary of the payment schedule. Note that lottery funding is disbursed a quarter in arrears, and the first quarter payment occurs in December. Actual quarterly lottery funding apportionments are based on state receipts, but approximate funding percentages are provided below for planning.

	September	December	March	June
Payment Period:	Prior Year 4th Qtr	1st Qtr	2nd Qtr*	3rd Qtr*
Combined Resources 1100 & 6300	25%	25%	25%	25%
Unrestricted Resource 0000	3	3	3	3
Instructional Materials Resource 6300	3	--	-- (future growth)	3

*May include prior year adjustments

Because lottery funding is based on prior year annual ADA, a new charter school will not receive lottery funding in its first year of operation; it will receive its first lottery apportionment in December of the second year of operation. That payment will include the entire prior year apportionment from the first year of operation plus the first quarterly estimate for the current year.

For further information, visit the CDE Lottery web page at http:/ www.cde.ca.gov/fg/aa/lo/.

Proposition 39, Facilities [EC Section 47614]

Proposition 39 changed California Education Code with the intent that public school facilities be shared fairly for the benefit of all pupils, including those in charter schools. Non-classroom-based charter schools are not eligible for Proposition 39 facilities.

Direct versus Local Funding [EC Section 47651]

Charter schools are funded either directly or locally.

If a charter elects to receive funding directly, it is considered direct funded. Warrants are drawn in favor of the superintendent of schools of the county in which the authorizing LEA is located but deposited directly into the charter school's funds or accounts.

Locally funded charter schools have their funds deposited in the funds or accounts of the charter authorizer.

Charter Schools Operated as or by a Nonprofit Public Benefit Corporation

A charter school may be operated as or by a tax-exempt nonprofit public benefit corporation organized under Internal Revenue Code section 501(c)(3), with its charitable status further defined as a school under Internal Revenue Code section 170(b)(1)(A)(ii).

Education Code section 47604(c) states that a charter authorizing entity that complies with its required oversight responsibilities 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 a charter school that is operated as or by a nonprofit public benefit corporation. Because of this, many charter school authorizers require that a charter school be operated as or by a nonprofit public benefit corporation.

The Charter School is operated as a not-for-profit school; nevertheless, all charter schools are governed by their authorizing agency (school district, county office of education, or state board of education) and are subject to the laws governing all charter schools. A charter school's authorizer oversees a charter school's fiscal operations and compliance with laws and regulations.

Enrollment and Admission

Charter schools cannot discriminate, are schools of choice, and are open to any student who wants to apply for admission. In other words, a charter school must accept all students who want to attend. However, there are often not enough spaces for every student who wants to attend. Education Code section 47605(b)(5)(H) requires that a charter petition state "Admission policies and procedures..." This allows a charter school to describe its admission requirements, application process, admission preferences, and how lotteries and wait lists shall occur. When more students want to attend than a charter school can serve, a charter school must use a random public selection process to determine which students may attend. Education Code section 47605(d)(2)(B) states that a random public selection process or drawing is required by the California Charter Schools Act and is typically known as a lottery.

Special Education

Charter schools, like traditional schools that serve students in transitional kindergarten (TK) through grade 12, are required to enroll and serve students with disabilities.

Charter schools can choose to organize special education services in three different ways: as a school of its authorizing school district; as an independent LEA member of a consortium special education local plan area (SELPA); or as an LEA member of one of the three charter–only

SELPAs. Charter schools that opt for LEA status — either within a consortium SELPA or as a member of a charter–only SELPA — assume legal responsibility for ensuring their students with disabilities receive the special services to which they are entitled under federal law.

Education Code sections 47640-47647 allow a charter school to either participate in a SELPA approved by the state board of education or be deemed a public school of the LEA that granted the charter. The Charter School will be an independent LEA member of an approved SELPA.

Charter schools are mandated to ensure that all pupils with disabilities receive special education and designated instruction and services in a manner that is consistent with their individualized education program (IEP) and that the IEP is in compliance with the Federal Individuals with Disabilities Education Act and implementing regulations, including section 300.209 of Title 3 4 of the Code of Federal Regulations (EC 47646).

Special education services have three funding sources: federal, state, and local. Federal Individuals with Disabilities Education Act (IDEA) funds and some state funds are provided through separate special education categorical grants. The largest source of funding for special education programs is from the state in accord with its Special Education Master Plan (Assembly Bill 602) and includes both state general fund money and federal revenues for specialized programs. The local contribution is the use of the local educational agencies' unrestricted general funds to make up the difference between the total cost of educating special needs students and the federal and state funding.

LEAs must maintain the same level of funding each year for special education and related services, regardless of how much funding they receive from the state or federal government during the fiscal year. This is commonly known as maintenance of effort. Current IDEA law states that when an LEA fails to maintain the level of funding, it must repay the amount by which it fell short. At the time of this publication, IDEA allows LEAs to reduce their special education expenditures in some circumstances. Among these are when a highly paid special education teacher retires and is replaced with someone who earns a lower salary, when a student who requires expensive services leaves the district, and when special education enrollment declines.

Cash Flow for New Charter Schools

Cash flow can be challenging for new charter schools. When a charter school starts and when it adds grade levels, it may receive advanced apportionment equivalent to 37% of estimated ADA for July through November of the first year of operation as reported by the charter school and approved by its authorizing agency and the county office of education. This first apportionment occurs between mid-September and mid-October.

A second apportionment for December and January occurs in late December and is revised based on actual attendance for the first 20 school days as reported by the charter school and approved by its granting agency and county office of education.

The first apportionment is calculated using projected second principal apportionment period (P-2) ADA. The second apportionment uses actual ADA for the first 20 school days (EC 47652) (which must be reported to the CDE no later than five days following the 20th school day) and adjusts the remaining months' payments based on those 20 days of attendance. Estimates and actual reporting are submitted to the CDE using the PENSEC report available on the CDE's website. For advanced funding in the first apportionment period, the charter school should file its first PENSEC report immediately after the start of the new fiscal year on July 1.

Charter schools authorized by a district may experience a negative impact on cash if they fail to request advanced funding and file the PENSEC report within the required period of time.

Charter Schools May Unionize

The Charter school is not unionized. Charter schools are subject to the Educational Employment Relations Act (EERA), which means they are subject to California's collective bargaining laws. However, each charter school and its employees decide whether to unionize.

Parents Not Required to Volunteer or Donate

Because charter schools are tuition-free public schools, its students' parents, just as at traditional public schools, are not required to volunteer or donate funds. The charter school cannot require parent involvement as a condition of enrollment; a student cannot be denied enrollment because their parent does not volunteer or does not make a financial contribution to the charter school.

Authorizer Responsibilities, Fees, and Additional Services Authorizer Responsibilities

The charter school authorizer is responsible for oversight of the charter school's academic and fiscal activities. This is essential to ensure a charter school's fiscal health and the ability for the authorizer to intervene when necessary. An authorizer can be liable for the debts of a charter school if it fails to provide the oversight required by law, including but not limited to those required by Education Code section 47604.32 and subdivisions (m) of section 47605. A report by the California Research Bureau (CRB) in January 2012 showed that 68% of charter school closures between 1992 and 2009 were a direct result of financial failure or mismanagement. mismanagement.

Education Code section 47604.32 states the responsibilities of a charter school-authorizing agency, including the following:

- 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 the authorizing LEA is to conduct oversight; rather, those details may be established and agreed to by the LEA and the charter school in a clearly written memorandum of understanding (MOU). FCMAT has developed an oversight checklist for charter schools and their authorizing agencies, which is available at www.fcmat.org. The checklist can help oversight agencies focus on important areas and help charter schools be aware of what districts, county offices of education and the state board of education may examine when exercising their responsibility as charter authorizing agencies. Charter school operators can use the checklist not only to prepare for review by oversight agencies but also to improve their own policies and procedures.

Fees for Oversight, Facilities, and Other Services

A charter authorizing entity may charge a charter school fees for the costs of performing oversight, as described in Education Code section 4760432. Education Code section 47613 states that the charter authorizer may charge the charter school for the actual costs of supervisorial oversight, not to exceed the following limits:

One Percent Oversight Fee

Charter school authorizers are permitted to charge for the actual costs of oversight, not to exceed 1% of the charter school's revenue, when the authorizer does not provide the charter school with substantially rent-free facilities.

Calculating Oversight Fees

For purposes of calculating the oversight fee, revenue of the charter school means the amount received in the current fiscal year from the LCFF, pursuant to Education Code section 42238.02 and as implemented by Education Code section 42238.03. The LCFF is based on total enrollment and the unduplicated pupil count (that is, no student may be counted twice) of enrolled students who are classified as English learners, low-income, or foster youth.

The revenue on which the oversight fees is based can also be described as the charter school's general-purpose entitlement (although charter schools are funded via the LCFF, the Education Code still refers to general-purpose entitlement, not LCFF). Federal revenues, restricted state revenues, one-time state allocations, and local revenue sources such as donations are not included when calculating the oversight fee.

Additional Services

Charter school authorizers may enter into separate agreements for services not mandated by the Education Code, using a fee-for-service arrangement. Examples include food services, special education, fiscal services, assistance with policy development, legal services, human resources, technology, student testing, and others not specifically identified in Education Code section 47613.

Governance

Charter school governance structures may vary but should always include a governing board with at least three members that may include parents, teachers, administrators, staff, and community members. Education Code section 47605(b)(5)(D) states that a charter school should include a reasonably comprehensive description of the school's governance structure process to be followed to ensure parental involvement.

One question that often arises is whether faculty and staff members can be governing board members. There is a growing trend of removing staff and faculty from boards to remove possible conflicts of interest or the appearance of impropriety. Although there may not be any illegality occurring when staff or faculty are on the board, this does create a need for a conflict-of-interest policy. Legislation has been proposed in the past to force charter schools to discontinue having staff and faculty as board members, but such laws have not been passed as of the publication of this manual. Nevertheless, if a charter school has staff and/or faculty

on its board, in light of Government Code section 1090 FCMAT strongly recommends that it have policies that specify when and how staff and faculty should recuse themselves from any agenda items that may create a real or perceived conflict of interest. There are additional considerations regarding conflict of interest, and disclosure and recusal are not sufficient in all cases. Please see Chapter 6 for further information.

Nonprofit public benefit corporations that operate charter schools in California are subject to the laws in the California Corporations Code governing nonprofit corporations as well as all laws and regulations pertaining to charter schools. This means charter schools are subject to the open meeting requirements in California Government Code section 54950, commonly referred to as the Brown Act, which require that the deliberations and actions of local public agencies be open to the public.

Charter Authorizer's Representative on the Charter School Board

If the charter school is operated as a nonprofit public benefit corporation, the charter authorizer is entitled under Education Code section 47604 to have a representative on the nonprofit corporation's governing board.

If the charter school asks the authorizer to have a board member on the charter school board or the charter school authorizer is considering placing a board member on the charter school board, both the charter school and authorizer should consult with their respective legal counsel.

Delegated Governance

Delegated governance structures are not considered by this charter school. This charter has entered into an agreement consistent with Section 47604 SB 126 with a service provider Lifelong Learning Administration Corporation, nonprofit public benefit corporation that provides task-related services that are performed at the direction of the governing body of the charter school and for which the governing body retains ultimate decision-making authority.

Delegating governance, whether the governance is shared or entirely delegated to a CSRO, impedes the openness, visibility, and accountability of charter school governance. It also limits the charter school authorizer's ability to access the information and documentation needed for effective oversight and monitoring of fiscal management and operations. A lack of open, public governance, whether intended or unintended, may increase the chance of conflict of interest, undermine public integrity and accountability, and obscure fiscal and management practices.

Delegated governance structures may also lead to the CSRO having an economic interest in, or control of, a charter school. This can result in a need to consolidate the CSRO and the charter school for financial reporting purposes. If this occurs and financial statements are not issued, it may result in a violation of generally accepted accounting principles. With that, this charter is not delegating the governance authority.

Chapter 3– Budgeting

A budget shows the management's proposed financial commitments for the charter school's present and future activities. The budgeting process and the budget itself allow anyone to compare actual revenues and actual expenditures with the amounts budgeted to determine if the management's expectations are being met.

California Department of Education Budget Calendar

The CDE prepares an annual financial reporting calendar that includes the budget, interim reporting, unaudited actuals and audit due dates. The 2017 calendar is available at http:/ www.cde.ca.gov/fg/sf/fr/ calendar17summary.asp and includes the due dates for multiple entities, including charter schools. Charter schools should review the CDE's financial reporting calendar annually to confirm the due dates and adhere to them. The updated calendars can be found at

http://www.cde.ca.gov/re/ca/fc/. A summary of the calendar is listed below for specific charter school due dates:

Due Date	Item	Description	Education Code
July 1	Budget	Charter school budget due to chartering authority and COE.	47604.33(a)(1)
September 15	Unaudited Actual Data	Charter school unaudited actual data due to chartering authority and COE.	47604. 33(a)(5) 42100(b)
October 15	Unaudited Actual Data	After reviewing for accuracy, COE transmits charter school unaudited actuals data to SSPI.	42100(a) (also, GC 7906(f))
December 15	First Interim (shows changes through October 31)	Charter school first interim due to chartering authority and COE.	47604.33(a)(3)
December 15	Audit	Charter school prior year audit due to chartering authority, COE, SSPI and State Controller.	47605(m) 41020(h)
March 15	Second Interim (shows changes through January 31)	Charter school second interim due to chartering authority and COE.	47604.33(a)(4)
May 15		COE must certify to SSPI and State Controller that prior year audits were reviewed and must identify attendance-related	41020(k)

Due dates are established in law unless otherwise noted. In accordance with Government Code (GC) sections 6700, 6707 and 6803, if the due date falls on a Saturday, Sunday, or holiday, the reporting date shall be the following workday. Unless stated otherwise, "days" means calendar days.

Budget Preparation and Adoption

It is best practice to develop budgets collaboratively with department and school site leaders. The charter school develops annually a budget calendar that includes a timeline and important tasks to be completed throughout each fiscal year. Under the leadership of the chief financial officer (CFO) or designee, budgets are developed for each school through the administrative body in partnership with the area superintendents, principals, and their teams, and for various departments in partnership with their respective managers and staff. All department and school budgets are combined into an organization wide budget that is then finalized and monitored by the CFO or designee. The budget may go through several drafts and may include budget proposals from individual departments and sites.

Each budget line item is accompanied by a detailed narrative explanation if appropriate. These explanations, if necessary, includes calculations, references, and other metrics that show how the budgeted amounts are determined and the reasoning for the estimated amounts. During the course of budget approval, the reasoning behind the budget line items is discussed with the governing bodies.

After the budget is consolidated and balanced, the area superintendent(s) of the charter school or designee and or if the schools does not have an area superintendent by principal or designees until there is an area superintendent is in place must review the budget and accompanying notes before final approval; the final budget is then submitted to the board of directors for review and adoption. Budget study sessions are often included on the budget calendar to allow discussion of various details. This helps ensure an understanding of underlying assumptions, allows questions to be addressed, and allows modifications to be made before the budget adoption meeting.

Charter schools need to allow sufficient time to prepare and review the budget and meet the July 1 deadline for submitting the budget to their authorizing agency and county office of education.

Monitoring Performance

A charter school should monitor its financial performance by comparing and analyzing actual revenues and expenditures with budgeted amounts throughout the fiscal year. A budget will change, and assumptions become more realistic as the year proceeds and estimates become

actuals.

The CFO or designee should monitor the budget each month by reviewing reports that compare actual year-to-date revenues and expenditures with budgeted amounts.

The CFO or designee will ensure that fiscal operations meet all federal and state requirements and safeguard all funds and assets.

The charter school board designates fund balance designation based on projected financials.

Projection Changes

After the board of directors adopts a budget by July 1 of each year, the CFO or designee will need to adjust projected revenue and expense amounts. Any budget is a best guess based on what is known when it is developed, and expenditures must be coded to their appropriate account codes budget lines. As the charter school develops estimates, identifies unanticipated needs, or encounters the need for other changes, it must revise its projections to include these new assumptions. Budget revisions are performed by updating the projections and will be provided to the board during a regular board meeting as presented in the schools' Interim financial reports and ratified by the board of directors. The financial reports are presented to the governing board 4 times a year utilizing the SACS's format that includes the budget vs actual columns at 1st and 2nd interim reporting periods. The format of the other two reports is a little different, the budget report reflects the projection for current year and new budget for upcoming year and the 4th report is the unaudited actual which includes the actuals for the year and the upcoming year budget.

Interim Financial Reports

Charter schools are required to file the following reports about their fiscal health with their authorizing agency and the local county superintendent of schools:

- The first interim report is due December 15. It reports on the actuals ending October 31 (the report covers July 1 – October 31).
- The second interim report is due March 15. It reports on the actuals through January 31 (the report covers July 1 – January 31).

The interim reports will include one of the following three certifications indicating whether the charter school is able to meet its financial obligations:

- A positive certification is given when the charter school will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is given when the charter school may not meet its financial obligations for the current or two subsequent fiscal years.
- A negative certification is given when a charter school will be unable to meet its financial obligations for the remainder of the current fiscal year or for the subsequent fiscal year.

Chapter 4 - The Basics

Accounting

Key management and business staff should understand two important concepts:

1. The flow of accounting information and how that information is translated into meaningful reports for management, supervisors, and other interested parties.
2. Accounting is a basic component of fraud prevention and the internal control environment.

The Charter school use external vendor to do all the administrative and back-office accounting services who are expert and knowledgeable about the school's financial position and familiar with the components that drive revenue and expenditures. Journal entries are used to establish the accounting records, and the accounting records are used to produce financial reports. two common purposes:

1. To accurately record and track income and expenses. Administrators use this information to

assess whether financial activities are occurring as projected or whether revisions are needed.

2. To collect and process the financial transactions needed for the charter school to file required federal, state, local, and organizational reports, including payroll tax reports and any other tax reports such as sales and use tax.

The day-to-day entering and recording of transactions are done with collaboration of school leaders /designees and the administrative vendor. Examples include writing checks, recording disbursements, processing payroll through Pay Master, and recording receipts.

Developing and maintaining the accounting system involves timely and accurate recording of transactions and providing this information to management and others through a third-party vendor. Developing and maintaining an accounting system involves establishing and maintaining a chart of accounts. The chart of accounts follow the Standardized Account Code Structure (SACS) approved by the charter school's authorizer. A charter school petition or renewal petition will state which account code structure the charter school intends to use. Accounting policies and procedures are established to provide guidance for processing financial transactions.

Nonfinancial and Statistical Data
Nonfinancial data may include a variety of measurements and data for analysis. Examples include comparisons of student enrollment and average daily attendance (ADA), student demographic data, test scores, unduplicated pupil percentage trends in CALPADS, meal counts, payroll analysis, general fund contributions to special education, bus ridership, computer replacement, long-term debt analysis, analysis of health and welfare, workers' compensation use, and more as applicable.

Financial Data

Financial reports include the following:

- Financial statements such as a statement of activities, often referred to as the profit and loss report; statement of financial position, also known as the balance sheet; and statement of cash flows.
- Program, grant, entitlement, and other reports such as program budgets and actual revenue and expenditures reports for submitting reimbursement claims or to demonstrate program activity. Examples include public charter school grant, national school lunch program reimbursement claims, special education expenditure maintenance of effort report, and other grants and reports.
- Register reports, which list all transactions of a certain nature such as cash receipts; separate lists of receipts for cash, checks, and credit cards; check register reports; payroll and invoice reports, and others.
- Lists of data such as payroll, vendor, employee, and inventory.
- Aging reports for vendors (accounts payable) and customers (accounts receivable).
- fixed asset equipment inventory reports to identify product and equipment inventory on

hand and its cost, date of purchase, useful life, expected inventory shortage, and anticipated equipment obsolescence.

- Exception reports listing open requisitions and outstanding purchase orders.
- Any other reports that are requested by the governing board as an exception.

External Reports

- External reports are prepared for organizations and individuals outside of the charter school, such as the charter school authorizer, state and federal agencies, banks, employees, vendors, and other approved organizations when required or requested. Examples of external reports are:

  Budget reports – First, Second and sometimes Third Interim

- These provide a snapshot of the charter school's ability to continue as a going concern. Specifically, they show whether it can meet its budgeted financial obligations, pay employees, maintain its credit, finance its debt, and adapt to changes in budget assumptions and/or conditions.

  Compilation, Review and Audit reports
- These reports are issued only by certified public accountants (CPAs) and provide recipients with various levels of assurance. Every charter school must have its own independent audit report issued or, if the charter school is authorized by the county office of education or school district, have the results of its financial operations combined with and audited as part of the county office of educations or district's financial statements.
- Compilation reports are the lowest level of assurance: the CPA may perform some analysis, and prepares the financial statements in an acceptable format, but does not express any assurance regarding the financial statements.
- Review reports involve much more analysis, including a review of account balances for reasonableness, and questions to management about material or large transactions and account balances. The CPA's review report expresses limited assurance but not an opinion.
- Audit reports provide the highest level of financial statement assurance through a third-party auditing firm. When a CPA issues an audit report, the CPA expresses an opinion on the audited statements. There are four types of audit opinions: unqualified, qualified, disclaimer, and adverse (see below). The auditor is required to state in the opinion whether generally accepted accounting principles (GAAP) have been followed and applied consistently. The audit reports are presented to the governing board directly at a board of director meeting or a special meeting.

1. Unqualified opinion means there are no reservations about the financial statements. This opinion is often called a clean opinion, meaning that the financial statements are presented fairly, and this opinion is the most desirable.
2. Qualified opinion means there is some exception to the accounting applications, or the potential outcome of a material uncertainty cannot be established.
3. Disclaimer opinion means the auditor is allowing their name to be associated with financial

statements that were not examined in accordance with GAAP.

4. Adverse opinion means that financial statements do not fairly present the financial position, results of operations, and changes in financial position, and thus are not in conformity with GAAP.

Unaudited and Audited Financial Reporting

Unaudited Actuals – SACS or Alternative Form

Education Code section 42100 requires all LEAs, including charter schools, to report their year-end data by submitting unaudited actual financial data to the CDE. The CDE School Fiscal Services Division, Financial Accountability and Information Services provides charter schools with unaudited actual financial reporting guidelines. The CDE School Fiscal Services Division's website is http:/ www.cde.ca.gov/re/di/or/sfsd.asp.

The charter school report their unaudited actuals using the SACS format. The unaudited and audited financial statements will ensure that the report shows the charter school's beginning fund balance, revenues, expenditures, and ending fund balance.

The California School Accounting Manual (CSAM) provides a list of account codes (also known as a chart of account codes) for reporting using both SACS form.

Accounting Basis

Charter schools should use the same basis of accounting when preparing both their unaudited actuals and annual audited financial reports. If a charter school uses a different basis of accounting for each of these reports, it is highly likely that net assets and other account balances will not agree and that questions will be raised when the CDE and State Controller's Office compare the two reports.

There are three bases of accounting: cash, modified accrual basis, and accrual basis. The term basis refers to when a transaction or event is recognized in the accounting records and financial statements. This charter school use Accrual basis of accounting.

- Cash Basis means that revenues are recorded when the cash is received, not when the service was performed. Expenditures or expenses are recorded when the cash is paid or disbursed, not when the obligation is incurred.
- For example, suppose a charter school earns the attendance revenue in the first 20 days of the school year but is not paid until December. The revenue is measurable and available at the end of the 20 days; however, the revenue is recorded and recognized in December when the cash is received. Or suppose a charter school purchases books in January but does not pay for the books until July. The obligation or liability to pay the book supplier is incurred in January, but the expense is not recognized until July when the check is mailed to the book supplier.

- Charter schools, school districts, county offices of education and local educational agencies are not allowed to use the cash basis of accounting.
- Modified Accrual Basis means revenues are recognized when they become available and measurable, and expenditures are recognized when the liability is incurred. The receipt or payment of cash does not determine when the revenue or expenditure is recognized.
- Available means the funds are collectable within the current accounting period or soon thereafter to be used to pay the liabilities of the current period; this usually means they are collectible within one year.
- Measurable means the amount of funds is known or can be determined by some analysis or measurement.

- Charter schools operated by an LEA, such as a dependent charter school operated by a school district, use the modified accrual basis of accounting, just as other LEAs do. This Charter School does not use Modified Accrual Basis.
- Accrual Basis means revenues are recognized when they are earned. Expenditures are recognized when the liability is incurred.
- *This Charter school operated as or by a nonprofit public benefit corporation 501(c)3 use the accrual basis of accounting.*

The Accounting System

Because a high percentage of charter schools that fail do so as a result of financial difficulties, a basic understanding of bookkeeping, accounting, and financial reporting is critical to the successful operation of a charter school. The charter school uses a reputable back-office service provider, those entrusted with fiduciary responsibility should be familiar with bookkeeping, accounting, and financial reporting.

Double-Entry Bookkeeping

Double-entry bookkeeping is the method of recording a transaction in two or more different places or ledger accounts. This makes it easy to find errors because the totals of both ledger accounts should be the same.

Debits Equal Credits

Bookkeeping entries are divided into debits and credits. Debits are typically listed on the left side of the ledger page and credits on the right. Historically, a debit denotes something owed to someone else; a credit denotes an amount owed from someone else.

Debits record transactions relating to purchases, expenses, or increases in the assets of the charter school. Credits record transactions relating to revenues or an increase in the equity and liabilities of the charter school.

Recording a transaction requires both a debit and a credit entry. If the entries are recorded correctly, the totals from both sides of any ledger will agree.

The double-entry system of bookkeeping, which lists debits in one column and credits in the other, requires that the sum of those two columns be zero.

The following list illustrates the effect of posting either a debit or credit entry in each major account type:

Account Type	Debits	Credits
Assets*	Increases	Decreases
Liabilities**	Decreases	Increases
Net Assets**	Decreases	Increases
Income**	Decreases	Increases
Expenses*	Increases	Decreases

* Normally a debit balance account
**Normally a credit balance account

These account types are used in most nonprofit accounting systems. They are also used to organize the general ledger, from which financial statements are developed.

For example, using the account types above, when a charter school receives a reimbursement check for $10,000 from the state for school lunch program, the asset cash is debited or increased by $10,000 and the income account for lunch program is credited, or increased, by $10,000; the net sum is zero and the debits and credits balance.

Accounting System Groups

The accounting system usually comprises four major groups: revenue, purchasing, payroll, and the general journal. Even though most bookkeeping is prepared electronically, it is important to know the flow of transaction data. Transactions are posted to journals and simultaneously to the general ledger, which contains the chart of accounts with balances for specific items, such as material and/or book expenses.

Transactions may come in the form of cash receipts received from attendance apportionment dollars, purchases from suppliers such as books, cash disbursements for payment for supplies purchased, and payroll entries. The accounting process works to update the general ledger, from which a charter school's financial reports are prepared.

Because most bookkeeping and accounting is performed electronically, subsidiary accounting journals are not often used; however, electronic systems continue to track all financial data as traditional manual systems would.

Accounting System Transaction Example

Using the accrual basis of accounting, a charter school purchases, on account, books from XYZ Book Publisher for $2,000. The charter school receives the books and an invoice from XYZ Book Publisher for $2,000. The bookkeeper records a $2,000 increase to account number 9500, Accounts Payable - XYZ Book Publisher vendor, and an increase of $2,000 to account number 4000, Books and Supplies Expense. The individual vendor account, XYZ Book Publisher, now shows that it is owed $2,000, and this agrees with the accounts payable aging report, which lists all payables to vendors.

When the charter school authorizes the bookkeeper to pay XYZ Book Publisher in full, a check is written for $2,000. Writing the $2,000 check reduces account 9110, Cash, and reduces account 9500, Accounts Payable – XYZ Book Publisher. Notice that account 4000 Books and Supplies Expense is not affected by the payment because under the accrual basis of accounting the expense was recognized when the liability was incurred, which was when the charter school received the books from XYZ Book Publisher.

The general ledger comprises all accounting transactions and all accounts from the chart of accounts. If the XYZ Book Publisher transaction of $2,000 was the only book purchase for the year and we ran a financial report such as a profit and loss report, the Books and Supplies Expense for the year to date would be $2,000. If the charter school budgeted that it would spend only $2,000 for books and supplies the entire year and no other books and supplies were purchased during the year, the difference between the budgeted and actual books and supplies expenditures would be zero.

Revenue Accounting

Accounts Receivable

Accounts receivable (AR) has its own separate journal that records sales or anticipated revenue that has not been received but has been earned; the cash receipts journal is affected when the money is received. For AR transactions, the sales/invoice journal is used. These transactions are also tracked in individual AR customer account ledgers if applicable

Cash Receipts and Deposits

When money is received for an outstanding AR balance, it is posted in the cash receipts journal; the AR customer account is reduced, the sales/invoice journal is reduced, and the appropriate individual AR customer account receivable ledger is reduced to show that the money was received. The cash or bank account ledger is increased by the amount of cash received.

Purchase Accounting

Purchase Orders

Purchase orders are considered legally binding contracts. Each PO should clearly identify the products, services, supplies or merchandise, terms of delivery, inspection, and other information needed for the vendor to fulfill the terms of the PO.

Accounts Payable

Accounts Payable (AP) has its own separate journal that records purchase and cash disbursements by vendor name. An AP transaction is created when a liability is incurred.

Cash Disbursements and Checks

When payment is made for an AP transaction, the payment is posted, which reduces the AP balance in the cash disbursements journal; the AP vendor account is also reduced; and the PO is closed out. The cash or bank account ledger is decreased equal to the amount of the cash paid.

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Payroll Accounting

Payroll data is tracked by individual employee in a payroll journal. When employee payroll is paid, the payroll journal and cash disbursements journal are affected. All payroll activity — which includes payment of employees and employee portions of payroll taxes, payment of employees' net check after payroll withholdings, and recording of employees' gross payroll — is recorded in the general ledger.

General Journal Accounting

All entries for any accounting transaction are posted and recorded to the general ledger.

Financial Reporting Structure

Balance Sheet — Statement of Financial Position

The balance sheet, also known as the statement of financial position, shows the value of accounts at a specific point in time and is an indicator of a charter school's overall financial health.

Assets — accounts with value that the charter school owns.

- Cash
- The amount on hand or in the bank at a specific point in time.

- Accounts receivable
- How much the charter school is owed.

- Inventory
- The value of charter school supplies.

- Fixed assets
- The value of property and equipment.

- Liabilities — accounts with value that the charter school owes to others.

- Accounts payable
- How much the charter school owes others for unpaid purchases.

- Debt and loans payable
- How much the charter school owes others for money borrowed.

- Other liabilities
- Services or money owed to others; this includes accrued vacation.

Equity — Net Assets

- Unrestricted net assets
- Money available for general operating purposes, and earnings retained from net profits.

- Temporarily and permanently restricted net assets
- Money available but restricted because of donor-imposed restrictions or because certain performance standards have yet to be completed.

Code Title

Income Statement— Statement of Activities

The income statement, or the statement of activities, shows the values of accounts as determined over a period of time (e.g., day, week, or year) and provides the charter school with evidence of how it is performing compared to budgeted income and expenses.

Income

- Total earned cash receipts and other income, or sales recorded over a period of time.
- Expenses
- Total purchases and other expenses recorded over a period of time.
- Increase/(Decrease) in Net Assets, or Profit/(Loss)
- The difference between total income and total expenses.

Basic Accounting Formula

All transactions are posted to one or more accounts, and every recorded transaction must balance, which means debits must equal credits.

Asset accounts will always equal the total of all liability and equity accounts. For nonprofit organizations, net asset is equity. For organizations that are for-profit, the term equity is associated with retained earnings. If the basic accounting formula is out of balance, the cause is always an incorrect transaction posting in which debits did not equal credits. Electronic accounting software rarely has an out-of-balance transaction because controls are built into the software.

Charter school assets include accounts that give value to the charter school, such as cash, accounts receivable, inventory, and property.

Charter school liabilities are those accounts that reduce the charter school's value, such as accounts payable, debts, or loans payable.

When total assets are greater than total liabilities, the net value (total of all assets minus total of all liabilities) represents the true value of the charter school, otherwise known as its equity, or positive net assets.

The basic accounting formula may be expressed in two ways:

Assets = Liabilities + Equity or

Assets - Liabilities = Equity

If a charter school's total assets are less than its total liabilities, the charter school will have negative equity or negative net assets. This means that the charter school owes more than it has in asset value and is an obvious warning sign; charter schools that fail for financial reasons typically have negative equity or net Assets.

The equity or net assets accounts are operated in a unique manner. Net assets or equity contains the net result of transactions summarized in all income and expense accounts since the charter's inception. At the end of the period being recorded, the income and expense accounts are totaled. The net result is added or deducted from the net assets or equity account. When there is a net

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profit or excess revenue over expenses, that positive amount increases net assets in the balance sheet. Equity or net assets link the balance sheet accounts (assets, liabilities, and equity) with the income and expense accounts.

Alternative Form Account Codes

The following account codes for the alternative form are reproduced from the 2016 *California School Accounting Manual,* which can be found at http:/ www.cde.ca.gov/fg/ac/sa/documents/csam2016complete. pdf. The codes shown correspond to the SACS object codes and are listed as they usually appear in the Charter School Unaudited Actuals Financial Report - Alternative Form. The list of codes is comprehensive and, because of block grant funding for charter schools, includes more codes than most charter schools will use. The alternative form, user's guide, and additional information about charter school year-end financial reporting are posted near the end of each fiscal year at http:/ www.cde.ca.gov/fg/sf/fr.

When the state or federal government creates a new funding source (one-time funds have been most common) the California Department of Education (CDE) will provide guidance on what object code or resource code should be used to track those (e.g., college readiness, teacher effectiveness, clean energy, common core, etc.). Rather than creating its own unique codes, a charter school should wait for the CDE to announce the coding so later corrections are not needed.

Code Title

8000–8999 REVENUES AND OTHER FINANCING SOURCES

8000–8799 Revenues

8010–8099 LCFF Sources

8010–8019 Principal Apportionment

8011 LCFF State Aid — Current Year

8012 Education Protection Account State Aid — Current Year

8015 Charter Schools General Purpose Entitlement — State Aid (valid through 2012-13)

8019 LCFF/Revenue Limit State Aid — Prior Years

8020–8039 Tax Relief Subventions

8021 Homeowners' Exemptions

8022 Timber Yield Tax

8029 Other Subventions/In Lieu Taxes 8040–

8079 County and District Taxes

8041 Secured Roll Taxes

8042 Unsecured Roll Taxes

8043 Prior Years' Taxes

8044 Supplemental Taxes

8045 Education Revenue Augmentation Fund (ERAF)

8046 Supplemental Educational Revenue Augmentation Fund (SERAF) (valid 2009–10

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and 2010–11 only)

8047 Community Redevelopment Funds

8048 Penalties and Interest from Delinquent Taxes

8070 Receipts from County Board of Supervisors

8080–8089 Miscellaneous Funds

8081 Royalties and Bonuses

8082 Other In-Lieu Taxes

8089 Less: Non-LCFF (50 percent) Adjustment

8090–8099 LCFF Transfers

8091 LCFF Transfers – Current Year

8092 PERS Reduction Transfer (valid through 2012-13)

8096 Transfers to Charter Schools in Lieu of Property Taxes (effective 2007-08)

8097 Property Tax Transfers

8099 LCFF/Revenue Limit Transfers—Prior Years

8100–8299 Federal Revenue

8110 Maintenance and Operations (Public Law 81-874)
8181 Special Education—Entitlement
8182 Special Education—Discretionary Grants
8220 Child Nutrition Programs
8221 Donated Food Commodities
8260 Forest Reserve Funds
8270 Flood Control Funds
8280 U.S. Wildlife Reserve Funds
8281 FEMA
8285 Interagency Contracts Between LEAs
8287 Pass-Through Revenues from Federal Sources

8290 All Other Federal Revenue

8300–8599 Other State Revenue
8311 Other State Apportionments—Current Year
8319 Other State Apportionments—Prior Years
8425 Year-Round School Incentive (valid through 2012-13)
8434 Class Size Reduction, Grades K–3 (valid through 2013-14)
8435 Class Size Reduction, Grade Nine (valid through 2008-09)
8480 Charter Schools Categorical Block Grant (valid through 2008-09)
8520 Child Nutrition

8530 Child Development Apportionments
8540 Deferred Maintenance Allowance (valid through 2008-09)
8545 School Facilities Apportionments
8550 Mandated Cost Reimbursements
8560 State Lottery Revenue

8571-8579 Tax Relief Subventions
8571 Voted Indebtedness Levies, Homeowners' Exemptions
8572 Voted Indebtedness Levies, Other Subventions/In Lieu Taxes
8575 Other Restricted Levies, Homeowners' Exemptions
8576 Other Restricted Levies, Other Subventions/In Lieu Taxes

8587 Pass-Through Revenues from State Sources

8590 All Other State Revenue

8600–8799 Other Local Revenue

8610-8629 County and District Taxes
8611 Voted Indebtedness Levies, Secured Roll
8612 Voted Indebtedness Levies, Unsecured Roll

8613 Voted Indebtedness Levies, Prior Years' Taxes
8614 Voted Indebtedness Levies, Supplemental Taxes
8615 Other Restricted Levies, Secured Roll
8616 Other Restricted Levies, Unsecured Roll
8617 Other Restricted Levies, Prior Years' Taxes
8618 Other Restricted Levies, Supplemental Taxes
8621 Parcel Taxes
8622 Other Non-Ad Valorem Taxes
8625 Community Redevelopment Funds Not Subject to LCFF Deduction
8629 Penalties and Interest from Delinquent Non-LCFF Taxes

8631-8639 Sales
8631 Sale of Equipment and Supplies
8632 Sale of Publications
8634 Food Service Sales
8639 All Other Sales
8650 Leases and Rentals
8660 Interest
8662 Net Increase (Decrease) in the Fair Value of Investments

8670-8689 Fees and Contracts
8671 Adult Education Fees
8672 Nonresident Student Fees

8673 Child Development Parent Fees
8674 In-District Premiums/Contributions
8675 Transportation Fees from Individuals
8677 Interagency Services Between LEAs
8681 Mitigation/Developer Fees
8689 All Other Fees and Contracts

8690-8719 Other Local Revenue
8691 Plus: Miscellaneous Funds Non-LCFF (50 percent) Adjustment
8697 Pass-Through Revenue from Local Sources
8699 All Other Local Revenue
8710 Tuition

8780-8799 Interagency Transfers In
8780 Transfers from Sponsoring LEAs to Charter Schools in Lieu of Property Taxes (valid through 2006-07)
8781 All Other Transfers from Districts or Charter Schools
8782 All Other Transfers from County Offices

8783 All Other Transfers from JPAs

8791 Transfers of Apportionments from Districts or Charter Schools

8792 Transfers of Apportionments from County Offices

8793 Transfers of Apportionments from JPAs

8799 Other Transfers In from All Others

8900–8999 Other Financing Sources

8900–8929 Interfund Transfers In

8911 To Child Development Fund from General Fund

8912 Between General Fund and Special Reserve Fund

8913 To State School Building Fund/County School Facilities Fund from All Other Funds

8914 To General Fund from Bond Interest and Redemption Fund

8915 To Deferred Maintenance Fund from General, Special Reserve, and Building Funds (valid through 2012–13)

8916 To Cafeteria Fund from General Fund

8919 Other Authorized Interfund Transfers In

8930–8979 All Other Financing Sources

8931 Emergency Apportionments

8951 Proceeds from Sale of Bonds

8953 Proceeds from Sale/Lease Purchase of Land and Buildings

8961 County School Building Aid

8965 Transfers from Funds of Lapsed/Reorganized LEAs

8971 Proceeds from Certificates of Participation

8972 Proceeds from Capital Leases

8973 Proceeds from Lease Revenue Bonds

8979 All Other Financing Sources

8980–8999 Contributions

8980 Contributions from Unrestricted Revenues

8990 Contributions from Restricted Revenues

8995 Categorical Education Block Grant Transfers (valid through 2008–09)

8997 Transfers of Restricted Balances (valid for 2003–04, 2008–09, and 2009–10 only)

8998 Categorical Flexibility Transfers (valid through 2008–09)

1000–7999 EXPENDITURES AND OTHER FINANCING USES

1000–7499 Expenditures

1000–1999 Certificated Personnel Salaries (for positions that require a credential or permit)

1100 Certificated Teachers’ Salaries

1200 Certificated Pupil Support Salaries

1300 Certificated Supervisors’ and Administrators’ Salaries

1900 Other Certificated Salaries

2000–2999 Classified Personnel Salaries (for positions that do not require a credential or permit)

2100 Classified Instructional Salaries

2200 Classified Support Salaries

2300 Classified Supervisors’ and Administrators’ Salaries

2400 Clerical, Technical, and Office Staff Salaries

2900 Other Classified Salaries

3000–3999 Employee Benefits (employers’ contributions to retirement plans and health and welfare benefits.)

3101 State Teachers’ Retirement System, certificated positions

3102 State Teachers’ Retirement System, classified positions

3201 Public Employees’ Retirement System, certificated positions

3202 Public Employees’ Retirement System, classified positions

3301 OASDI/Medicare/Alternative, certificated positions

3302 OASDI/Medicare/Alternative, classified positions

3401 Health and Welfare Benefits, certificated positions

3402 Health and Welfare Benefits, classified positions

3501 State Unemployment Insurance, certificated positions

3502 State Unemployment Insurance, classified positions

3601 Workers’ Compensation Insurance, certificated positions

3602 Workers’ Compensation Insurance, classified positions

3701 OPEB, Allocated, certificated positions

3702 OPEB, Allocated, classified positions

3751 OPEB, Active Employees, certificated positions

3752 OPEB, Active Employees, classified positions

3801 PERS Reduction, certificated positions (valid through 2012–13)

3802 PERS Reduction, classified positions (valid through 2012–13)

3901 Other Benefits, certificated positions

3902 Other Benefits, classified positions

4000–4999 Books and Supplies (Expenditures for books and supplies including costs of sales/use tax, freight, and handling charges)

4100 Approved Textbooks and Core Curricula Materials

4200 Books and Other Reference Materials

4300 Materials and Supplies

4400 Noncapitalized Equipment

4700 Food

5000–5999 Services and Other Operating Expenditures (expenditures for services, rentals, leases, maintenance contracts, dues, travel, insurance, utilities, legal, and other operating expenditures)

5100 Sub agreements for Services

5200 Travel and Conferences

5300 Dues and Memberships

5400 Insurance

5500 Operations and Housekeeping Services

5600 Rentals, Leases, Repairs, and Noncapitalized Improvements 5700–

5799 Transfers of Direct Costs

5710 Transfers of Direct Costs

5750 Transfers of Direct Costs—Interfund

5800 Professional/Consulting Services and Operating Expenditures

5900 Communications

6000–6999 Capital Outlay (Expenditures for sites, buildings, books, and equipment, including leases with option to purchase; 6100–6500 for modified accrual basis of accounting only)

6100 Land

6170 Land Improvements

6200 Buildings and Improvement of Buildings

6300 Books and Media for New School Libraries or Major Expansion of School Libraries

6400 Equipment

6500 Equipment Replacement

6900 Depreciation Expense (accrual basis of accounting only) 7000–

7499 Other Outgo

7100–7199 Tuition

7110 Tuition for Instruction Under Inter-District Attendance Agreements

7130 State Special Schools

7141 Other Tuition, Excess Costs, and/or Deficit Payments to Districts or Charter Schools

7142 Other Tuition, Excess Costs, and/or Deficit Payments to County Offices

7143 Other Tuition, Excess Costs, and/or Deficit Payments to JPAs

7200–7299 Transfers of Pass-Through Revenues to Other LEAs

7211 Transfers of Pass-Through Revenues to Districts or Charter Schools

7212 Transfers of Pass-Through Revenues to County Offices

7213 Transfers of Pass-Through Revenues to JPAs

7221 Transfers of Apportionments to Districts or Charter Schools

7222 Transfers of Apportionments to County Offices

7223 Transfers of Apportionments to JPAs

7280 Transfers to Charter Schools in Lieu of Property Taxes (valid through 2006-07)

7281 All Other Transfers to Districts or Charter Schools

7282 All Other Transfers to County Offices

7283 All Other Transfers to JPAs

7299 All Other Transfers Out to All Others 7300–

7399 Transfers of Indirect Costs

7310 Transfers of Indirect Costs

7350 Transfers of Indirect Costs — Interfund

7370 Transfers of Direct Support Costs (valid through 2007–08)

7380 Transfers of Direct Support Costs — Interfund (valid through 2007–08) 7430–

7439 Debt Service

7432 State School Building Repayments

7433 Bond Redemptions

7434 Bond Interest and Other Service Charges

7435 Repayment of State School Building Fund Aid — Proceeds from Bonds

7436 Payments to Original District for Acquisition of Property

7438 Debt Service — Interest

7439 Other Debt Service — Principal

7600–7699 Other Financing Uses

7600–7629 Interfund Transfers Out

7611 From General Fund to Child Development Fund

7612 Between General Fund and Special Reserve Fund

7613 To State School Building Fund/County School Facilities Fund from All Other Funds of the District

7614 From Bond Interest and Redemption Fund to General Fund

7615 From General, Special Reserve, and Building Funds to Deferred Maintenance Fund (valid through 2012–13)

7616 From General Fund to Cafeteria Fund

7619 Other Authorized Interfund Transfers Out

7630–7699 All Other Financing Uses

7651 Transfers of Funds from Lapsed/Reorganized LEAs

7699 All Other Financing Uses

9000–9999 BALANCE SHEET

9100–9499 ASSETS

9110 Cash in County Treasury

9111 Fair Value Adjustment to Cash in County Treasury

9120 Cash in Bank(s)

9130 Cash in Revolving Fund

9135 Cash with a Fiscal Agent/Trustee

9140 Cash Collections Awaiting Deposit

9150 Investments

9200 Accounts Receivable

9290 Due from Grantor Governments

9320 Stores

9330 Prepaid Expenditures (Expenses)

9340 Other Current Assets

9400–9489 Capital Assets (accrual basis of accounting only)

9410 Land

9420 Land Improvements

9425 Accumulated Depreciation—Land Improvements

9430 Buildings

9435 Accumulated Depreciation—Buildings

9440 Equipment

9445 Accumulated Depreciation—Equipment

9450 Work in Progress

9490–9499 Deferred Outflows of Resources

9490 Deferred Outflows of Resources

9500–9699 LIABILITIES

9500 Accounts Payable (Current Liabilities)

9501–9589 Accounts Payable—Locally Defined (when reporting to CDE, LEAs must roll up these objects to Object 9500)

9590 Due to Grantor Governments

9610 Due to Other Funds

9620 Due to Student Groups/Other Agencies

9640 Current Loans

9650 Unearned Revenue

9660–9669 Long-Term Liabilities (not used in governmental funds)

9661 General Obligation Bonds Payable

9662 State School Building Loans Payable

9663 Net Pension Liability

9664 Net OPEB Obligation

9665 Compensated Absences Payable

9666 Certificates of Participation (COPs) Payable

9667 Capital Leases Payable

9668 Lease Revenue Bonds Payable

9669 Other General Long-Term Debt

9690–9699 Deferred Inflows of Resources

9690 Deferred Inflows of Resources

9700–9799 FUND BALANCE/NET POSITION

(The following codes and titles for 9700–9790 are valid effective 2011–12.)

9710–9719 Fund Balance, Nonspendable

9711 Nonspendable Revolving Cash

9712 Nonspendable Stores

9713 Nonspendable Prepaid Items

9719 All Other Nonspendable Assets

9720 Reserve for Encumbrances (Budgetary account) (this account is not reported to CDE)

9730–9749 Fund Balance, Restricted

9740 Restricted Balance

9750–9769 Fund Balance, Committed

9750 Stabilization Arrangements

9760 Other Commitments 9770–

9788 Fund Balance, Assigned

9780 Other Assignments

9789–9790 Fund Balance, Unassigned

9789 Reserve for Economic Uncertainties

9790 Unassigned/Unappropriated/Unrestricted Net Position

9791 Beginning Fund Balance

9793 Audit Adjustments

9795 Other Restatements

9796 Net Investment in Capital Assets

9797 Restricted Net Position

9800–9839 Budgetary Accounts (these accounts are not reported to CDE)

9810 Estimated Revenue

9815 Estimated Other Financing Sources

9820 Appropriations

9825 Estimated Other Financing Uses

9830 Encumbrances

9840–9899 Control Accounts (these accounts are not reported to CDE)

9840 Revenue

9845 Other Financing Sources

9850 Expenditures

9855 Other Financing Uses

9910–9979 Nonoperating Accounts (these accounts are not reported to CDE)

9910 Suspense Clearing

Internal Controls

Definition and Importance

Internal controls are the foundation of sound financial management. They include the policies and procedures that help provide reasonable assurance that the charter school is achieving its objectives and goals by doing the following:

- Ensuring that operations are effective and efficient.
- Safeguarding and preserving the organization's assets.
- Promoting successful events and fundraising ventures.
- Protecting against improper disbursements.
- Ensuring that unauthorized obligations cannot be incurred.
- Providing reliable financial information.
- Reducing the risk of, and promoting the detection of, fraud and abuse.
- Protecting employees and volunteers.
- Ensuring compliance with applicable laws and regulations.
- Ensuring accurate documenting of all transactions.

Internal controls include segregating duties according to employees' functions so that one person is not handling a transaction from beginning to end. This is a critical part of a system of checks and balances. Functions that need to be segregated include the following:

- Initiating, authorizing, or approving transactions.
- Executing transactions.
- Recording the transaction.

- Reconciling the transaction.
- Responsibility for the item resulting from the transaction.

To ensure proper internal controls, the duties of custody, recording, and reconciliation should be kept separate. For example, if the school accountant or bookkeeper collects cash, records activity (including receipts) in the financial system, prepares the deposit slip and reconciles the bank account, with no one else involved in verifying these transactions, there is a definite lack of internal control because there is no separation of duties. This is especially true if no one other than the school accountant or bookkeeper reviews the bank statement and compares it to the original cash receipt documentation. This lack of segregation of duties exposes the school to higher risk of cash skimming, delayed deposits, or other errors or irregularities.

Internal controls protect not only assets such as money and equipment, but also people. For example, establishing effective internal controls for fundraising events significantly reduces the risk that anyone participating in the event will be accused of impropriety. Disagreements among principals or other school administrators, faculty, parents, students and/or community members sometimes result in false accusations. These accusations can be difficult or even impossible to disprove if the organization does not have sound internal controls. Once a person is accused of wrongdoing it is difficult to clear one's reputation even if the accusation is false. Having internal controls in place can prevent such issues from occurring.

Internal controls are affected by the practices and attitudes of administrators. A charter school should be able to answer the following questions in the affirmative:

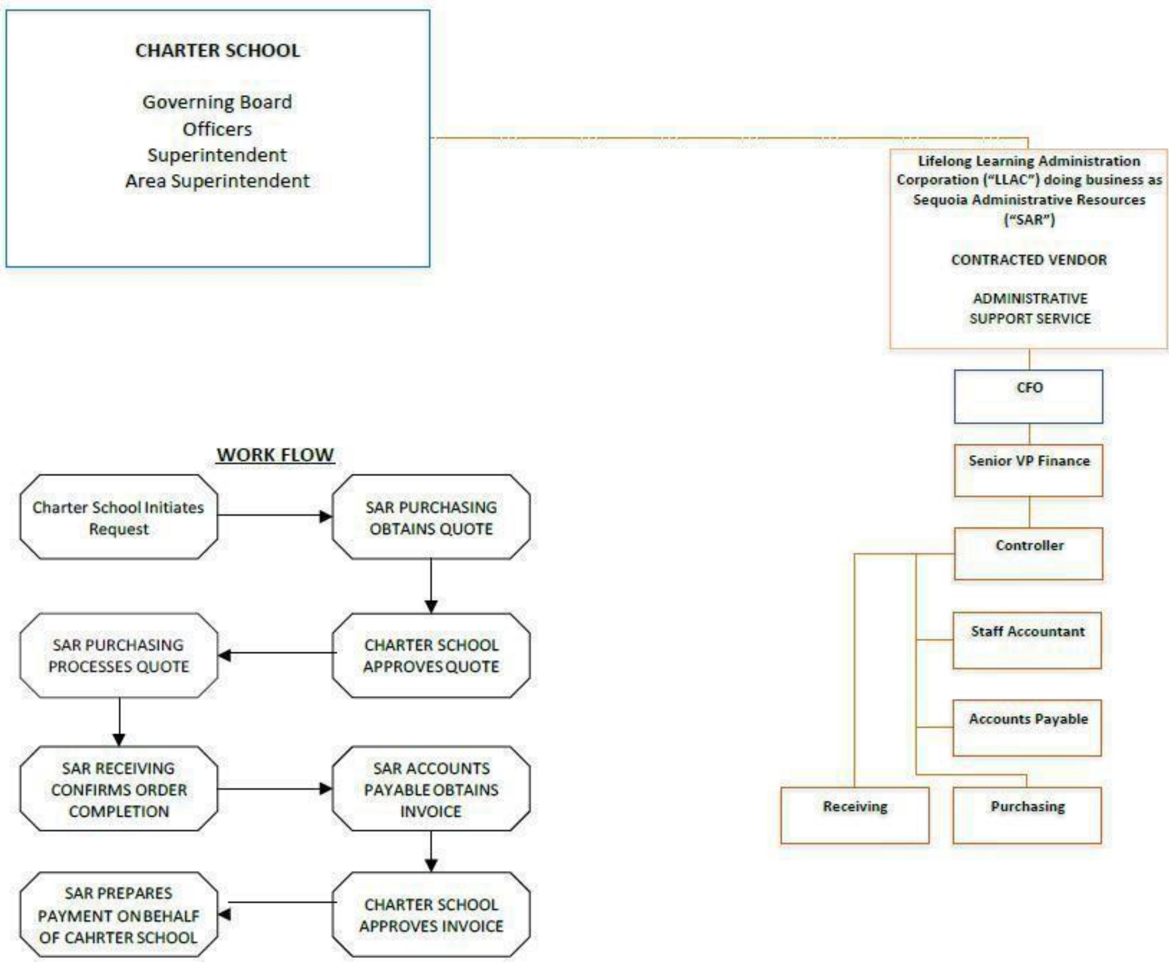
Does the school administrator set a good example by following established policies and procedures?

Does the school administrator ensure that all staff, volunteers, and others associated with the school are informed about and follow established policies and procedures?

Does the school provide continual assistance and training for all staff members involved in all aspects of cash management and fundraising? Does the school administrator take action when an infraction occurs? The basic components of internal controls include the following:

- Segregation of duties
- System of checks and balances
- Staff cross training
- Controlled use of prenumbered documents
- Asset security and restricted access
- Timely reconciliations
- Up-to-date inventory records
- Management review and approval of transactions
- Comprehensive, up-to-date annual budget

- Expectation that all staff, including administrators, will follow all internal controls
  Below organizational chart reflects charter school's segregation of duties



To help ensure adequate internal controls, charter school needs to establish, implement and maintain efficient and understandable policies and procedures based on laws, regulations and sound business principles, and communicate them to those involved (e.g., staff). It is essential that all employees, volunteers, and students (when necessary) be aware of expectations regarding internal accounting controls. All individuals who are expected to follow policies and carry out procedures should be trained; more than one person should be trained for each function (cross training).

It is important to have practices and procedures sufficient to assure management that the internal control system is sound. A charter school should prepare and maintain documentation of all policies and procedures, including a detailed accounting policies and procedures manual with standard forms, to provide help and guidance regarding what should occur. The annual independent audit can serve to monitor whether policies and procedures are being followed and to determine compliance with applicable state and federal regulations.

If problems with internal controls are identified through any means, a charter school should act immediately. Standardization should also be used: if something works well in one department or school, consider using it schoolwide and at all schools.

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts, misappropriation of assets, and other fraudulent activities. Good internal controls do not completely eliminate the chance of errors or fraud, but they reduce risk to an acceptable level. Effective internal controls provide reasonable assurance that the school's operations are effective and efficient, that the financial information is reliable, and that the organization operates in compliance with applicable laws and regulations. Few entities have perfect internal control structures, so it is imperative that managers develop techniques to offset any weaknesses.

A charter school's independent auditor is often the best source to turn to if there is uncertainty about whether a procedure being used is a best practice or should be changed. The charter school engages with a third-party independent auditing firm who is knowledgeable in charter school best practices to review and audit the financial statements for the fiscal year annually and provide an opinion.

Internal Controls Checklist

The following checklist adopted from FCMAT California Charter School Accounting and Best Practices Manual is comprehensive and may be used to evaluate a charter school's internal controls along with other measures such as the charter school's internal audits and the annual independent audit.

A "no" answer to any of the checklist questions indicates a possible internal control weakness that should be investigated and addressed if applicable. The more "no" answers, the greater a charter school's internal control risk and need for attention. Identifying internal control weaknesses and correcting them are vital to successful financial operations in any organization. All charter schools should strive to answer "yes" to as many checklist items as possible. The charter school will review the questionnaire annually to ensure compliance.

Internal Controls Checklist					
		Yes	No	N/A	Comments
1	Does the school have comprehensive board policies and administrative regulations that provide rules and regulations for school governance and operations?				
2	Does the school have a detailed, comprehensive charter school accounting policies and procedures manual?				
3	Has the FCMAT *California Charter School Accounting and Best Practices Manual* been adopted as part of, or to supplement, the school's policies and procedures?				
4	If the school has adopted its own comprehensive charter school manual, is it reviewed and updated, if necessary, at least annually? Does the update address areas of confusion as well as issues identified in the previous year's audit?				
5	Does the business office provide annual cash handling training for all employees, volunteers and parents who work with school activities that involve cash transactions; and does it retain a signed and dated training attendance log for each training?				
6	Do business office staff visit each school at least annually to provide support and to review internal control procedures used at the school?				
7	Has the business office taken immediate action to correct annual audit findings? Are the schools involved in developing action plans to ensure that the findings do not recur?				
8	Are there at least three governing board members?				
9	Has the charter school avoided components of delegated governance such as sole statutory members?				
10	Does the charter school's budget have detailed budget notes and assumptions that include calculations, references, and other measures of how each budget line item amount was determined?				
11	Are staff who are responsible for monitoring budget versus actual financial reporting doing so regularly and informing managers in a timely manner of any variances of concern?				

Internal Controls Checklist					
		Yes	No	N/A	Comments
12	Are financial reports and other governmental filings, such as tax and information returns, tracked and submitted by the required due dates?				
13	Does the chief financial officer (CFO) or CFO's designee receive and review periodic financial statements and sign and date them to indicate they have been reviewed?				
14	Does the charter school have a conflict of interest code pursuant to the Political Reform Act and Government Code section 87100 and Corporations Code section 5233 for nonprofit organizations?				
15	Do all board members, managers, designated employees and consultants who make, participate in making, or act in staff capacity for making governmental decisions, annually submit conflict of interest Form 700?				
16	Is there a policy prohibiting nepotism in the charter school?				
17	Is there a policy ensuring that board members and administrators abstain from all discussions, negotiations and votes related to any contract in which they have a personal financial interest, and do board members do so by removing themselves from the meeting and ensuring that their abstention and departure are recorded in the board minutes?				
18	Is there a board policy that prohibits commingling and blending of funds?				
19	If there are charter school-related organizations such as charter management organizations, education management organizations or foundations, are all of the transactions between the charter school and charter school-related organizations transparent, documented in detail in memoranda of understanding, and fully disclosed to the charter school's independent auditor?				
20	If intraorganization loans are allowed, are the loans' transactions and balances, and the origin, source and use of the loan funds, transparent, auditable, accountable and approved in writing by the CBO?				
21	Do employees have a mechanism to report questionable or suspicious activities to the school's CBO, executive director or other administrator for investigation?				
22	Does the school provide staff development and training opportunities throughout the year for employees who work in finance and accounting to help increase their skills and effectiveness? Is employees' attendance documented with their signatures?				
23	Is there a contact person in the business office to answer questions or direct them to others who can do so and provide assistance with finance and accounting?				
24	Is the school's accounting and finance recordkeeping computerized? If so, is the software adequate to meet the school's needs?				
25	Are all school computers and accounting software accessible only with a school-provided user ID and password?				

Internal Controls Checklist					
		Yes	No	N/A	Comments
26	Are all school computer and accounting software passwords confidential, safeguarded, and changed periodically?				
27	Is all electronic information backed up at least once a week? Is the backup kept on both an internal computer server and an external cloud-based backup service?				
28	Do managers and administrators allow staff to express concerns about expenditures or other items?				
29	Are employees' travel and other expense reimbursements authorized in advance, documented in detail with receipts and notes explaining the business purpose, and accompanied by an expense reimbursement form?				
30	Is there an insurance policy that is reviewed and updated to ensure it is sufficient to meet the charter school's needs?				
31	Before any disbursement is issued to an independent contractor, does the business office ensure that a valid and signed IRS Form W-9, Request for Taxpayer Identification Number and Certification, is on file?				
32	Does the business office issue 1099s to all independent contractors?				
33	Are all employees who perform work for the school paid through the school's payroll?				
34	Has the business office developed standard forms, processes and systems for school financial operations?				
35	Is every donation accounted for separately and deposited only after it is approved by the governing board or designee?				
36	Is a list of accrued liabilities established and updated regularly?				
37	Is a list of notes payable and lines of credit maintained and updated regularly, with all terms of each individual obligation listed in detail?				
38	Are all supplies tracked to help prevent theft, spoilage, overstocking or understocking, and obsolescence?				
39	Does the charter school maintain cash reserves equal to at least the amount approved in the MOU?				
40	Are all general ledger entries (including audit adjustments, reclassifications and other journal entries) supported by journal vouchers or other documentation that includes a reasonable explanation of each entry?				
41	Is check signing authority limited, and is the check signatory list current?				
42	Does the charter school ensure that staff establish and follow cash receipt control procedures with adequate internal controls for all types of cash collections, including fundraising events?				

Internal Controls Checklist					
		Yes	No	N/A	Comments
43	When cash receipts are brought to accounting for deposit, are staff given adequate time to count the money in the accounting person's presence, and do both individuals sign and date a cash count form indicating that their two counts agree?				
44	Are adequate supplies maintained for cash receipt control procedures, such as prenumbered tickets, prenumbered receipt books, and duplicate cash count forms?				
45	Does the charter school ensure that all staff involved in collecting cash submit both the cash and the appropriate documentation for all cash received?				
46	Does the charter school ensure that cash count forms are used when funds are collected and counted, and that the forms are signed before accounting takes custody of the deposit?				
47	Is cash deposited into the bank account within a few days after it is collected and received, or at least by the last business day of each week?				
48	Is petty cash reconciled monthly to the accounting records, and are all petty cash transactions authorized, supported in detail with receipts, and accompanied by a petty cash reimbursement request?				
49	Are all credit and debit card transactions reconciled to each statement monthly and supported with receipts?				
50	Does the business office prepare the monthly bank reconciliations no later than two weeks after receiving the bank statement? Does the preparer sign and date the bank reconciliation?				
51	Are all bank account reconciling items properly documented?				
52	If bank account reconciliations are not performed within two weeks after receipt of the statement, is an agreement reached regarding when the reconciliation will be complete, and is there follow up to ensure the bank reconciliation is completed?				
53	Is the bank reconciliation reviewed by an administrator and signed and dated?				
54	Are all journal entries and transfers authorized?				
55	Are all outstanding deposits and checks on the bank reconciliation identified and followed up on if they do not clear the bank in a timely manner? (deposits should remain outstanding for no more than two or three days.)				
56	Are all assets, such as furniture, fixtures, buildings, building improvements, leasehold improvements and equipment, properly capitalized or amortized for depreciation?				
57	Are assets that are not capitalized recorded in a fixed asset ledger for inventory?				
58	Are all assets tagged?				
59	Are assets that are transferred to a different location, lost, stolen or obsolete properly tracked, identified and reported?				

Internal Controls Checklist					
		Yes	No	N/A	Comments
60	Does the charter school ensure that only allowable, preauthorized expenses are paid from school funds?				
61	Does the charter school use prenumbered purchase order forms that are dated and approved before items are purchased?				
62	Are copies of signed purchase orders retained?				
63	Are the checkbook and the check stock stored in a locked, fireproof safe?				
64	Are two signatures required on all checks?				
65	Are checks made to vendors and employees only, not to cash?				
66	Are expenses paid only when preapproval has been obtained and when there is an original invoice and a document that verifies that the goods were received?				
67	Are vendor credits applied to the next available payment?				
68	Are all invoices matched with printed checks or other payment documents and stamped as paid to avoid duplicate payments?				
69	Are vendors and suppliers evaluated for quality of service, license and insurance status, and value received?				
70	Are prepaid expenses identifiable, tracked, and reconciled to the accounting records?				
71	Are all asset accruals, such as receivables, recorded based on accurate and detailed documentation and reconciled to the accounting records?				
72	Are grants and donations that include restrictions properly recorded and reconciled to the accounting records?				
73	Does the business office's sales tax report include sales and use tax when applicable?				
74	Is there a log that identifies all individuals who have access to the school safe?				
	______________________ Signature ______________ Date				

In addition to having sound internal controls, a charter school should control access to the business office where transactions are processed (e.g., the bookkeeper's office). Easy or uncontrolled access to the business office creates the opportunity for fraud. At the same time, however, the charter school's business office should be sufficiently accessible to conduct business and meet customers' needs. Access should be controlled, especially during times of heavy traffic. A split door is one solution that allows questions to be answered without granting easy access to the office.

Strong internal controls help increase both the actual and perceived likelihood of detecting fraud. Those who believe they are likely to be caught committing fraud are usually less inclined to do so. Limiting access, and installing surveillance cameras with warning signs, can create strong deterrents.

Whistleblower Hotlines and Fraud Reporting WebsitesCharter schools should consider establishing or becoming part of an independent third-party whistleblower hotline and/or a web-based fraud reporting service to make it easier for staff to communicate issues they encounter, and to communicate to staff that there is a mechanism for reporting fraud. Fraud is less likely to occur when people believe they are more likely to get caught if they attempt it.

Chapter 5 - Basic Accounting, Financial Reporting and Audits

Annual Audit and Unaudited Actuals Financial Reporting

Charter schools in California are required to follow and adhere to generally accepted accounting principles (GAAP); failure to do so may result in revocation of a charter. Charter schools can process accounting transactions and prepare financial reports for unaudited and auditing purposes using either the nonprofit reporting method, or governmental accounting standards. The charter petition should state which method of reporting the charter school will use.

California Code of Regulations (CCR), Title 5, section 15071 requires that charter schools follow the California School Accounting Manual (CSAM), issued by the CDE's School Fiscal Services Division. The CSAM provides guidance for school district and charter school accounting and is available from the CDE's website at www. cde.ca.gov/fg/ac/sa . All charter school accounting personnel should be familiar with and have access to this manual.

Nonprofit Reporting Standards

The charter school is organized as nonprofit public benefit corporations 501 (c) 3 and use nonprofit financial reporting standards.

Nonprofit financial statements are prepared using standards established by the Financial Accounting Standards Board (FASB) and are detailed in the FASB Accounting Standards Codification (ASC). FASB accounting standards are also known as GAAP accounting standards, though commonly referred to as GAAP codification. FASB ASC 958-210, Not-for-Profit Entities Balance Sheet, addresses reporting for nonprofits.

Although the financial reports are prepared using nonprofit reporting methods, the charter schools is considered local government entity; therefore, the independent audit must be conducted based on governmental auditing standards and the provisions listed in the Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, published by the Education Audit Appeals Panel (EAAP) and available at www.eaap.ca.gov.

Governmental Accounting Standards Reporting

Charter schools are authorized by governmental entities, funded primarily with state aid, and overseen by a local or state government authorizer; therefore, charter schools are considered local educational entities and must prepare their audited financial statements based on governmental accounting standards.

Governmental accounting standards reporting includes the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of a charter school.

The governmental accounting standards require extensive and comprehensive reporting;

reconciliation between the governmental funds balance sheet and the statement of net assets; reconciliation between the governmental funds statement of revenues, expenditures, and changes in fund balances and the statement of activities; and many other reporting statements and analyses.

Reporting with the LEA or Separately

The Charter schools is operated as a nonprofit public benefit corporation therefore follows nonprofit reporting standards and issue a separate unaudited actual report and audited financial statements.

Governmental Accounting Standards Board (GASB) statements 14, *The Financial Reporting Entity; 39, Deter- mining Whether Certain Organizations Are Component Units*; and 61, *The Financial Reporting Entity,* provide guidance about whether a charter school's financial reporting should be combined with that of the authorizing LEA or performed separately.

A charter school that is part of the same reporting entity as its authorizing LEA should be included in the LEA's financial statements and should submit its unaudited actuals and annual audited actuals to the CDE as part of the LEA's combined financial reporting. When a charter school is part of its authorizing LEA, the LEA's independent audit firm will audit the charter school, and this financial information will become a component of the LEA's audited financial figures.

Auditing Standards

Both nonprofit and governmental methods of accounting and reporting require annual independent audits of the charter school using generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards, issued by the Comptroller General of the United States.* Government auditing standards are also known as the Yellow Book. The Yellow Book contains the standards for audits of government organizations, programs, activities and functions; it is published by the United States Government Accountability Office (www.gao.gov).

Federal and State Compliance Audit Standards

Charter schools must also comply with federal and state assurances and requirements for LCFF certification, after-school education, facility grants, instructional minutes, Common Core State Standards, and other entitlement or grant funds. The state compliance requirements can be found in *Standards and Procedures for Audits of California K-12 Local Education Agencies*, which is published by the EAAP and is updated annually.

To better prepare for all of the California State Controller's Office (SCO's) reporting requirements, those responsible for charter school operations should visit the EAAP web site at www.eaap.ca.gov and obtain a copy of the state compliance requirements and the audit procedures. This information can help a charter school verify its compliance before the annual audit and thus avoid audit findings.

CDE and State Controller's Annual Audit Report Requirements

The CDE (see http:/ www.cde.ca.gov/fg/au/ag/submitauditrpt.asp) requires that charter school audit reports be submitted electronically in either unsecured Adobe Acrobat (.pdf) (preferred) or Microsoft Word format and include the independent auditor's electronic signature. Electronic audit reports may be submitted on compact disc (CD) by mail or transferred electronically via the exFiles File Transfer System.

Audit reports must be filed annually by December 15 with the CDE, the SCO, the local county superintendent of schools, and, if applicable, the chartering entity. Charter schools should choose only one method of submission. Submissions on a CD are to be mailed to:

California Department of Education School Fiscal Services Division Audit Resolution Staff
1430 N Street, Suite 3800
Sacramento, CA 95814

The SCO website at http://sco.ca.gov/aud_k_12_leas_audit_report_requirements.html and http:/ www.sco. ca.gov/aud_where_to_submit_audit_reports.html lists specific requirements for charter schools.

First Year Audit

New charter schools, once approved by their authorizer's governing board, are required to prepare unaudited financial statements, and be audited their first fiscal year ending June 30 *if any financial activity occurs.*

Although a charter school may not receive apportionment funding or serve students during this first fiscal period, many charter schools receive startup grant revenues, revolving fund loans, donations, and other revenues, and have start-up expenditures during this time. When a charter school has financial activity, regardless of how small or short-lived, it is required to prepare unaudited financial statements and receive an independent audit for its first fiscal year.

Consolidated Financial Reporting

Any charter school that enters into a relationship with a charter school-related organization (CSRO) must evaluate whether GAAP requires these entities to be consolidated for financial reporting purposes. The charter school's management should fully disclose these relationships to its independent auditor for proper determination of reporting requirements.

Consolidation of a charter school's financial statements with those of a related entity depends on two factors: *Economic interest and control.*

- An *economic interest* in another entity exists when another entity holds or provides significant services to the organization, or the organization is responsible for another entity's liabilities.
- *Control* is the direct or indirect ability to determine the direction of an organization's management and policies. An organization that has a majority voting interest in the

governing board of another entity or other delegated governance may have control of that entity. Control may be exercised if an entity has the direct or indirect ability to appoint individuals that together constitute a majority of the votes of that entity's governing board. Further, if one organization approves a majority of another entity's governing board, that organization has the indirect ability to determine the direction of the other entity's management and policies.

Depending on whether economic interest and control exist, the consolidation of the charter schools and the CSRO's financial statements can be required, optional, or not allowed, as follows:

- Required: An organization that has both an economic interest in and control of another entity through a majority voting interest in the other entity's governing board should prepare consolidated financial statements. If a sole statutory member has a controlling financial interest through ownership of a majority voting interest, consolidation of financial statements is required.
- Optional: If an organization has both an economic interest in and control of another entity, but that control is other than a majority voting interest, such as through a contract or affiliation agreement, consolidation is permitted but not required.
- Not Allowed: An organization that has neither an economic interest nor control of another entity should not issue consolidated financial statements.

The structure of the relationship between a charter school and another entity ultimately determines whether consolidated financial statements are required or optional. When establishing a relationship with any organization, the level of economic interest and control should be considered and fully disclosed to the charter school's authorizer, legal counsel, and independent auditor.

Standard Financial Statements

Preparing financial statements and communicating key financial information are vital accounting functions. Financial statements are used to help make decisions and monitor the achievement of financial objectives. They are also a standard method of communicating and providing information to parties outside of the charter school.

Charter schools should prepare basic financial statements at year end and as needed throughout the year for reporting. Basic financial statements should be maintained organization wide and must include the following:

- Statements of Financial Position — These show the charter school's assets, liabilities, and net assets, and classify assets and liabilities as current or noncurrent/long-term.
- Statements of Activities — These present support, revenues, expenses, and other changes in the charter school's net assets, by category of net asset (unrestricted, temporarily restricted, and permanently restricted).

Frequency of Preparation

The objective of a charter school's back-office service provider is to record and account for financial data accurately and prepare accurate financial statements in accordance with GAAP and distribute them in a timely and cost-effective manner. To fulfill this responsibility, the following is adopted:

A standard set of financial statements is produced monthly for presentation at the scheduled meeting of the governing board. These statements should include comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts. In addition, when appropriate or applicable to include supplemental information on activities, by department and function (and/or by program or grant), whenever possible.

The monthly set of financial statements is prepared using or accrual basis of accounting, including the year-end reports. Year-end reports include all of the following as of June 30:

- Receivables
- Prepaid accounts
- Accounts payable
- Loans/notes payable
- Accruals
- Depreciation and amortization expense

Review and Distribution

The CFO should review and approve all financial statements and supporting schedules. Both the preparer and the CFO, area superintendent or designee should sign financial reports upon completion.

The complete and final set of financial statements should include any supplemental schedules described above and, after approval by the CFO or designee, should be distributed to the following individuals:

- All members of the of the governing board
- Chief executive officer, Superintendent of Schools, Area Superintendent or designee, School principals and any other employees who have budget monitoring responsibilities receives the budget versus actual report for comparison and review.

Financial statements should include multiyear financial projections, fund balance and Average Daily Attendance (ADA) information.

Annual Financial Statements

The CFO, Designee or independent auditor should formally present the charter school's annual financial statements to the full governing board at a public board meeting. Before this presentation, the CFO, Designee, or independent auditor will often meet upon request with the charter school's governing board to provide additional detail and/or answer more specific questions.

Filing Information Returns and Forms

The CFO is responsible for ensuring that the charter school follows all filing requirements. Charter schools should adopt, and follow, policy to communicate the importance of filing complete and accurate returns.

The following list includes reports and returns the charter school is required to file. Assume a fiscal year ending June 30:

1. Form 990, Return of Organization Exempt from Income Tax — annual information return of tax-exemption of the charter school, filed with IRS — is due on November 15.

2. Form 990-T, Exempt Organization Business Income Tax Return — annual tax return to report any unrelated trade or business activities filed with the IRS — is due on November 15.

3. Form 199, Exempt Organization Annual Information Statement or Return (California) — filed with the Franchise Tax Board — is due on November 15.

4. Form 5500, Annual Return/Report of Employee Benefit Plan — annual return developed by the IRS, Department of Labor, and Pension Benefit Guaranty Corporation for employee benefit plans to satisfy annual reporting requirements of Title I and Title IV of the Employee Retirement Income Security Act (ERISA) and of the Internal Revenue Code — is due on November 15.

5. Federal and state payroll returns — depending on the size of the employment tax liability — filed quarterly or annually.

6. Form RRF-1, Registration/Renewal Fee Report to Attorney General of California — to assist the Attorney General's Office with early detection of charity fiscal mismanagement and unlawful diversion of charitable assets — is due on November 15. This form is not applicable for the Charter school.

7. SF-SAC, the data collection form for reporting audits of state, local government, and nonprofit organizations — the Office of Management and Budget requires that all Forms SF-SAC and single audit submissions be submitted on the Federal Audit Clearinghouse (FAC) Internet Data Entry System. The audit shall be completed, and the data collection form and reporting package shall be electronically transmitted within 30 days after receipt of the auditor's report(s) or within nine months after the end of the audit period, whichever is earlier.

8. Form 1099, Miscellaneous Income — Report to the IRS on certain types of income; normally for independent vendors — is due to vendors by January 31, and due to the IRS by February 28.

9. Form 1096, Annual Summary and Transmittal of U.S. Information Returns — to transmit paper forms 1097 (Bond Tax Credit), 1098 (Mortgage Interest Statement), 1099, 3921 (Exercise of an Incentive Stock Option), 3922 (Transfer of Stock Acquired Through an Employee Stock Option Plan), 5498 (IRA Contribution Information), and W-2G (Certain Gambling Winnings) to the IRS — is due by February 28.

10. Form W-2, Wage and Tax Statement — report to the IRS on employee wage and salary information as well as the amount of federal, state and other taxes withheld from their paycheck— due to employees and the IRS no later than January 31 following the close of the tax year,

11. Form W-3, Transmittal of Wage and Tax Statements — report summary of all Forms W-2 issued by an employer in one return, including the total amount of employees during the

tax year — due to the IRS no later than January 31 following the close of the tax year.

All annual tax and information returns (e.g., Form 990, Form 990-T) should be filed using the accrual basis of reporting.

Unrelated Business Activities

An activity is considered unrelated business (and is subject to unrelated business income tax) if it meets three requirements:

- It is a trade or business
- It is regularly carried on, and
- It is not substantially related to furthering the tax-exempt purpose of the organization.

There are a number of modifications, exclusions, and exceptions to this general definition. Additional information can be found at https:/ www.irs.gov/charities-non-profits/unrelated-business-income-defined.

Each unrelated business activity must be identified and classified separately.

Using the guidelines in the Internal Revenue Code and underlying regulations, a charter school should identify and classify income-producing activities that are unrelated to the charter school's tax-exempt purpose. Such income must be kept in separate accounts in the charter school's general ledger to facilitate tracking and accumulation of unrelated trade or business activities.

Unrelated trade or business activities are reported in IRS Form 990-T. This form is not subject to any public access or disclosure requirements. Accordingly, it should be the policy of the charter school to distribute copies of Form 990-T only to the charter school's management and board of directors.

Chapter 6 – Conflict of Interest and Gift of Public Funds

Conflict of Interest

A conflict of interest exists when an individual has a personal financial interest in the outcome of a public decision and does either of the following:

1. Participates in decision-making related to that item.
2. Influences, or attempts to influence, others making a contract or decision related to that item.

Statutes that govern conflicts of interest include the Political Reform Act of 1974 (PRA), starting at Government Code section 87100; Government Code section 1090; and, for those charters that are operated by nonprofit public benefit corporations, Corporations Code section 5233.

Conflicts of interest are prohibited in four ways:

- First, there is an absolute prohibition against a public official making a contract in which the official has a personal interest. This is specified in Government Code section 1090. A contractual conflict of interest can be cured by public disclosure and abstention if it fits the definition of a remote interest under Government Code section 1091. Government

Code section 1091.5 defines certain “non-interests” that do not constitute conflicts and do not require either disclosure or abstention.

- Second, there is a prohibition against any public officer or employee participating in, or attempting to influence, a decision in which he or she has a material financial interest that affects a source of his or her income, different from the effect on the public in general. This is specified in the Political Reform Act.
- Third, Corporations Code section 5233 prohibits the member of the board of a nonprofit public benefit corporation from engaging in self-dealing transactions with the board in which the affected board member has a material financial interest. Annually the governing board will review the vendor and contractor list to ensure compliance.
- Fourth, in addition to these statutory provisions there is a general common law prohibition against conflicts of interest that has long been recognized by the courts and prohibits public officials from placing themselves in a position where their private, personal interests may conflict with their official duties.

The California Legislative Counsel issued an opinion to a member of the state Legislature on January 20, 2015 regarding, among other topics, conflicts of interest. The opinion concludes as follows:

In summary, it is our opinion that a charter school is subject to the Ralph M. Brown Act, the California Public Records Act, the conflict-of-interest provisions of the Political Reform Act of1974, and Government Code section 1090. It is also our opinion that the conflict-of-interest provisions of the Political Reform Act of 1974 and Government Code section 1090 apply concurrently with the conflict-of-interest provisions of Corporations Code section 5233 to a member of the governing body of a charter school, operated by a nonprofit public benefit corporation, who is also a director of that corporation.

GovernmentCode1090—Financial Interest of Public Officials, Officers and Employees

Government Code 1090 is described in detail in a January 20, 2015 opinion from the Legislative Counsel provided to a member of the state Legislature. Pages 11-12 of the Legislative Counsel’s opinion apply to charter schools and state the following about Government Code 1090:

Section 1090 prohibits members of the Legislature and officers and employees of the entities enumerated in that section from having a financial interest in any contract made by the enumerated entity, as follows:

“1090. Members of the Legislature, state, county, district, judicial district and city officers or employees shall not be financially interested in any contract made by them in their official capacity, or by anybody or board of which they are members. Nor shall state, county, district, judicial district, and city officers or employees be purchasers at any sale or vendors at any purchase made by them in their official capacity.

“As used in this article, ‘district’ means any agency of the state formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.”

Section 1090 contains two prohibitions: one concerning contracts and one concerning purchases or sales. The first prohibits an officer or employee of the enumerated entities from being financially interested in a contract made by the officer or employee in his or her official capacity or by a body or board of which the officer or employee is a member. The second prohibits an officer or employee of the enumerated entities from making, in his or her official capacity, either a purchase from the entity or a sale to the entity.

As used in section 1090, the term "financially interested" refers to any financial interest that might interfere with the officer or employee's unqualified devotion to his or her public duty; it "may be direct or indirect and includes any monetary or proprietary benefits, or gain of any sort, or the contingent possibility of monetary or proprietary benefits." (See *People v. Watson* (1971) 15 Cal.App.3d 28, 37.) A public official has a financial interest in a contract made by him or her in that capacity when it is reasonably foreseeable that the contract may have a financial effect on any source of his or her income if he or she might profit from the contract. *(People v. Honig* (1996) 48 Cal.App.4th 289, 333; hereafter *Honig.)* It is not necessary to establish a direct dependency between the contract and any actual profit; if the contract benefits an entity from which income flows to the official, it is both speculative and irrelevant that as a result of the contract the income would or would not remain the same, because the statute is aimed at the mere *"possibility* of any personal influence." *(Id.* at p. 344, emphasis in original.)

In addition, the fact that a contract is fair and untainted by fraud or would be more advantageous to the entity than others might be, is irrelevant to the determination of the existence of an interest forbidden under section 1090. *(Thomson v. Call* (1985) 38 Cal.3d 633, 649 (hereafter *Thomson); Stigall v. City of Taft* (1962) 58 Cal.2d 565, 569-570; *People v. Vallerga* (1977) 67 Cal.App.3d 847, 865.) "'Any direct or indirect financial interest in the subject matter is sufficient to taint the contract with illegality if the interest be such as to effect [sic) the judgment and conduct of the officer either in the making of the contract or in its performance.' [Citation.]" *(Marin County v. Messner* (1941) 44 Cal.App.2d 577, 590.) The California Supreme Court in *Thomson, supra,* at pages 649 and 650, stated as follows:

"California courts have consistently held that the public officer cannot escape liability for a section 1090 violation merely by abstaining from voting or participating in discussions or negotiations .. Mere membership on the board or council establishes the presumption that the officer participated in the forbidden transaction or influenced other members of the council.... Similarly, the full disclosure of an interest by an officer is also immaterial, as disclosure does not guarantee an absence of influence. To the contrary, it has been suggested that knowledge of a fellow officer's interest may lead other officers to favor an award which would benefit him." (Fns. & citations omitted.)

A contract in which a public officer is interested is void, not merely voidable. *(Thomson, supra,* 38 Cal.3d at p. 646, fn. 15; see also *§* 1092.) And if a transaction comes within the restrictions of section 1090, the governmental body or board itself is not permitted to act on the matter, even if the interested member refrains from participating in the transaction. (*City of Imperial Beach v. Bailey* (1980) 103 Cal.App.3d 191, 195; *Fraser-Yamor Agency, Inc. v. County of Del Norte* (1977) 68 Cal.App.3d 201, 211-212.)

Injunctive relief may be provided if the contract has not yet been performed. *(Thomson, supra,* 38 Cal.3d at p. 646, fn. 17.) Furthermore, a willful violation of section 1090 is punishable by a fine not to exceed $1,000, or by imprisonment in the state prison, and by disqualification from holding any office in this state. (§ 1097.) A violation of section 1090 may be prosecuted by either the local district attorney or the Attorney General. (See *Honig, supra,* 48 Cal.App.4th at pp. 353-356.)

Certain financial interests are excluded from the prohibition set forth in section 1090. Section 1091 defines certain financial interests as "remote,'' and provides that an officer will not be deemed to be "interested" in any contract entered into by a board of which he or she is a member if the member has only a remote interest in that contract. For example, the interest of a parent in the earnings of his or her minor child for personal services is defined as a remote interest. *(§*1091, subd. (b)(4).) Section 1091.5 specifies certain interests that are not financial interests for the purposes of section 1090, including, for example, the financial interest of a spouse of an officer or employee of an entity enumerated in that section if his or her spouse's employment or office holding has existed at least one year prior to his or her election. (§

1091.5, subd. (a)(6).) Further exclusions from section 1090 are made in section 1091.1 for a financial interest in a contract relating to certain subdivided lands, and in section 1091.2 for certain private industry councils. A member having a remote financial interest under section 1091 must disclose that interest to the board and abstain from voting on that contract. (§ 1091, subd. (a).) The board must note the remote interest in the official records and authorize, approve, or ratify the contract in good faith by a sufficient vote. (*Ibid.*)

Political Reform Act — Disclosure and Conflicts of Interest

The Political Reform Act (PRA) found in Government Code sections 81000 - 91014, was enacted to identify prohibited conflicts of interests for state and local officials and certain public employees and to establish a process for these individuals to publicly disclose their personal economic interests.

Disclosure: Section 81002 of the PRA states: Assets and income of public officials which may be materially affected by their official actions should be disclosed and in appropriate circumstances the officials should be disqualified from acting in order that conflicts of interest may be avoided. Government Code Section 81002(c).

The PRA's provisions are enforced by the Fair Political Practices Commission (FPPC). The FPPC is the state agency responsible for interpreting the provisions of the law and issuing California Form 700 – Statement of Economic Interests.

The FPPC website (https://www.fppc.ca.gov//Form700.html) states:

Every elected official and public employee who makes or influences governmental decisions is required to submit a Statement of Economic Interest (sic), also known as the Form 700. The Form 700 provides transparency and ensures accountability in two ways:

1. It provides necessary information to the public about an official's personal financial interests to ensure that officials are making decisions in the best interest of the public and not enhancing their personal finances.

2. It serves as a reminder to the public official of potential conflicts of interest so the official can abstain from making or participating in governmental decisions that are deemed conflicts of interest.

Investments, interests in real property, business positions held, and income (including loans, gifts, and travel payments) received during the period covered by the statement (or the twelve months prior to assuming the position, if filing an assuming office statement) are reported on the Form 700, depending on the relevant disclosure category(ies) in the public agency's conflict of interest code.

Because charter schools are considered public agencies for purposes of the Political Reform Act, the PRA requires them to adopt conflict of interest codes, which identify those positions required to complete a Form 700 and the applicable disclosure categories for each designated position.

Charter school board members and other designated individuals must file Form 700 annually, when they take office or begin in a position, and upon leaving office. Usually, Form 700 must be filed by April 1 of each year, and within 30 days of assuming or leaving office or their position, unless an exception applies.

The Form 700 Reference Pamphlet states: In addition, certain consultants to public agencies may qualify as public officials because they make, participate in making, or act in a staff capacity for governmental decisions. Agencies determine who is a consultant and the level of disclosure and may use Form 805.

The Form 700, Statement of Economic Interests is updated annually. The current Form 700 and Reference Pamphlet are available at http:/ www.fppc.ca.gov/Form700.html.

Conflicts of Interest: The Political Reform Act not only requires disclosure of economic interests; it also identifies prohibited conflicts of interests. The FPPC Regulations (found in Title 2 of the California Code of Regulations) provide additional information on what qualifies as a prohibited conflict of interest.

Section 18700(a) of the FPPC Regulations reads: "A public official at any level of state or local government has a prohibited conflict of interest and may not make, participate in making, or in any way use or attempt to use his or her official position to influence a governmental decision when he or she knows or has reason to know he or she has a disqualifying financial interest. A public official has a disqualifying financial interest if the decision will have a reasonably foreseeable material financial effect, distinguishable from the effect on the public generally, directly on the official, or his or her immediate family, or on any financial interest described in subdivision (c)(6)(A-F) herein. (Sections 87100, 87101, & 87103.)"

FPPC Regulation Section 18700(d) gives four steps "to determine whether a public official has a prohibited conflict of interest [:]"

Step One: Is it reasonably foreseeable that the governmental decision will have a financial effect on any of the public official's financial interests? The criteria for determining financial effect is contained in FPPC Regulation Section 18701, "Determining Whether a Financial Effect Is Reasonably

Foreseeable," which reads:

(a) Financial Interest Explicitly Involved: A financial effect on a financial interest is presumed to be reasonably foreseeable if the financial interest is a named party in, or the subject of, a governmental decision before the official or the official's agency. A financial interest is the subject of a proceeding if the decision involves the issuance, renewal, approval, denial or revocation of any license, permit, or other entitlement to, or contract with, the financial interest, and includes any governmental decision affecting a real property financial interest as described in Regulation 18702.2(a)(1)-(6).

(b) Financial Interest Not Explicitly Involved in Decision: A financial effect need not be likely to be considered reasonably foreseeable. In general, if the financial effect can be recognized as a realistic possibility and more than hypothetical or theoretical, it is reasonably foreseeable. If the financial result cannot be expected absent extraordinary circumstances not subject to the public official's control, it is not reasonably foreseeable. In determining whether a governmental decision will have a reasonably foreseeable financial effect on a financial interest other than an interest described in subdivision (a), the following factors should be considered. These factors are not intended to be an exclusive list of all the relevant facts that may be considered in determining whether a financial effect is reasonably foreseeable but are included as general guidelines.

1. The extent to which the occurrence of the financial effect is contingent upon intervening events, not including future governmental decisions by the official's agency, or any other agency appointed by or subject to the budgetary control of the official's agency.

2. Whether the public official should anticipate a financial effect on his or her financial interest as a potential outcome under normal circumstances when using appropriate due diligence and care.

3. Whether the public official has a financial interest that is of the type that would typically be affected by the terms of the governmental decision or whether the governmental decision is of the type that would be expected to have a financial effect on businesses and individuals similarly situated to those businesses and individuals in which the public official has a financial interest.

4. Whether a reasonable inference can be made that the financial effects of the governmental decision on the public official's financial interest might compromise a public official's ability to act in a manner consistent with his or her duty to act in the best interests of the public.

5. Whether the governmental decision will provide or deny an opportunity or create an advantage or disadvantage for one of the official's financial interests, including whether the financial interest may be entitled to compete or be eligible for a benefit resulting from the decision.

6. Whether the public official has the type of financial interest that would cause a similarly situated person to weigh the advantages and disadvantages of the governmental decision on his or her financial interest in formulating a position.

Step Two: Will the reasonably foreseeable financial effect be material? The criteria for ascertaining materiality are contained in FPPC Regulation Section 18702, "Materiality Standards," which reads:

(a) In order to determine if a governmental decision's reasonably foreseeable financial effect on a financial interest is material, for a governmental decision that affects:

(1) A financial interest in a business entity, - apply Regulation 18702.1;

(2) A financial interest in real property, - apply Regulation 18702.2;

(3) A financial interest in a source of income, - apply Regulation 18702.3;

(4) A financial interest in a source of gifts, - apply Regulation 18702.4;

(5) The public official's personal finances, or those of a member of his or her immediate family, - apply Regulation 187025;

(b) Notwithstanding Regulations 18702.1 through 18702.5, the financial effect of a governmental decision is not material if it is nominal, inconsequential, or insignificant.

Step Three: Can the public official demonstrate that the material financial effect on the public official's financial interest is indistinguishable from its effect on the public generally? The criteria for answering this question are contained in FPPC Regulation Section 18703, "Public Generally," which reads:

(a) General Rule. A governmental decision's financial effect on a public official's financial interest is indistinguishable from its effect on the public generally if the official establishes that a significant segment of the public is affected and the effect on his or her financial interest is not unique compared to the effect on the significant segment.

(b) A significant segment of the public is at least 25 percent of:

(1) All businesses or non-profit entities within the official's jurisdiction.

(2) All real property, commercial real property, or residential real property within the official's jurisdiction; or

(3) All individuals within the official's jurisdiction.

(c) A unique effect on a public official's financial interest includes a disproportionate effect on:

(1) The development potential or use of the official's real property or on the income producing potential of the official's real property or business entity.

(2) An official's business entity or real property resulting from the proximity of a project that is the subject of a decision.

(3) An official's interests in business entities or real properties resulting from the cumulative effect of the official's multiple interests in similar entities or properties that is substantially greater than the effect on a single interest.

(4) An official's interest in a business entity or real property resulting from the official's

substantially greater business volume or larger real property size when a decision affects all interests by the same or similar rate or percentage.

(5) A person's income, investments, assets or liabilities, or real property if the person is a source of income or gifts to the official.

(6) An official's personal finances or those of his or her immediate family.

(d) "Jurisdiction" means the jurisdiction of the state or local government agency as defined in Section 82035, or the designated geographical area the official was elected to represent, or the area to which the official's authority and duties are limited if not elected.

(e) Specific Rules for Special Circumstances. The financial effect on a public official's financial interest is deemed indistinguishable from that of the public generally if the official establishes:

(1) Public Services and Utilities. The decision establishes or adjusts assessments, taxes, fees, or rates for water, utility, or other broadly provided public services or facilities that are applied equally, proportionally, or by the same percentage to the official's interest and other businesses, properties, or individuals subject to the assessment, tax, fee, or rate.

(2) General Use or Licensing Fees. The decision affects the official's personal finances as a result of an increase or decrease to a general fee or charge, such as parking rates, permits, license fees, application fees, or any general fee that applies to the entire jurisdiction.

Limited Neighborhood Effects. The decision affects residential real property limited to a specific location, and the decision establishes, amends, or eliminates ordinances that restrict on- street parking, impose traffic controls, deter vagrancy, reduce nuisance, or improve public safety provided the body making the decision gathers sufficient evidence to support the need for the action at the specific location.

(3) Rental Properties. The decision affects all renters of residential property within the official's jurisdiction and only interests resulting from the official's leasehold interest in his or her residence are affected.

(4) Required Representative Interest. The decision is made by a board or commission and the law that establishes the board or commission requires certain appointees have a representative interest in a particular industry, trade, or profession or other identified interest, and the public official is an appointed member representing that interest. This provision applies only if the effect is on the industry, trade, or profession or other identified interest represented and there is no unique effect on the official's interest.

(5) State of Emergency. The decision is made pursuant to an official proclamation of a state of emergency when required to mitigate against the effects directly arising out of the emergency and there is no unique effect on the official's interest.

(6) Governmental Entities. The decision affects a federal, state, or local governmental entity in which the official has an interest and there is no unique effect on the official's interest.

Step Four: If after applying the three-step analysis and determining the public official has a conflict of interest, absent an exception, he or she may not make, participate in making, or in any way attempt to use his or her official position to influence the governmental decision. FPPC Regulation Section 18700(d)(4) states: “If the public official will be called upon to make, participate in the making, or use his or her official position to influence a governmental decision in which he or she has a financial interest as determined under Step One through Step Three, he or she will have a prohibited conflict of interest.”

The criteria for determining whether the conflict of interest is prohibited is found in FPPC Regulation Section 18704, “Making, Participating in Making, or Using or Attempting to Use Official Position to Influence a Government Decision, Defined,” which reads:

(a) Making a Decision. A public official makes a governmental decision if the official authorizes or directs any action, votes, appoints a person, obligates, or commits his or her agency to any course of action, or enters into any contractual agreement on behalf of his or her agency.

(b) Participating in a Decision. A public official participates in a governmental decision if the official provides information, an opinion, or a recommendation for the purpose of affecting the decision without significant intervening substantive review.

(c) Using Official Position to Attempt to Influence a Decision. A public official uses his or her official position to influence a governmental decision if he or she:

(1) Contacts or appears before any official in his or her agency or in an agency subject to the authority or budgetary control of his or her agency for the purpose of affecting a decision; or

(2) Contacts or appears before any official in any other government agency for the purpose of affecting a decision, and the public official acts or purports to act within his or her authority or on behalf of his or her agency in making the contact.

(d) Exceptions. Making, participating in, or influencing a governmental decision does not include:

(1) Ministerial. Actions by a public official that are solely ministerial, secretarial, or clerical.

(2) Appearances as a Member of the General Public. An appearance by a public official as a member of the general public before an agency in the course of its prescribed governmental function if the official is appearing on matters related solely to the (sic) his or her personal interests, including interests in:

(A) Real property owned entirely by the official, members of his or her immediate family, or the official and members of his or her immediate family;

(B) A business entity owned entirely by the official, members of his or her immediate family, or the official and members of his or her immediate family; or

(C) A business entity over which the official, members of his or her immediate family, or the official and members of his or her
immediate family solely or jointly exercise full direction and control.

(3) Terms of Employment. Actions by a public official relating to his or her compensation or the terms or conditions of his or her employment or consulting contract. However, an official

may not make a decision to appoint, hire, fire, promote, demote, or suspend without pay or take disciplinary action with financial sanction against the official or his or her immediate family, or set a salary for the official or his or her immediate family different from salaries paid to other employees of the government agency in the same job classification or position.

(4) Public Speaking. Communications by a public official to the general public or media.

(5) Academic Decisions.

(A) Teaching decisions, including an instructor's selection of books or other educational materials at his or her own school or institution, or other similar decisions incidental to teaching; or

(B) Decisions by a public official who has teaching or research responsibilities at an institution of higher education relating to his or her professional responsibilities, including applying for funds, allocating resources, and all decisions relating to the manner or methodology with which his or her academic study or research will be conducted. This exception does not apply to a public official who has institution-wide administrative responsibilities as to the approval or review of academic study or research at the institution unrelated to his or her own work.

(6) Architectural and Engineering Documents.

(A) Drawings or submissions of an architectural, engineering, or similar nature prepared by a public official for a client to submit in a proceeding before the official's agency if:

(i) The work is performed pursuant to the official's profession; and

(ii) The official does not make any contact with the agency other than contact with agency

staff concerning the process or evaluation of the documents prepared by the official.

(B) An official's appearance before a design or architectural review committee or similar body of which the official is a member to present drawings or submissions of an architectural, engineering, or similar nature prepared for a client if:

(i) The review committee's sole function is to review architectural designs or engineering plans and to make recommendations to a planning commission or other agency;

(ii) The review committee is required by law to include architects, engineers or persons in related professions, and the official was appointed to the body to fulfill this requirement; and

(iii) The official is a sole practitioner.

(7) Additional Consulting Services: Recommendations by a consultant regarding additional services for which the consultant or consultant's employer would receive additional income if the agency has already contracted with the consultant, for an agreed upon price, to make recommendations concerning services of the type offered by the consultant or consultant's employer and the consultant does not have any other economic interest, other than in the firm, that would be foreseeably and materially affected by the decision.

A public official or employee has a prohibited conflict of interest under the Political Reform Act when all of the following occur:

- The official makes, participates in making, or uses his or her official position to influence a governmental decision, without an exception;
- It is reasonably foreseeable that the decision will affect the official's economic interest;
- The effect of the decision on the official's economic interest will be material; and
- The effect of the decision on the official's economic interest will be different than its effect on the public generally.

Self-Dealing by Nonprofit Board Members

In a January 20, 2015 opinion to a member of the state Legislature, the California Legislative Counsel said:

Corporations Code section 5233 sets forth conflict-of-interest prohibitions specifically applicable to the directors of a nonprofit public benefit corporation, which raises the question of whether those conflict-of-interest prohibitions, and not the prohibitions of section 87100, should apply to the directors of a nonprofit public benefit corporation who thereby operate as members of the governing body of a charter school. As stated above, Education Code section 47604 authorizes a charter school to operate as, or be operated by, a nonprofit public benefit corporation. Nonprofit public benefit corporations are governed by the Nonprofit Public Benefit

Corporation Law, in addition to the provisions in the Corporations Code applicable to all corporations or all nonprofit corporations, as the case may be. (Corp. Code § 5003.) Nonprofit public benefit corporations may be formed for any public or charitable purpose. (Corp. Code, § 5111.)

Each nonprofit public benefit corporation is required to have a board of directors that conducts the activities and affairs of the corporation and exercises all of the corporation's corporate powers. (Corp Code, § 5210.) Not more than 49 percent of the persons serving on the board of any corporation may be "interested persons," defined as persons being compensated by the corporation for services rendered (excluding reasonable compensation paid to a director as director) and persons who are relatives or spouses of compensated persons. (Corp. Code, § 5227.)

Among the provisions governing directors of nonprofit public benefit corporations is Corporations Code section 5231, which requires a director to perform his or her duties in good faith and sets forth the standard of care applicable to the performance of those duties. Corporations Code section 5231 provides, in pertinent part, as follows:

"5231. (a) *A director shall perform the duties of a director*, including duties as a member of any committee of the board upon which the director may serve, *in good faith*, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances."
(Emphasis added.)

In regard to the requirement that directors of a nonprofit public benefit corporation perform their duties in good faith, Corporations Code section 5233 contains provisions that pertain specifically to "self-dealing transactions." Corporations Code section 5233 describes those transactions as ones to which the nonprofit public benefit corporation is a part and in which one or more of its directors may have a material financial interest that does not meet certain requirements.

Moreover, if a director of a nonprofit public benefit corporation violates Corporations Code section 5233, a court has discretion to order that director to perform those acts and to pay those damages that will provide an "equitable and fair remedy to the corporation," including, but not limited to, paying the corporation the amount of profits realized from the transaction, the value of use made in the transaction of corporate property, and returning or replacing any lost corporate property. (Id., subd. (h).) Thus, the members of the board of directors for a nonprofit public benefit corporation operating a charter school are prohibited from engaging in a self-dealing transaction and may be subject to legal remedies if they engage in such transactions.

The Legislative Counsel concluded that the provisions of Corporations Code section 5233 apply concurrently with the provisions of the Political Reform Act where nonprofit corporate directors operate charter schools.

In addition to Corporations Code section 5233, nonprofit boards should be aware of new requirements in Part VI of IRS Form 990 (the tax return form for organizations exempt from income tax). Part VI is titled, Governance, Management and Disclosure. The IRS states in its instructions for that form:

Even though the information on policies and procedures requested in Section B generally is not required under the Internal Revenue Code, the IRS considers such policies and procedures to generally improve tax compliance. The absence of appropriate policies and procedures can lead to opportunities for excess benefit transactions, inurement, operation for non-exempt purposes, or other activities inconsistent with exempt status.

The Brown Act, California Public Records Act, conflict of interest provisions of the Political Reform Act of 1974, and Government Code section 1090 all apply to a member of a charter school's governing body and are concurrent with the conflict-of-interest provisions of the Corporations Code that apply if the charter board member is also a director of the nonprofit corporation.

Common Law Conflicts of Interest

The following discussion of the concept of common law conflicts is taken from the appellate court decision in

Clark v. City of Hermosa Beach (1996) 48 Cal.App.4th 1152, 1170-1171 (as modified on denial of hearing):

Over 60 years ago, one Court of Appeal discussed the common law prohibition on conflicts of interest, stating: 'A public officer is impliedly bound to exercise the powers conferred on him with disinterested skill, zeal, and diligence and primarily for the benefit of the public.... [¶] ... [¶] Actual injury is not the principle the law proceeds on. Fidelity in the agent is what is aimed at, and as a means of securing it the law will not permit him to place himself in a position in which he may be tempted by his own private interests to disregard those of his principal. This doctrine is generally applicable to private agents and trustees, but to public officers it applies with greater force, and sound policy requires that there be no relaxation of its stringency in any case that comes within its reason. '(*Noble v. City of Palo Alto* (1928) 89 Cal.App. 47, 51 [264 P 529], citations omitted.) '[T]he common law doctrine against conflicts of interest... prohibits public officials from placing themselves in a position where their private, personal interests may conflict with their official duties.' (64 Ops.Cal.Atty.Gen. 795, 797 (1981); accord 70 Ops. Cal.Atty.Gen. 45, 47, (1987).)

Common law conflicts of interest are described in detail in a January 20, 2015 opinion from the Legislative Counsel provided to a member of the state legislature. Page 10 of the Legislative Counsel's opinion applies to charter schools and states the following:

When a nonprofit public benefit corporation avails itself of the authority to exercise the sovereign power of the state through the operation of a charter school, those corporate directors who serve on the governing body of that school, who already are subject to the conflict-of-interest provisions that protect the corporation, also become subject to those conflict-of-interest provisions that govern the conduct of public officials to protect the public interest, Thus, it is our view that the conflict-of-interest provisions of the PRA and Corporations Code section 5233 would be concurrently applied to members of the governing body of a charter school, operated by a nonprofit public benefit corporation, who are also directors of that nonprofit public benefit corporation.

Nepotism

Nepotism is not illegal in California; however, it can be considered favoritism, is often viewed as unfair, and may bring to mind more questionable behaviors such as cronyism. There are policies in the public sector that prohibit nepotism; however, most of those policies deal with human resources and procurement, such as awarding of contracts. Local governmental agencies, such as school districts and charter schools, may have policies about hiring family members; however, most of those policies allow a family member to work for the organization but prohibit family members from serving on the interview panel of a family member, directly supervising a family member, or working in the same line of supervision as a family member.

In the early stages of a charter school, it is often difficult to find people willing to help, so help from friends and family members is not uncommon. FCMAT believes all charter schools should develop a policy allowing or disallowing nepotism. Family members can be hired and may even be supervised by one of their family members, as long as there is a policy allowing it and as long as the related family member abstains from serving on the interview panel and from any vote to approve a family member's employment. Conflicts of interest may arise from influencing and being a party to business interests, contracts, loans, and other economic interests.

The PRA and Government Code sections 1090 and 87100 do not prohibit the hiring of family members in a charter school.

Charter schools are not prohibited from creating their own policy regarding nepotism; and the authorizing LEA may require, as a condition of approving the charter petition or renewal, that the charter school not hire family members or allow family members to work in the charter school.

Gift of Public Funds

Article 16, Section 5 of the California Constitution specifies that the state Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. Article 16 states:

In the absence of a statute granting public local educational agencies (LEAs) the legal authority to make a special expenditure (i.e., for food, clothing, awards, etc.), the legality of any expenditure is determined by the 'gift of public funds' provision in the California Constitution, Article 16, Section 6. This constitutional provision prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency. It states, '... the Legislature shall have no... power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual... whatever...

In general, the constitutional prohibition against the gift of public funds is not an issue when the direct and primary public purpose results in the public receiving a benefit from the expenditure. However, if the gift is to an employee or other individual and there is no benefit to the public as a result, it can be considered a gift of public funds.

On the other hand, it is also well established that expenditures of public funds that involve a benefit to private persons (including public employees) are not gifts within the meaning of the California Constitution if those funds are expended for a public purpose. This means that public funds may be expended only if a direct and substantial public purpose is served by the expenditure and private individuals are benefited only incidentally to the promotion of the public purpose. To justify the expenditure of public funds, a charter school's governing board must determine that the expenditure will benefit the education of students in its schools. Expenditures that most directly and tangibly benefit students' education are more likely justified. Expenditures driven by personal motives are not justified even if they have been a longstanding local custom or are based on benevolent feelings.

The charter school's governing board has determined that a particular type of expenditures listed below serves a public purpose and specific items are allowable:

1. Food/meals for special events to serve parents and students
2. Professional Development activities for staff such as escape rooms, costs to rent out a park, food and supplies for activities, etc.
3. Field Trips –tied to academic outcomes i.e., Medieval Times with justification on approval by the school officials
4. Student incentives & instructional supplies – supplies for parties and small tokens to students who were successful in the credit completions at the end of each academic learning period.
5. Experiential Learning trips such as but not limited to transportation , supplies such as snacks, socks, sleeping bags, warm coats.
6. Student store – supplies to stock a student school instructional related supply where students earn coupons or tokens (ex: Pioneer Bucks) for various academic achievement or activities to be used to purchase items in the store. The school has specific guideline for Pioneer Bucks that must be followed such as:
    a. Backpacks
    b. Shirts
    c. Headphones

d. Candy/chips
e. Speakers
f. Markers/pens
g. Balls
h. Posters

7. Student transportation such as Hop Skip, Drive, busses, bus passes
8. Marketing swag like backpacks, pens, water bottles, sweatshirts, t-shirts, hats for giveaways at student events, field trips, community events, etc.
9. Events such as Prom, grad night, game night, talent show, mini gold, bowling, award night, movie night, and senior activities such as Bowling, banquets to promote socialization, gathering and inclusiveness and directly related to student development. All direct expenditures related to securing venue, transportation, awards, food, brochures, decorations, DJ, food, chaperones, etc.

10. Staff incentive structure – please refer to separate board approval if applicable.
HOPE program student support for personal care such as diapers, formula not exceeding $100 per student.
Restricted donations to support basic needs for the students can be distributed based on the school guidelines for items such as food, transportation, school supplies and such during COVID-19 pandemic not exceeding $150 in value per student

The constitutional prohibition of gifts of public funds is designed to obstruct the misuse of public money. Gift of public fund violations occur under many circumstances; following are two of the most common:

- *A noble or virtuous purpose* that may be considered a gift of public funds might be for the purchase of flowers from charter school funds for the funeral of a student.
- *A moral or justifiable obligation* is the most common form of gift of public funds, resulting from a desire to convey some form of gratitude. Often, staff members who are not formally trained in charter school and governmental policies and procedures unknowingly participate in giving gifts of public funds because of a moral or justifiable obligation. For example, a coach at a charter school may be grateful to individuals who have helped with the sports program, or to individuals who are highly involved, or who are well-known contributors or longtime friends of the program, or individuals who may not be able to afford to attend an event. The coach may offer these individuals gifts such as free event tickets or give them unsold tickets or items.

Without a charter school board policy specifically approving the expenditure of charter school funds for noble, virtuous, or moral purposes such as those described above, these gifts may be considered gifts of public funds. The board shall approve the revised manual if any changes impact the policy. The list of expenditures will be reviewed as appropriate during board meetings.

Donations Process Gifts of cash, including checks, of all sizes are accepted by Area Superintendent, CFO, CEO, or a member of the board of director or designee. **All checks should be made out to the legal name of the corporation that the school operates under and never to any individual working on behalf of the Corporation**. The school as a common practice should turn down gifts of cash if the donor wishes to directly donate that to an employee of the school or place restrictions on the gift that are unacceptable or potentially illegal. In order to ensure the gifts and the restrictions are valid, all gift transactions must go through the school's books and records and at no time should be accepted by an individual employee of the school. A good example of this would be a donor's wish to exclude certain members of a protected constitutional class (race, sex, etc.…) from benefiting from the donated funds. Again, the school official may want to refuse a cash gift if the donor asks that the charitable organization use the gift in a way that is incompatible with its mission or purpose. Another example that should be avoided is if the individual donor uses Venmo to donate cash to an individual employee of the school instead of donating the cash to the legal name of the school. No cash or check transaction should bypass the schools bank account.

Chapter7– Commingling of Funds

Commingling

To commingle is to join or mix two or more items together. Commingling of funds can often have negative connotations and can be considered a material violation of an approved charter because it violates generally accepted accounting principles (GAAP) or generally accepted auditing standards (GAAS). However, mixing or joining funds does not necessarily mean that the origins, identity, sources and uses of the funds are lost. If the origins, identity, or source and use of the funds can be traced, audited, and documented, the commingling of funds may not violate GAAP or GAAS and therefore may not be a material violation of the approved charter.

Nonprofits that operate multiple charter schools, or individual charter schools that have multiple school sites, may be perceived incorrectly as commingling funds when resources are shared between schools. Funds can be mixed together, or shared, between sites, but still be distinguished from one another if they are accounted for properly using accounting methods that track the sources and uses of funds between entities. This is similar to how traditional school districts commonly track and account for interfund loans and transfers under a single district federal identification number. The charter maintains a separate books and records in a separate software for this charter and expenses if any directly related to this charter will be expensed appropriately through purchasing control.

Blending

When commingling leads to blending of funds, the funds' origins, identities, or sources and uses are lost, and the elements of the transaction disappear in the resulting mixture. This may be considered a violation of the GAAP matching principle, which requires matching the source of funds with the use of funds. If the funds' sources and uses cannot be tracked and/or matched and the funds' origins, identities and purposes cannot be confirmed, the funds are blended, and the transactions are not auditable.

If funds are commingled to the extent that they are blended and not auditable, it is a violation of GAAS's third standard of fieldwork, which states the following:

The charter uses an independent third-party auditing firm that is independent from the management to perform such appropriate tests. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.

Sufficient appropriate audit evidence is described in the statement of auditing standards (SAS), which the auditing standards board redrafted into professional standards that include SAS No.

106, Audit Evidence as AU sec. 326, which states the following in section.06, Sufficient Appropriate Audit Evidence:

Sufficiency is the measure of the quantity of audit evidence. *Appropriateness* is the measure of

the quality of audit evidence, that is, its relevance and its reliability in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions.

If the auditor cannot obtain sufficient and appropriate audit evidence to support the commingled funds' sources and uses, those funds are blended and therefore not auditable, which means the auditor will not

be able to express an opinion on the charter school's financial statements as a whole. If this is the case, the result may be a qualified audit opinion, and it may constitute a material violation of the approved charter.

Commingling versus Blending

Commingling does not necessarily result in blending. Charter schools with multiple school sites often loan funds and share resources between schools, resulting in the commingling of funds, yet the identity, origin, and source of funds are verifiable and auditable, so blending does not occur.

Most modern bookkeeping software can track the identity, origin, and source of interfund, interschool and inter-department loans, transfers, and other commingling transactions sufficiently to avoid the blending of funds.

The Charter schools prohibits commingling funds to such an extent that they become blended. The Charter Schools may allow funds to be shared or loaned only among a related group of charter schools. This Charter school does NOT loan or borrow money from another Charter. The financials are maintained in separate systems to avoid Commingling and Blending.

Commingling of funds:

The charter school prohibits commingling funds to such an extent that the funds become blended. Interfund, interschool, or inter-department loans and due-to and due-from transactions are allowable. Blending means that the identity, origin, and source of the funds are lost or unidentifiable.

Chapter8—General and Administrative Policies and Procedures

Potential Financial Fraud and Misconduct

The charter officials including the Service Provider Manager has zero tolerance for financial fraud and misconduct. A strong, organization wide and management-led ethical culture is pervasive in the charter school. Management has the responsibility to implement strong internal controls designed to prevent and deter fraud and misconduct.

Black's Law Dictionary defines fraud as follows:

All multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of the truth. It includes all surprise, trick, cunning or dissembling, and any unfair way by which another is cheated.

Misappropriation is a form of Fraud, and *Black's Law Dictionary* defines it as follows:

A term that describes the taking of money that has been entrusted into your care unlawfully.

Merriam-Websters Collegiate Dictionary defines misappropriate as follows to appropriate

wrongly (as by theft or embezzlement)

Black's Law Dictionary defines misconduct as follows:

Any unlawful conduct on the part of a person concerned in the administration of justice which is prejudicial to the rights of parties or to the right determination of the cause; as "misconduct of jurors," "misconduct of an arbitrator." The term is also used to express a dereliction from duty, injurious to another, on the part of one employed in a professional capacity, as an attorney at law.

Merriam Webster's Collegiate Dictionary defines misconduct as follows:

1: mismanagement esp. of governmental or military responsibilities 2: intentional wrongdoing. *specif*: deliberate violation of a law or standard esp. by a government official.

Fraud and misconduct should be taken seriously. Fraud can occur at any level of an organization, including employees, parents, officers, consultants, vendors, contractors, funding sources and others. Any suspected or detected fraud or misconduct should be reported immediately to an employee's supervisor. If the supervisor is the suspect, the suspected fraud should be reported to the next management level up and so on, all the way up to the governing board if needed.

Fraud or misconduct may include, but is not limited to, the following:

- Any dishonest or fraudulent act.
- Forgery or alteration of any document or account.
- Misappropriation of funds, petty cash, savings, ASB funds or trust funds, securities, supplies, equipment, or other assets.
- Misconduct or impropriety in the handling or reporting of money or financial transactions.
- Disclosing of confidential or proprietary information to outside parties without approval.
- Accepting or seeking anything of material value from contractors, vendors, or persons providing any goods or services.
- Shredding, erasure, destruction, damage, removal, or inappropriate use of records, furniture, fixtures or equipment.
- Improper employee behavior, such as immoral or unethical conduct.
- Any similar or related irregularity.

Fraud Investigations

All allegations of fraud or misconduct should be treated and examined confidentially. The governing board or its designee, such as the finance and audit committee, has the primary responsibility for investigating all allegations of fraud or misconduct. The results of any investigation should be discussed only with those who have a need to know.

All investigations into suspected fraud should begin with the presumption that there is an error so that no one will jump to a conclusion and possibly damage the reputation of the individual or individuals suspected before all of the allegations and facts have been investigated completely and objectively.

The governing board has the authority to use all reasonable and legal means needed to carry out an investigation. This includes free and unrestricted access to all records and facilities, and the authority to examine, copy or remove the contents of computers, files, desks, cabinets or other storage facilities without the prior knowledge, notice or consent of anyone responsible for the custody or oversight of such records and facilities.

If an investigation indicates that fraud or misconduct may have occurred, a report should be issued and decisions made regarding disciplinary action, referral to law enforcement, or other action. All decisions to refer the investigation results to the appropriate law enforcement and/or regulatory agencies for independent verification and investigation should be made in consultation with legal counsel and senior management unless they are themselves the subject of the referral and investigation.

If suspected fraud or other wrongdoing involves programs funded in whole or in part with federal funds, additional responsibilities, such as special reporting and disclosure to awarding agencies, should be considered.

Reporting Method

Any investigation of fraud or misconduct should be performed confidentially and with great care to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

Any individual who reports suspected fraud or misconduct should remain anonymous. If there are any inquiries about the activity under investigation from the suspected individual(s), the individual's attorney or representative(s), or any other inquirer, those parties should be directed to the governing board, board

designee, or legal counsel. At no time and under no circumstances should any information about any investigation be disclosed. The proper response to any inquiry is, "I am not at liberty to discuss this matter." Under no circumstances should any innuendo, remark, indicative physical gesture, or other reference be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other such reference.

The individual who reported the suspected fraud should be instructed not to contact the suspected individual(s) in any way, nor to discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the charter school's board, board designee or legal counsel. This protects the employee, because they could be asked to testify against the suspected individual in the future.

Accounting Policies and Procedures

All accounting policies and procedures are under the direction of the charter school's authorized officials. The CEO or designee usually delegates charter school financial operations and accounting policies and procedures to the CFO. The CFO may delegate certain responsibilities to a designee such as the business office manager, human resources manager, purchasing manager, maintenance and operations manager, facilities manager, or other individual or combination of individuals the CFO considers necessary to adequately monitor and administer the charter school's accounting policies and procedures. The charter use an outsourced Management Company to manage all functions of accounting and financial reporting preparations with oversight of the governing board and authorized officials of the charter.

Management Reports

The timing and preparation of reports are critical to the effective operation of the charter school. Reports should be prepared and distributed in a timely fashion following the end of a reporting period. The CFO or designee should review financial reports at least monthly, and more often as needed, such as when cash reserves are low.

Cash Flow Report

The cash flow report is used to monitor when cash is coming in (sources of cash) and what liabilities the charter school must pay (uses of cash). Cash flow reports provide a summary of the cash flowing through the charter school in the near term and help identify any potential

shortfall before it occurs. The CFO should review the cash flow report monthly. This report supplements the detailed monthly and quarterly financial statement reports and provides a quick look at the charter school's cash performance.

The cash flow report should include projected operating cash balances as well as estimated cash receipts and projected disbursements.

Budget versus Actual Report

The budget versus actual report provides a comparison of planned operating expenses to the actual expenses incurred for the period and should be reviewed monthly.

The budget versus actual report should include a current period budget, actual and variance totals by major object account code, current year-to-date budget, actual and variance totals, and a percent column for each line.

Financial Statements

The CFO or designee is responsible for maintaining current financial statements. The CFO, CEO or designee shall review the financial statement of activities and operating cash flow monthly, and the governing board shall at a minimum review the mandated financial reports during the regular board meetings. This will help ensure under- standing and the ability to answer any questions when the reports are presented to the governing board.

The annual audit financial statements typically comprise three main parts: the statement of financial position, the statement of activities, and the statement of cash flows. These reports show the charter school's financial health.

Statement of Financial Position, also known as the balance sheet, lists all of the charter school's assets (e.g., cash, receivables, deposits, inventory, equipment), liabilities (e.g., payables, debt/loans, lease obligations), and net assets (which are divided into unrestricted net assets, temporarily restricted net assets and permanently restricted net assets).

Statement of Activities, also known as the income statement or profit and loss statement, shows the charter school's operational sources of cash (revenue), and uses (business expenses), and is typically divided into operating periods that cover months, quarters, or years of operation. This report depicts the charter school's profitability.

Statement of Cash Flows reports on the cash generated and used during a specific time period, or even the difference between reporting periods, to help measure the health of the charter school's operations

The financial statements should be produced at least quarterly, but preferably after the close of each month, as well as for each fiscal year. The governance reviews the cash/fund balance and projected cash/fund balance during the board meetings.

Retention and Management of Files and Records

The financial records are maintained for 7 years.

Contract Approval Process

The Contract Approval Process defines the general policies and procedures the schools must follow when entering into new agreements or renewing an existing agreement.

Initial Assessment

The originator of the contract must do an initial assessment of the value and length of the agreement to determine if it meets internal procurement policies. Originators should use the dollar thresholds below to guide their decision-making and determine if additional requirements must be satisfied before advancing to the administrative review stage.

- Small Value Contracts < $50,000 – Contracts less than $50,000 and less than one year do not require formal competitive bids. However, for contracts over $10K, 3 informal bids (internet search, vendor rate sheet, verbal quotes) should be sought and documented.
- Contract > $50,000 - Agreements that exceed the threshold of $50K and/or longer than 1 year would require formal competitive bids with written proposals from at least 3 qualified vendors / contractors.
- Sole Source Contracts > $50K - If the value of an agreement exceeds $50K and a competitive bidding process is deemed infeasible due to allowable reasons (inadequate competition, public emergency requiring immediate action, item/service only available from one source, etc.) than it must be documented with the Sole Source Justification form. These types of contracts /purchases can be subject to a high level of scrutiny because of the potential for waste, conflicts of interest, and self-dealing. Thorough documentation and clear rationale for these types of contracts / purchases are especially critical to mitigate any audit risks. If competing contractors / vendors exist in the marketplace and can offer similar services / products, then bids must be sought and documented.

Refer to the best practices Supply Chain Management Policy document for a complete guide to internal procurement best practices and policies adopted from Lifelong Learning Administration Corp. (LLAC).

Administrative Review

Following the initial assessment, all agreements must be reviewed by Legal and Finance to ensure that terms are clear and consistent, and that any financial obligations are well-articulated. Legal will determine if any modifications to the agreement are necessary and negotiate with the counterparty if necessary. Finance will assess the financial components of the agreement to determine if they are clear and specific, measurable, and reasonable.

Approvals by Appropriate Signatories

If all conditions set by internal procurement policies are met and the agreement has been cleared by the Legal and Finance departments, it can then be signed by the appropriate signatories. An additional level of approval by the CEO, CEO designee, or Board designee is needed for contracts exceeding $150,000.

The completed contract and all supporting documentation (vendor bids, quotes, w-9, insurance, etc.) should be filed together for record-keeping within the ContractSafe platform.

Expense Reimbursements

Reimbursements for purchases and travel should be made according to guidelines set by the charter school.

Charter school principals or designee are responsible for reviewing and approving all reimbursements pertaining to their schools, up to $1,000. The CFO or Area Superintendent is responsible for approving all reimbursements for $1,000 to $10,000 (exception: if the school has no area superintendent, the principal may approve). The CEO or Superintendent of Schools is responsible for approving all reimbursements of more than $10,000 (exception: if the school has no area superintendent, the principal my approve).

Reimbursement steps are as follows:

- Submit electronic copies of accurate itemized receipts via the expense submission form. The expense submission form includes information on the expense type, expense date, expense amount, and expense details.
- Obtain authorization.
- Prepare and issue reimbursement payment.

Reimbursement receipts should be submitted via the expense submission form or expense management system in a timely manner. Any expense submissions older than 60 days may not be reimbursed, at the discretion of the CFO, CEO, Area Superintendent or Superintendent of Schools or designee (exception: if there is no area superintendent, the principal of the schools may be the designee).

An employee or board member may not request reimbursement for expenses for another individual or employee.

Expense submission forms must be filled out completely. Digital copies of itemized original receipts for items charged must accompany all reimbursement documentation. Any questions regarding completion of the expense submission form should be directed to the employee's supervisor, the office manager, or the accounting department.

The accounting department can help determine which account code should be used for which expenditures/ reimbursements. For example, claims for travel reimbursement must be charged to object code 5200.00.

Upon completion, the expense submission form and all attached documentation should be submitted to the employee's supervisor for approval. After approval, the expense submission form is submitted to the accounting department for processing and reimbursement. To expedite reimbursement, ensure the expense submission form is completed properly, required documentation is attached, it is properly authorized, and any unusual items are explained and documented.

For unusual items, detailed written notes are needed for the supervisor and accounting department to authorize reimbursement.

All expense submission forms must be approved by the proper manager before being submitted to the accounting department.

Approvals for reimbursement requests must be obtained prior to any purchase or travel. The charter school will not be obligated to reimburse requests for which prior approval was not obtained. When the shopping or traveling is complete, the employee should return the receipts and can expect to be reimbursed if they spent funds on items for which they obtained prior approval.

Prior approval can be obtained using an expenditure approval/purchase order form (for reimbursement of actual expenses when purchasing items), or an approval to attend education activity form, which must be completed before any travel, including out-of-state travel. Out-of-state travel should have prior approval from the CFO, CEO, Area Superintendent or Superintendent of Schools.

Every employee's or board member's expense submission form should be documented with digital copies of itemized original receipts, and information on the nature of business, program allocation, and funding source (if applicable) before the reimbursement is approved.

Reimbursements are usually allowed for the following:

- Travel and conferences
- Mileage
- Meals
- Car rentals
- School and classroom supplies
- Allowable academic expenses
- Student awards
- Other approved expenses

The vast majority of expenses can and should be paid for in advance through the accounts payable system rather than via reimbursement directly to individuals. This helps ensure that charter schools do not have a suspicious number of payments being made to staff or board members. Although this is not a legal issue, it is a recommended best practice.

Other Expenditures

A receipt is required from the vendor detailing all goods or services purchased.

Non-reimbursable Expenses

Some expenses are not considered valid business expenses yet may be incurred for the convenience of the traveling individual. Because these are not expenses for the charter school, they are not reimbursable.

Examples of non-reimbursable expenses include the following:

- Alcohol
- Theft or loss of personal property
- Parking or traffic tickets or car towing if illegally parked
- Airline or travel insurance or lounge clubs
- Dry cleaning
- Shoeshines
- Barbers and hairdressers
- Movies or personal entertainment
- Books, magazines, or newspapers (unless specific to education or the employee’s job)
- Doctor bills, prescriptions, or other medical services
- Health club membership, even if for one day or short-term use
- Babysitter, lawn care, or pet care fees

Travel

The following travel policy is designed to provide guidelines and best practices when making travel arrangements, advances, and reimbursements.

Travel Arrangements

Travel to events should be approved in advance, and those making the arrangement should always strive to obtain the best possible price.

Unless charter school administrators consider something an emergency, travel arrangements should be made in advance when possible, to obtain better pricing.

Employees should provide an itemized receipt from the hotel that details all charges and dates, and clearly indicates for whom the lodging was provided. Documents should include any itemized receipts for parking, tolls, car rentals, taxis, food and other expenditures related to the travel for which the employee obtained prior approval.

Cash Advances

To help ensure accurate and timely expense report preparation and reduce the additional paperwork required to process and track cash advances, the charter school discourages cash advances unless there are special circumstances.

If an employee's cash advance is approved by administrators, a formal check request must be made and forwarded to accounting for processing.

When a cash advance is received, the employee will reduce their requested expense reimbursement by the amount of the cash advance. If the cash advance exceeds the actual travel expenses, the employee must return the remaining cash with the completed expense report. Excess advance funds cannot be carried forward to future expense reports.

Travel Expense Guidelines

Automobile

Industry practice is for an employee who uses his or her personal automobile for business to be reimbursed a t the most current IRS mileage rate. The employee should document in their expense submission form the dates, miles traveled, and business purpose of each trip.

The charter school should state in policy that it assumes no responsibility for personal automobiles used f o r business. Parking should be reimbursed for the actual cost, and a receipt should be required. Any traffic violation should always be the sole responsibility of the employee.

Employees who use private vehicles in the course of their official duties must be required to have in their possession a valid California driver's license and carry current automobile insurance with at least the minimum coverage for public liability and property damage as specified by the State of California. An employee who operates a private vehicle in violation of the above insurance requirement should be subject to disciplinary action.

The lease or rental of automobiles by employees may be authorized for office business purposes but should be approved by the administration in advance. Authorization should be contingent on the cost being less than what would be incurred at the current IRS-approved rate per mile when using one's own private vehicle, and/ or using a taxi. If the IRS approved rate is used, the mileage reimbursement is not considered income to the employee and will not be reported as revenue on the employee's W-2 at year end.

Carpools should be strongly encouraged when two or more employees need to travel to the same destination and would otherwise do so in separate privately-owned vehicles unless other official business circumstances make such pooling impractical and more costly.

Air Travel

Air travel should be authorized by an administrator when he or she deems it reasonable, when it results in a cost savings, and when it promotes the efficiency of the employee. Airfares are reimbursable at actual cost. Business class and first-class travel should not be allowed.

LEAs cannot authorize the use of aircraft privately owned by an employee.

Lodging

Lodging arrangements should be based on convenience, and the hotel selected should be approved by administration. If an employee is accompanied by a nonemployee such as a family member or a friend and as a result incurs additional costs, those additional costs are the employee's responsibility.

Meals

Charter schools should have their own policy on reimbursement for meal expenses. The charter school may decide to offer per diem or actual meal cost reimbursement. The following is the Charter School's policy:

Employees traveling on approved charter school business will be reimbursed for the actual costs of meals

Actual meal costs require itemized receipts. Actual meal reimbursement amounts are limited to the following maximums: breakfast, $18; lunch, $19; and dinner, $34. Total per diem per day is set at $76. Meals that are over the above guidelines will be deducted from the total per diem allocated for the day and therefore not declined for reimbursement.

Officers of the charter school must include in their expense submission form the actual cost of meals for guests, at their discretion, when those meals are for charter school business.

For non-per diem meals, a digital copy or original itemized receipt must be provided showing the cost of food, beverages, and gratuities, including the name of every person for whom food or a beverage was provided, and the business purpose.

Entertainment expenses are not allowed. Entertainment expenses include but are not limited to movies, night clubs, and sporting events.

Meal tips, unless automatically assessed by the restaurant, should be limited to 18% of the total pre-tax cost of the meal; any tip in excess of this amount may not be reimbursed.

Telephone

Hotel telephone charges should not be reimbursed except for use in an emergency.

Alcohol

The charter school cannot reimburse for any alcohol purchases.

Miscellaneous Expenses

Any business expenses not categorized above should be listed under miscellaneous expenses on the expense submission form and documented with all information needed to substantiate the expense.

These expenses should be reimbursed at the actual cost if listed under miscellaneous expenses on

the expense submission form and if the employee submits documents that substantiate the expenditure. Examples of other expenses are necessary transportation (e.g., taxi), hotel (for overnight trips), registrations, and parking. For toll roads and bridges, when a receipt is not practical and the amount is more than $5.00, the amount and the road or bridge should be identified.

Non-reimbursable Expenses

Personal expenses such as laundry, valet service, personal telephone, personal internet, entertainment, and alcohol are not reimbursable.

Excessive and unreasonable costs, such as valet parking, in-room telephone, and food from the honor bar in hotel rooms, shall not be reimbursed.

Payment for internet service will only be reimbursed if preapproved by an administrator, and then only if deemed necessary for work.

Insurance

A charter school's insurance needs fall into two broad categories: policies to safeguard assets and policies furnished as employee benefits.

Insurance for safeguarding assets includes the following types:

- Errors and omissions
- Property
- Casualty
- Auto
- Directors' liability
- Business interruption

Electronic Backup of Accounting Data

All electronic accounting data should be backed up at least weekly, though more often is preferable, and all backups should include accounting data in accounting programs, accounting data managed or processed by back-office service providers or external bookkeepers, and all other accounting-related files.

Backups should be made to both an internal computer server and external cloud-based backup service.

Political Contributions and Involvement

Contributing to political campaigns or making political donations may jeopardize the charter school's nonprofit status. A charter school should not take any position regarding any political candidate. Charter school officials should not make political endorsements in their official capacity, and expenditure of charter funds for any political purpose is prohibited. However, charter school officials are not prohibited from making endorsements privately.

Endorsements of Candidates

Neither the charter school's management nor its representatives should endorse any candidate for public office in any manner.

Prohibited Contributions, Expenditures, and Uses of Assets and Resources

Examples of prohibited political contributions, lobbying, and expenditures that support or oppose candidates for public office include, but are not limited to, the following:

- Contributions to political parties or political action committees.
- Contributions to the campaigns of individual candidates for public office.
- Expenditures to print or assist in printing any political materials.
- Expenditures for political advertisements.
- The use of any charter school assets or resources for any political activities. This includes such use by management, employees, governing board members, or other representatives.

Charter school managers, employees, governing board members or other representatives may engage in political activities on their own time, using their personal assets and resources; however, they many do not act or appear to be acting on behalf of the charter school and may not use any charter school resources to assist in political activities.

A charter school must comply with all federal and state laws and regulations regarding political contributions, lobbying and expenditures. No federal funds, or assets obtained from federal funds, may be used for any political purposes.

Independent Contractors and 1099 Reporting

The IRS requires that all independent contractors be documented and tracked separately for reporting purposes. When the total payments to a vendor that provides services to the charter school exceed $600 in a calendar year, the charter school must issue IRS Form 1099 to that vendor and file it with the IRS.

Purchasing products from a vendor, such as food for a fundraiser or meal program, is not considered a service. Form 1099 reporting applies to all contractors that provide services (e.g., repair person, accountant, consultant) and that are not incorporated, and to all lawyers regardless of incorporation.

Forms W-9 and 1099

All vendors that provide services should complete IRS Form W-9, Request for Taxpayer Identification Number and Certification. Based on the information the vendor provides the charter school in the W-9, the 1099 can be prepared. IRS Form W-9 is available at www.irs.gov and is often updated, so it is best to check the IRS website each year for the latest version.

The charter school should do the following:

- Secure an IRS Form W-9 from the service provider at the time of service to ensure the charter school has an accurate record of the service provider's taxpayer identification number (TIN).
- Issue an IRS Form 1099 to every vendor who performed services in the last calendar year. The 1099 must be issued by January 31 of the next year.
- Not contract with a vendor that refuses to provide their TIN. This usually means they do not want to provide a completed and signed Form W-9.
- By February 28, send the IRS its copies of all forms 1099 with IRS Form 1096, Annual Summary and Transmittal of US Information Returns.

IRS Penalty

If the charter school does business with a service contractor who does not provide Form W-9 or provide their TIN, the instructions for Form W-9 require the charter school to withhold and pay to the IRS 28% of each payment made to that vendor (this is also known as backup withholding).

If the charter school fails to perform this backup withholding, it may be responsible for paying the IRS the 28% backup withholding tax that should have been withheld from the vendor, plus any penalties that may be assessed if it is audited.

Additional reasons for backup withholding can be found in the W-9 instructions.

Fundraising and Donations

Fundraising

Charter schools are publicly funded; however, fundraising is common.

When fundraising occurs at multiple charter school sites, the funds raised for each school should not be transferred to another school site; funds may be used only for the school and purpose for which they were intended.

Funds may be used for operating purposes unless restricted by the donor. All fundraising revenue should be used as requested by the donor or as stated in the fundraising communications.

Donations

Charter schools may receive donations of cash, supplies or equipment from unrelated entities.

Donations may be received but should never be deposited, acted on or put into use until after the charter school's governing board, CFO or board designee has formally approved and accepted the donation. Once the donated funds are approved, the donation belongs to the charter school; it may not be returned to the donor, it is for the exclusive use of the charter school, and it may not be used to influence anyone at the charter school.

Any donor may choose to state a specific purpose for which the funds are being donated. If the governing board accepts a donation given for a specific or restricted purpose, the donated funds may be used only for that purpose.

Donations of funds for supplies or equipment

- The donor must first donate the funds.
- The donor should clearly indicate the purpose of the donation.
- The charter school will then carry out the purchase through its purchasing system and in accordance with its purchasing guidelines and California law.
- When supplies or equipment are purchased using donated funds, the supplies or equipment become the property of the charter school.
- All equipment and supplies purchased for the charter school must be shipped to the charter school's address.
- The donor's address may not be used for purchases made for the charter school using donated funds.
- Donations of supplies or equipment require board approval
- If a donor has supply or equipment items, they wish to donate to the charter school, the charter school's governing board or board designee must approve the donation, and those items become the property of the school. If the supplies or equipment have no reasonable use or purpose for the charter school, the donation should not be accepted.

Donations for school programs or services

- The donor must first donate the funds.
- The donor should clearly indicate the purpose of the donation.
- The charter school will then carry out the purchase through its purchasing system and in accordance with its purchasing guidelines and California law.

Accrued Liabilities

Charter schools should establish a list of liabilities that should be reviewed and, if necessary, accrued, at the end of each accounting period and at fiscal year-end. Examples of liabilities that should be considered for accrual are:

- Salaries and wages

If the payroll period does not end on the last day of the fiscal year, the portion of wages earned as of the last day of the fiscal year but not paid until the subsequent fiscal year should be accrued.

Payroll taxes

- Vacation pay and other compensated absences
- Rents and leases
- Interest on notes payable
- Insurance premiums
- Audit fees

Because the annual audit cannot be completed within the audited fiscal year, accrual of audit fees applicable to the audited year is appropriate.

- Charter management organization fees
- District oversight fees
- Other management estimates such as potential legal accruals for contingent losses

Notes Payable and Lines of Credit

These include notes or loans payable and lines of credit are forms of debt and financing obligations. All forms of financing should be described in detail and formally approved by the charter school's governing board. The receipt and use of the funds, and the due dates of financing obligations, should also be tracked to ensure that the charter school has sufficient funds to pay its creditors.

Accounting and Classification of Financial Obligations

For each financial obligation, the charter school should prepare an amortization schedule and reconcile it to the accounting books and records. At the end of the fiscal year, the obligation's current and noncurrent portions should be recorded.

The current portion of an obligation is the amount of the obligation that is due within one year. The noncurrent portion of an obligation is the amount of the obligation that is due after one year. The amounts of current and noncurrent portions of an obligation are readily identifiable in the amortization schedule. Based on the amortization schedule, the principal portion of payments due with the next year shall be classified as a current liability in the statement of financial position. The principal portion of payments due after one year shall be classified as long-term or noncurrent liability in the statement of financial position.

Any interest owed but unpaid as of the end of the fiscal year or as of the end of an accounting period should be accrued as a liability.

For all financing obligations, the charter school should reconcile the actual principal and interest payments made and recorded in the general ledger with the lender's loan document terms and amortization schedules. This reconciliation should be performed at least at the end of each fiscal year, but preferably semiannually or quarterly. Any differences between the amount recorded in the general ledger and the amortization schedule should be resolved and documented.

The charter school should classify as current liabilities any demand notes and any other notes, obligations, or interorganizational loans (such as due to and due from transactions) that do not have repayment dates.

Documentation of Notes Payable

All notes payable should include the following information:

- Name and address of lender
- Date of agreement, renewal, or extension
- Interest rate
- Repayment terms
- Total amount of debt or available credit
- Amounts and dates borrowed
- Maturity date
- Description of collateral if any
- Address to which payments should be sent
- Contact person at lender
- Loan covenants, if applicable
- Termination clause

Termination clauses are helpful for loans and lease obligations when the charter school needs to secure financing and classroom and office space before approval of the charter petition, or if an existing charter school's charter is not renewed.

Supplies

All supplies should be tracked sufficiently to help prevent theft, spoilage, over- or under- stocking, and obsolescence. For example, obsolescence can occur when an organization purchases toner cartridge but replaces the laser printers before the cartridges are used and cannot use the cartridges in the new laser printers.

Supplies include educational and office supplies and cleaning and maintenance supplies. Educational supplies may include textbooks and laptops checked out to students. Supplies should be safeguarded in a secure area.

Professional Development

Professional development can improve employees' performance in their present positions and help them obtain skills, knowledge, and abilities that may improve their opportunities for advancement within the organization.

Allowable Professional Development Expenses

Professional development should be preapproved by the administration and by the CFO or CFO's designee to ensure adequate funding exists. Professional development opportunities include seminars, educational courses and degree programs that will help an employee perform their essential job functions and increase the employee's contribution to the charter school.

Other professional development expenses that can be reimbursed under this policy are membership fees to professional organizations; registration fees for meetings, conferences, workshops, and seminars; and fees and subscriptions for scholarly journals, books, and computer-based resources.

Employees should be required to submit documentation of the completion of any professional development to the CFO or area superintendent or the principal, or the designee within 10 days after receiving the documentation. Failure to do so could result in the employee being required to reimburse the charter school for the costs of the training or coursework.

Requesting Professional Development Funds

During budget and LCAP development, after considering operating expenses and required reserve amounts for each fiscal year or portion thereof, the CFO should evaluate how much of the charter school's money can be allocated to fund the professional development budget for employees. Any allocation should be in accordance with the LCAP process and its input from stakeholders.

Upon approval of the budget by the governing board, applications from employees who wish to use professional development funds should be accepted in the current year, contingent on whether funds are available for the next fiscal year. Late applications may be considered after all properly received applications are processed.

Incomplete applications should not be considered. Completed applications should include the following information:

- Name of the institution or source of training.
- Whether the professional development will occur during work hours or personal time. If work hours need to be used, the application should contain authorization from the employee's supervisor for the time away from the workplace.
- Cost estimate for the fiscal year and total costs for the entire professional development.
- How the professional development relates to improved performance in the charter school

or helps with advancement within the charter school. These goals should also be discussed

with the employee's immediate supervisor.

- Estimated date of completion.

The CFO, CFO's designee should evaluate the applications received and determine the best use of allocated professional development funds.

An employee who accepts training and/or coursework paid for by the charter school should have written authorization from the CFO, CFO's designee, or designated professional development committee.

Financial Reserves

Financial reserves are needed to manage cash flow and to help protect a charter school from unforeseen revenue shortfalls, unexpected costs, and economic uncertainties. Financial reserves also help a charter school save for large purchases and reduce the cost of borrowing money.

Although not applicable to charter schools, regulations regarding school districts' financial reserves are contained in the California Code of Regulations, Title 5, Section 15450, and are updated annually on the California Department of Education (CDE) website at https://www.cde.ca.gov/fg/fi/ss/. Current reserves for school districts' 2021-22 budgets are as follows:

:

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 $71,000 for districts with 0-300 ADA
- the greater of 4% or $71,000 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

Available reserves are the unrestricted amounts in the Reserve for Economic Uncertainties and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund.

According to FCMAT as recommendation in combination with CDE guidelines listed above, the Charter School adopts a minimum (unassigned) cash reserve of 5% of the total of all budgeted expenditures and shall develop a five-year plan to increase that reserve from 5% or less to 10% of total budgeted expenditures. Care should be taken to not spend more on non-classroom-based instruction than the percentage allowed by the SB740 funding determination requirements, as applicable. If the Charter School already maintains 10% of higher (unassigned) cash reserve, the management, corporate officers and the board could recommend targeting the funds for specific purposes.

Reserves Versus Cash On Hand

Financial reserves are often confused with cash on hand. In general, a 5% cash reserve does not mean that the charter school has 5% of total budgeted expenditures available as cash on hand. For example, an increase in accounts receivable represents an increase in revenue, which increases overall all net assets; however, this does not increase cash at the time the receivable is recognized. Sometimes a receivable is not recognized until months later, and in rare cases may become disallowed because the charter school has not followed certain state compliance requirements. For this reason, some or all of a reserve may not be immediately available.

Larger cash reserves are prudent for charter schools because during economic downturns charter schools have fewer options for borrowing than non-charter public schools, and often pay higher premiums and interest rates when they do borrow. The Board of Directors adopts a minimum of 10% of the total expenditures to allow for uncertainties, deferrals and unexpected circumstances (designation from economic uncertainties) The Charter School will develop a three-year cash reserve plan to maintain or reach a minimum 10% of total expenditures to a maximum of 17% of total expenditures cash on hand reserve fund. The cash reserve fund balance and school reserve percentage will be presented to The Board of Directors. If the amount of cash on hand reserve and percentage of reserve is below the minimum 10%, a plan will be presented along with the updated financial reporting to the Board of Directors.

Committed Funds Plan

If the amount of cash on hand reserve and percentage of reserve is above the maximum 17%, a Committed Funds Plan will be presented along with updated financial reporting for the Board of Directors consideration and adoption.

In cases where these committed funds are needed due to mitigating financial impact from major, non-recurring or unforeseen expenditures, the Area Superintendents may use the funds in the immediacy to avoid any potential penalties to the carter, and the Board of Directors will ratify use of funds at the next schedule regular board meeting. For all other changes to the Committed Funds Plan, a new plan will be presented along with updated financial reporting for the Board of Directors' consideration and adoption.

Journal Entries and Reclassification Entries

Journal entries can directly affect the overall presentation of financial statements. To ensure the accuracy of the charter school's books and records, all journal entries and reclassification entries should be documented in detail and should be authorized in by the finance oversight team or designee.

All general ledger entries, including audit adjusting entries, reclassification entries, and other such journal entries, should be supported by journal vouchers or other documentation, which should include a reasonable explanation of each entry. Examples of such journal entries include:

- Recording of noncash transactions
- Corrections of posting errors

- Nonrecurring accruals of income and expenses
- Bank account transfers

Certain recurring journal entries occur in every accounting period. These may include, but are not limited to the following:

- Accruals of recurring expenses
- Depreciation of fixed assets
- Amortization of prepaid expenses
- Amortization of deferred revenue

Detailed supporting documentation for recurring journal entries should be in the form of a schedule associated with the underlying asset or liability account, or, in the case of short-term recurring journal entries or immaterial items, in the form of a journal voucher.

Chapter 9–Cash Receipts and Banking Policies and Procedures

Coronavirus Pandemic Internal Control for Continued Operation During Telecommuting (March 16- End of Epidemic)

While working remote during pandemic is recommended by authorities for containing the outbreak, it creates challenges when following internal control policies and ensuring signature approvals in writing. The charter school is proactive to respond to ensure proper internal control until the pandemic is managed by government authorities.

During the unprecedented times, the process of approvals does not change but the form of receiving approval is changed as listed below:

1) The accounting team supporting the schools accept email approval from an authorized designee to request line of credit drawdowns while remote work is in place. This would also apply to any other ACH transfers that might take place while staffs are telecommuting. This is to ensure compliance by receiving email approval emails rather than requiring a signature approval in writing.
2) Electronic signatures through trusted and secured sources such as but not limited to Adobe and DocuSign from an authorized designee on agreements and contracts are accepted.
3) Electronic email approvals are accepted by the authorized designee for Vendor invoices and Purchase Orders.
4) Replacing two signature approvals (one facsimile and one original written signature) with two facsimile signatures however having one facsimile signature and the second facsimile signature in combination with a designee approval via email for checks over $25,000.

Check Signing Authority

Check signing authority should be given to at least three individuals at all times. Check signers should not include any staff members who process vendor payments or payroll, write checks, or perform any other tasks associated with cash transactions.

Authorized Check Signers

A formal list of those authorized as check signers is prepared, and the governing board and CEO should approve all check signers. Normally the CEO, CFO and one other reliable charter school management employee are named as authorized check signers for each bank account.

Each designated signer should be a trusted individual but does not have to be an employee; for example, he or she may be a governing board member.

Adding or Changing Check Signers

The CFO or CFO's designee should maintain a log of authorized check signers. The log should include each check signer's name, start, and end date.

The CEO or the governing board may revoke check signing authority at any time for any reason; notification of this action should be in writing. The CFO should ensure that the charter school's banks are notified whenever authorized signatories are changed.

Cash Receipts and Deposits

Proper accounting procedures for cash receipts and deposits are essential for safeguarding funds received. Cash receipts usually come from the following:

- Contracts and grants
- Donor contributions
- Fundraising activities

Cash Receipts Procedures

The charter school secretary or other designated employee should receive, open, date stamp, and distribute all incoming mail. As cash receipts are received, such as checks, money orders, or cashier's checks, they should be forwarded to the business office. The accountant or other staff member responsible for cash receipts should stamp all checks with a restrictive endorsement and make one copy of each check.

A restrictive endorsement includes the following:

- A stamp stating, "For Deposit Only."
- The charter school's designated bank deposit account number. The name of the charter school. If the bank has an onsite electronic scanners to deposit checks, that system will be used.
- The bank's name.

Anyone who wishes to pay the charter school in cash for any service, fundraiser donation or other reason should be issue a receipt and record the received amount in a cash receipts log when received. At the end of each day, the cash receipts log amounts should be matched to the individual receipts accompanying the cash, and to the cash count. The count should be performed and confirmed by two people (also known as witnesses), one of whom may be the individual who collected the cash at the school site.

Receipts should be issued from a multicopy receipt book: the original receipt is given to the person remitting the funds, one copy stays with the cash and is attached to the cash collection documentation (cash receipts log), and one copy remains in the receipt book.

Both witnesses should sign the receipt log, indicating that they counted the funds together. All funds received should be kept in a locked cabinet.

Bank deposits should be made regularly. A procedure should be in place regarding how often they should be made. For example, if amounts collected during a week total less than $500, the rule is that the deposit should be made on the last business day of that week; when amounts collected on any day exceed $500 in total, the rule could be that the deposit be made on that day. The business department accountant does the following:

- Processes the endorsed checks.
- Maintains the deposit logbook.
- Ensures the correct account allocation for each deposit.
- Takes the deposit to the bank, accompanied by a witness whenever possible. If individuals other than the accountant will take the deposit to the bank, ensure that the charter school's insurance covers those individuals. If the scanning machine is available for the bank the deposits are made onsite electronically.

A copy of the deposit slip should be attached to the deposit, and both should be attached to and filed with the monthly bank statement.

At the time of deposit, all cash and checks should be collected, and a bank deposit slip prepared. The business department should be certain that the cash receipts are deposited into the correct bank account and that the name of the charter school is listed on the deposit slip.

Extreme care should be taken to ensure the safety of the individuals who make the deposit and the deposit itself. Precautions include making deposits only during daylight hours, using random deposit times and different routes to the bank, and assigning two people to make deposits.

At no time should the "less funds returned" section of a bank deposit slip be used; the entire

amount should always be deposited without any cash returned or withheld. Similarly, no disbursements should be made from any cash collections.

School Center Cash Receipts

If any funds are remitted at a charter school site away from the central business office, the school secretary should follow the receipting and handling procedures described above, including keeping the funds in a locked in a secure location until the funds can be taken to the bank for deposit.

Cash Receipts and Accounts Receivable

The business office should use a photocopy of the checks and customer remittance advices to apply the cash payments to the accounts receivable ledger, if applicable. Account remittances are to be credited against

the oldest open receivable in the accounts r eceivable ledger. A standard letter of information and/or inquiry should be sent or faxed to the payer when there is any question about the correct application of the check or cash payment amount.

Returned Checks and Improper Checks

The charter school should attempt to deposit returned checks a second time; if the check does not clear on the second attempt, the payment should be returned to the vendor and the general ledger account to which it was applied adjusted. No check should be withheld from the deposit unless it is legally imperfect (e.g., no maker signature), in which case the business department should immediately contact the payer and discuss the best method to remedy the imperfect check.

A charter school should never cash personal checks.

Wire Transfers

Wire transfers are a way to pay customers and vendors quickly.

Incoming wire transfers require the same documentation procedures as cash receipts and deposits. When the charter school's bank receives a wire transfer, it may notify the charter school by email, fax, or via its online banking site. This notification documents that the money has been received.

Only the CFO or CFO's designee should be permitted to initiate an outgoing wire transfer. All outgoing wire transfers should be performed using the bank's secure website and should include an authorized signer as the secondary approver.

All outgoing wire transfers should be made from the charter school's primary checking account or from an account designated for outgoing wire transfers. Any outgoing wire transfer that exceeds $25,000 should require two authorizer signers.

Petty Cash

Should the schools maintain petty cash accounts, and use of these funds is commonly approved, for small and emergency purchases, usually costing $50 or less. The initial petty cash fund should be approved by the CFO, CEO, Area Superintendent or Superintendent of Schools and should be minimal (e.g., limited to $500) to discourage frequent use and replenishment. The petty cash fund should be maintained in a secured location at each school or business office by a designated petty cash custodian; this can be the principal, the office manager, or other designee.

When presented with a request for petty cash, the petty cash custodian should verify whether the item to be purchased is available in the organization's stock of supplies. If it is, the petty cash reimbursement is unnecessary; if it is not, the custodian can initiate a petty cash disbursement by doing the following:

- Prepare a petty cash reimbursement request form.
- Approve the request for petty cash expenditure and ensure that the transaction is complete.
- When the purchase is completed, the custodian should verify that all receipts or other proofs of purchase agree with the total petty cash advanced. Any leftover cash, and the petty cash reimbursement request form, should be returned to the petty cash custodian.
- Maintain and update the petty cash reconciliation form to keep a reconciled running petty cash balance.

Whenever the petty cash balance falls below an established amount of $50, it should be replenished. An expenditure summary and accompanying transaction documents should be forwarded to the business office. Once these are verified and reconciled, a replenishing check is issued to the petty cash custodian for any outstanding purchases. The petty cash custodian cashes the check and replenishes the petty cash. On the financial statements a separate GL account is maintained for the Petty Cash account.

Credit and Debit Cards

The charter school governing board has established policies and procedures regarding the issuance and use of credit and debit cards – Please refer to the Credit Card policies and procedures. The ability to use credit and debit cards is a convenience that should be extremely limited and carefully controlled and monitored. Using a credit or debit card is the same as handling cash and should be subject to the same precautions and requirements.

Issuing Credit and Debit Cards

Corporate or charter school credit and debit cards should be issued only to personnel who travel on charter school business or who have a legitimate need to purchase goods and services, either in person or online, when a purchase order cannot be approved in time or when a vendor will not accept a purchase order. Credit and debit cards should not be used to bypass established purchasing procedures, may include advanced approval processes, and the use should be minimal and infrequent.

Every staff member who is authorized to use a credit or debit card should be required to sign a credit and debit card use certification statement annually, acknowledging that the card shall be used exclusively for legitimate charter school-related business purposes and that the cardholder agrees to take reasonable precautions to protect the card from loss or theft by storing it in a secure location. Upon approval from the credit card company, a card will be issued bearing the names of both the individual and the organization.

Cardholder Responsibilities

To be issued a card, an individual should be a full-time, permanent employee of the charter school and agree to all terms and conditions established by the charter school. Cardholders may be made personally liable for all inappropriate charges and personally responsible for settling any dispute over any purchase from a vendor. The Charter uses PEX system of credit card. The PEX card is a spend management and has a tracking system for reimbursements.

Credit and debit cards should be used only when a supplier does not accept a purchase order; whenever possible, cardholders should plan activities and submit travel and purchase order requests early enough to use the regular purchasing system rather than a card. Even purchases with a credit card may be approved i n advance. Any charter school credit and debit cardholders may have their card revoked for violation of the preapproval process if it is determined there was enough time for them to request and receive approval for a purchase order using normal purchasing procedures.

The charter school should establish, and all cardholders should adhere to the following rules and conditions:

- When using a credit or debit card for internet purchases, cardholders should ensure that the website uses secure socket layer encryption (such websites' addresses will start with https:).

- Purchases shall not exceed established limits at time of issuing if applicable.
- Credit cards shall not be used for personal expenses, gift cards, equipment, communication devices, institutional memberships, or computer software or hardware.
- All credit and debit cards must be requested by the CFO and approved for use by the CEO or designee.
- Cardholders shall not make personal use of a credit or debit card, assign to someone else the use of a credit or debit card, or pay for another employee's or person's expenses with the credit card.

- Every month, each cardholder will be provided with a statement detailing the expenditures charged to their charter school credit or debit card. The cardholders will submit all receipts for purchases of goods and services to the accounting department. If in the PEX system, this process is automated.
- All original or copies, detailed receipts must be attached to the credit or debit card's monthly statement. With the PEX card the process is automated and electronic, receipts are uploaded in the system of PEX.
- All documents should be initialed by the cardholder.
- If a receipt is missing, payment will be the responsibility of the cardholder, unless the CFO or designee determines otherwise.
- If the accounting department identifies any inadvertent personal charges or unauthorized uses of the card, the card statement and all backup documentation will be forwarded to the CFO for designee or review.
- The CFO or designee will discuss with the cardholder any charges of concern, and the cardholder will be required to reimburse the charter school immediately for any inadvertent personal charges or unauthorized charges.
- The CFO or designee determines whether to revoke the cardholder's credit or debit card privileges and whether any disciplinary actions will be taken. The CFO's and CEO's credit or debit card privileges may be revoked by the governing board or designee
- Purchases made using a credit or debit card are subject to the same criteria and requirements as all other purchases.
- Review and approval procedures are as follows:
- The credit or debit cardholder will review the card statement to ensure it includes only their own approved charges.
- The accounting department will review all charges on the card statement against all purchase documents the cardholder submits.
- Any charges not made by the cardholder will be identified and discussed with the accounting department staff and forwarded to the CFO or designee.

- The CFO or designee will review and approve or disapprove principals' credit and debit card use; the CEO or designee will review and approve or disapprove the CFO's credit and debit card use; and the chairperson or designee of the governing board will review and approve or disapprove the CEO's credit card use.
- The CFO or designee will review charges and supporting documentation for the monthly statement before approving any payment.

- All cardholders should report the loss or theft of their charter school credit or debit card immediately to the credit card company and the CFO or designee, even if the loss or theft occurs on a weekend or holiday. If a credit card is stolen, the cardholder should file a police report, and a copy of the report should be maintained for insurance purposes.

Employees' Personal Credit Cards

An employee may use their personal credit or debit card for legitimate charter school business-related purchases and submit a expense submission form, not to bypass established purchasing procedures, including advanced authorization requirements.

Bank Account Reconciliation

Bank reconciliations are a major internal control mechanism and should be prepared and reviewed accurately each month. Reconciliations should be performed for all of the charter school's bank checking and savings account transactions.

Preparing Bank Statement Reconciliation

Business office staff should complete the bank reconciliation no later than two weeks after receiving the
bank statement. The CFO or the CFO's designee should review every completed bank reconciliation. To ensure proper segregation of duties, the individual who prepares the bank reconciliation should not be involved with any cash transactions.

Any interest, bank charges or other fees or charges should be posted to the account before reconciling. Most electronic accounting systems allow users to enter interest credits, bank charges and other fees during reconciliation.

Electronic Bank Reconciliation

An electronic bank reconciliation follows the same procedures as described above for a manual reconciliation, but the computer performs the calculations and helps speed the process.

When using electronic bookkeeping to perform the bank reconciliation, the computer will automatically display a list of all items that have been posted to the cash account but not cleared in the previous month's account reconciliation; a field for entering the correct month-end date; and the month-end cash balance.

There is no need to manually list and clear check and deposit transactions. Instead, staff should begin the reconciliation by checking off those transactions that agree with the bank statement. Once this is completed, the remaining (i.e., not checked) entries on the screen are the outstanding checks and deposits processed after the statement close date.

The benefits of a computerized bank reconciliation are that the screen usually provides a continually updated reconciled cash amount that should match the ending bank balance amount once all items are correctly accounted for and cleared. Usually, the accounting system does the math, and the screen displays both the ending bank balance and the reconciled cash amount with

the remaining difference, if any. Any differences or discrepancies should be researched and corrected.

After the bank account reconciliation is completed, a report should be printed that shows the reconciliation details, including outstanding checks and deposits in transit.

The bank reconciliation, its supporting detail reports of outstanding checks and deposits, cleared checks and deposits, and other reports should be printed and attached to the reconciliation cover page. These should be signed by the business office staff who prepared the reconciliation and by the CFO or CFO's designee after they have reviewed and approved the bank reconciliation.

Chapter 10 - Fixed Assets, Leases, and Depreciation

Fixed Assets and Leases

Acquisitions and disposals of assets should be carefully documented. There are two types of assets: depreciable assets, also known as capital assets (this includes land even though it is not depreciated); and assets the charter school should track for inventory purposes but not depreciate. All assets should be purchased and, when applicable, such as with automobiles and buses, registered in the name of the charter school and not the name of an individual.

Assets that should be depreciated include furniture, fixtures, automobiles and buses, buildings, building improvements, and equipment. The straight-line depreciation and amortization method should be used. Alternative or accelerated depreciation methods may be used when considered necessary and if approved by the CFO.

Asset Purchase Approval

All purchases of assets costing less than $3,000 should be approved by the employee who manages purchasing. Assets costing more than $3,000 should require both the Area Superintendent, CEO, CFO or Superintendent's approval, (exception: If the school has no area superintendent this responsibility falls under the principal) please refer to the chart of approval procedure and limits previously discussed.

Authorization

Proper authorization should be obtained using the charter school's purchasing process. Approval should be documented on all purchase orders or check requests submitted to the business office. School principals may identify the vendor for purchase of the capital assets or may submit the request to purchasing staff in the business office for procurement.

The Charter adapts FCMAT recommendation requiring three quotes for any purchase of $50,000 or more.

When the quotes are received, the evaluator should evaluate them based on price, functionality, warranty, repair and maintenance issues, reliability, and other factors. The requester should forward the three best quotes to the CFO or designee, who will forward their recommendations to the CEO or designee for final review and decision.

Constructed or Donated Equipment

Any equipment constructed by charter school employees or donated to the charter school should be reported to the business office if the item has a value of $5,000 or more. The report should include a complete description of the property, the date it was manufactured or received, the number of items, the cost or estimated value, and a statement indicating whether it was constructed by employees or donated.

Donated equipment becomes the property of the charter school. Also, the charter school's governing board or its designee must approve the donation. If the equipment has no reasonable use or purpose for the charter school, the donation should not be accepted.

Chapter 11–Expenditures, Payables, Purchasing, and Vendors

Accounts Payable and Cash Disbursements

Only properly authorized and documented payables should be recorded and paid. Payables result from purchases and from having entered into contracts for supplies, merchandise, agreements, services, and other non-merchandise transactions.

Accounts payable are usually created when an organization has recorded liabilities for the receipt of supplies or services accompanied by a purchase order or contract, has finalized a liability when a vendor's invoice is received, and is preparing to pay for the goods and services.

Accounts Payable

The accounts payable process begins when documents such as a purchase order, vendor invoice or consultant contract and invoice are forwarded to accounts payable in the business office. Accounts payable assembles the purchase order, invoice, and any other documents for temporary filing and for subsequent matching to create the accounts payable check request.

After the accounting department has received all necessary documents such as proper authorizations, validation of the purchase or service, and receipts for purchased items or services, and after it has documented the accuracy of amounts, the process for documenting the purchase or services is as follows:

- The purchase order should be reviewed to ensure that it has proper authorization, matches the characteristics of the purchase, and has the agreed-upon price(s). The invoice should be reviewed for both accuracy and for the product or services delivered.
- The vendor invoice and purchase order should be stapled together, with the invoice on top.
- The invoice and packing slip or other receiving reports showing quantities shipped or delivered should be compared to each other and confirmed as received. Any discrepancies must be resolved before the payment process begins.
- Calculations on the invoice should be reviewed for accuracy, including quantities received multiplied by unit price, and totals.

Accounts Payable for Non-merchandise

The purchase order process is usually not used for non-merchandise expenditures such as legal or professional fees, rents, utilities, insurance, repairs, and taxes. However, the charter school should have other documentation for such expenditures, including but not limited to memoranda of understanding, contracts, requisitions, or other agreements. When an invoice is received, the charges should be entered into the payable system and coded to the correct expense account.

Usually, after invoices (both merchandise and non-merchandise) have been entered into the payable system, they can be filed in their respective vendor files and organized sequentially by date. To guard against misfiling or duplicate entry of an invoice, each invoice should be stamped "entered" and have date of entry written on it when it is recorded in accounts payable.

Cash Disbursement and Payment of Accounts Payable

Electronic accounts payable systems usually provide an accounts payable report that lists open payables and their age, such as 30, 60, 90, or 120 days or more. The business office should review all payables and pay them based on funds available and a projection of cash flow or receipts.

If sufficient funds are not available to pay the payables selected, a disbursement or check should not be prepared.

If sufficient funds are available, the selected payables or bills should be processed for disbursement by printing a check, completing an online bill pay, sending a wire transfer, or creating an automated clearing house (ACH) withdrawal.

When favorable early payment terms are available, accounts payable should be paid within seven days of when the early payment term expires, unless the CFO or designee determines otherwise.

Any vendor credits (that is, amounts owed to the charter school) should be applied in full to all amounts owed to the vendor when determining payment. In other words, always apply vendor credits to the next available payment because there is no reason to hold a credit. Vendor credits are normally received in the form of a credit memo or adjusting invoice. Vendor credits should be entered into the accounting system the same way as any other invoice and applied to the next payment made.

Once it is determined which invoices will be paid, and they are matched with the printed checks, wire transfer, online bill pay, or ACH withdrawal documents, the invoice documentation package should be presented to the CFO or designee for review and authorizing signature if required and before mailing it out to vendor. ACH withdrawal should be managed with proper delegation of duties for control. A designee will initiate the ACH batches with the same oversight as any other outgoing funds. The oversight supervisor will review batches before release. For any ACH exceptions, the supervisor or designee will release the funds after checking all the backups.

Facsimile signatures are authorized when an original written designee signature is not available

for the amount of the checks below $24,999. For checks above $25,000 one facsimile signature is

authorized and one written signature from authorized signer is required. Please also refer to

exceptions during COVID-10 pandemic section.

Facsimile signatures are authorized when an original written designee signature is not available for checks below $24,999. For checks above $25,000 one facsimile signature is authorized and one written signature from authorized signer is required. Please also refer to exceptions during COVID-10 pandemic section.

When the invoice package is returned from the CFO or designee, staff should immediately ensure that all printed checks, wire transfer, online bill pay, or ACH withdrawal documents are signed, approved, and recorded correctly in the accounting system. A copy of the check is attached to invoice to prevent duplicate payments.

If one check or online bill pay is used to pay for multiple invoices, the stub should be either photocopied or the online bill pay screen printed and a copy attached to each paid invoice.

Another option is to attach all paid invoices to one check stub or online bill pay document. All resulting documents should be filed sequentially by check number in the checks paid binders or in the vendor file.

The checks should be mailed as soon as possible after they have been posted and marked as "paid" by the system. Checks should not be held after posting. Holding of checks usually occurs when there is insufficient cash flow; doing so increases the difficulty of projecting cash-flow reduces the accuracy of the cash balance and causes confusion when trying to reconcile accounts payable vendor balances. In addition, a payable or liability remains until the check for it is mailed. As stated above, if cash flow is not sufficient, checks should not be posted and printed.

The Board authorizes the School Official or Sr. Administrator to review Accounts Payable Check Register on a monthly basis.

Purchasing

The purchasing function in an organization is used when procuring supplies and equipment. The purchasing process begins with a requisition or request for purchase. When a requisition is approved, it becomes a purchase order, which is a formal authorization to purchase. A purchase requisition should not move forward if adequate funds are not available.

Purchases Order and Purchase Requisition

The purchasing function is considered part of the business office, and its responsibility is to obtain the best possible price and quality for all purchases.

At least three quotes may be required for any purchase that costs more than $50,000. The purchaser should control and review the quotes, then evaluate them with the help of the purchase requester and select the best option. After this, the three quotes should be reviewed, and a recommendation forwarded to the CFO or CEO or designee for final review and decision.

Purchase orders should be made on prenumbered forms. Many financial software systems contain purchase order forms and templates, as does Microsoft Office software; other such forms and templates are available online.

For purchases of less than $25,000 the originating individual or department should prepare a purchase request. Purchase requests and purchase orders should include the following information:

- Date merchandise or services are required.
- Quantity required.
- Vendor name.

- Complete description of parts or model numbers, and link to vendor's website if available.
- Any drawings or specifications that help further document the purchase.
- Special shipping or receiving requirements.
- Requesting department name.
- Special inspection requirements upon receipt.
- Other requirements.

For purchases of the following, the additional information listed is required:

- For airline tickets — each passenger's legal name, date of birth, gender, departure and arrival airport codes, and exact dates of departure and arrival.
- For vehicle rentals — vehicle type, dates of use, and pick-up and drop-off locations.
- For textbooks — full International Standard Book Number (ISBN).
- For subcontracted services (e.g., consultants, service technicians, and architects):
- A complete description of the service to be performed — the deliverables.
- Engineering drawings and specifications if appropriate.
- Requirements for personnel qualifications and/or licenses.
- Other documents such as insurance forms and certificates of insurance naming the charter school as additionally insured.
- Quality standards to be applied.

The business office or purchasing group or department should review the proposed purchasing terms, vendor qualifications, pricing and other factors listed by the requester. Purchasing should notify the requester of any questions, adjustments or differences noted during this review before placing the order.

Reimbursements for purchases made by staff should be processed only after proper authorization is provided and should be made according to the reimbursement guidelines.

Placing a Purchase Order

The requester of goods or services is responsible for completing a purchase order for all orders. Purchase orders are not required for expenditures for which a contract exists, or expenditures for salaries and benefits.

The purchase order should include details such as inspection requirements and special packaging requirements.

Any purchase order greater than $25,000 to be reviewed and signed by Board Member.

Once the purchase order is approved, orders may be placed with the vendor via mail, telephone, fax, the internet, or in person. When orders are placed in person or by telephone, the vendor contact person and date of order should be noted, and a confirming copy of the purchase order should be sent to the vendor.

The business office or purchasing group or department remains responsible for communicating with those receiving the merchandise and should confirm and monitor shipping and delivery.

Keeping Records

When purchase orders are issued, the purchasing or business office copies should be placed in an open file or logged in an open purchase order list until the items are received. The open file or list should be reviewed weekly to determine whether any orders need follow-up.

The vendor's packing list for received merchandise should be kept where the shipment was received and check or tick marks should be made on the packing slip to indicate that the items are present.

If a partial shipment is received, all documents should identify the shipment as partially received, and the original purchase order should remain in the open file until all items are received.

Purchase Order Terms

Because a purchase order is a legally binding contract when the supplier, vendor, or service provider accepts it, a charter school should always make sure its purchase orders communicate its request or requests clearly and in detail to avoid confusion.

The purchase order should include terms, deliverables, and any other information needed to complete the purchase successfully. Examples of additional information include:

- A copy of the invoice is requested.
- Orders should be entered in accordance with the prices, terms, delivery method, and specifications listed on the purchase order.
- Immediate notification is requested if the item(s) cannot be shipped immediately or as specified.
- Information on where all correspondence should be sent: (specify the name, address, phone number, and email address).

Vendor Selection

Ensuring that vendors are properly vetted, documented, and inspected, and that they are performing the services agreed upon, is essential to maintaining internal controls for expenditures.

Products and services a charter school purchases should conform to its requirements. The charter school should select suppliers, consultants and contractors that are able to supply the services, products, and materials it needs to operate.

Vendor Selection Criteria

New vendors should be evaluated according to the following criteria:

- Pricing

  The vendor's pricing should be competitive, but it should not be the only criteria.

- Capability

  A vendor should be able to demonstrate that it is in good financial standing, has sufficient employees, equipment and facilities to perform the work required, and has the required professional licenses and experience.

- Parts and Deadlines

  The vendor should have access to the required parts and be able to meet the charter school's shipping deadlines.

- Warranty

  Sufficient warranty information should be available, if applicable.

- Federal and State Funding Eligibility

  When applicable, ensure that the vendor is not barred from receiving federal or state funds.

- Ongoing Vendor Evaluation

  Are deliveries consistently on time and in good condition?

  Is the quality of services or products consistently high?

  Are their employees and subcontractor's professional to work with and knowledgeable about the product or service provided?

Vendor Files

A file should be created and maintained for each vendor and used for significant or ongoing purchasing. The vendor files should be organized alphabetically and should include the following items:

- IRS W-9 Request for Taxpayer Identification Number and Certification (available as a pdf download from http:/ www.irs.gov/pub/irs-pdf/fw9.pdf, or in hard copy from any local IRS office).
- State Board of Equalization resale certificates (required only for those that resell their purchases).
- Legal contracts, dealer or marketing agreements, and other such documents.
- Long-term purchase order commitments.
- Proof of insurance (certificates of insurance may be necessary for some services such as consulting).
- Any other relevant correspondence or documentation.

Form 1099 must be prepared at the end of every calendar year for reporting of income to certain vendors. To determine whether a 1099 must be filed, all non-merchandise vendors should complete an IRS form W-9.

A Form 1099 must be completed for all contractors for services (such as accountants, consultants, and repair services) that are not incorporated, and for all lawyers regardless of whether they are incorporated.

Receiving and Inspection

Everything the charter school receives, including supplies, equipment, materials, or components, should go through a receiving process and be safeguarded.

Receiving and Inspecting Supplies and Materials

The purpose of receiving is to verify that supplies or materials received are in proper order. Typically, supplies or materials from a vendor will be accompanied by a packing slip that indicates the types and quantities of items in a shipment. If there is no packing slip, the vendor's invoice should be used as a substitute.

Whether the receiver is the business office or someone at a school site, all received supplies or materials should be unpacked, inspected for damage, counted, and checked off on the packing slip, and checked against the purchase order to ensure a match. If the packing slip and the purchase order match, the receiver should sign off on the packing slip and forward it to the business office so payment can be processed when an invoice is received.

If any discrepancies are found they should be documented in detail on the packing slip before it is signed, the business office should be notified immediately, and the business office should make the final decision about whether to accept or reject the shipment.

In addition to the packing slip and other shipping documents such as a bill of lading, a combined receiving a n d inspection log can be used to document the condition of items and other receiving information

Discrepancies and Rejections

All discrepancies and any rejection of supplies or materials should be documented in detail and on the packing slip, forwarded to purchasing, and followed up on with the vendor.

Any supplies or materials that are damaged or otherwise suspect should be separated from the acceptable items and clearly identified (e.g., with a red tag). The business office or purchasing group or department is responsible for following up with the vendor to discuss the disposition of the damaged or suspect inventory. Disposition options include but are not limited to returning items to vendor for credit or identifying the items as scrap.

All accepted supplies or materials may be stocked or sent to the school site.

Prepaid Expenses

Prepaid expenses are expenses that result in a future benefit. At the option of the CFO or designee, prepaid expenses may be accounted for monthly, quarterly, semiannually, or at the end of the fiscal year.

Prepaid Rent Example

One example of a prepaid expense is paying the current month's rent of $1,000 plus the next two months' rent (an additional $2,000) all in the current month with one check for $3,000. The first month's rent of $1,000 would be recorded as a rent expense and the remaining $2,000 of the $3,000 check would be recorded in the asset account known as prepaid rent. The $2,000 is an asset because the next two months for which rent has been paid have not yet occurred. As each of the two subsequent months comes about, $1,000 per month will be moved,, usually by a journal entry, reducing the prepaid rent account and increasing the rent expense account.

Accounting Treatment for Prepaid Rent

Prepaid expenses with future benefits that will occur within one year from the date of the financial statements should be classified as current assets. Prepaid expenses for benefits that will occur more than one year from the date of the financial statements should be classified as noncurrent assets.

If prepaid expenses are recognized only at the end of the fiscal year, as part of the end-of-year account coding and recording of disbursements, all incoming vendor invoices paid prior to yearend should be reviewed
for future benefits. If future benefits are identified and payment processed, the payment should be given a prepaid expense account code.

The business office should maintain a schedule of all prepaid expenses that includes the amount and date paid, the period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. The prepaid expenses schedule should be reconciled to the general ledger balance as part of the monthly closeout process.

Employee Relocation Costs

New employees and employees who move to a new location within the charter school organization are often reimbursed for moving expenses if such reimbursement is authorized by the governing board or designee.

If the board has authorized such reimbursement, the CEO or designee should approve and sign an employee relocation costs reimbursement before any relocation expenses are incurred.

The following relocation reimbursement limits are often considered standard amounts but are not mandated:

- Intrastate moving: $2,500
- Interstate moving: $5,000
- International moving: $7,500

All expenses identified as reimbursable by the IRS are eligible for reimbursement (see IRS Publication 521, Moving Expenses).

- House Hunting Expenses — This includes all expenses related to travel for the employee and household members.
- Temporary Living Expenses — Expenses incurred for temporary living arrangements while relocating.
- Travel Expenses — Includes cost of transportation, meals and lodging for the employee and household members while traveling.
- Moving of Household and Personal Effects — Includes actual costs of packing, transporting and unpacking household effects; in-transit storage costs; insurance; and moving household pets.
- Auto Shipment — Automobiles used as the primary mode of transportation of the employee and spouse. Automobiles may be driven or shipped. Mileage reimbursement

will be provided at the organization's approved rate if automobiles are driven.

- Real Estate Expenses / Early Lease Termination – Any early lease termination charges incurred by the employee from his or her landlord are reimbursable if related to a relocation, contingent on the CFO or designee's review of the employee's lease or rental contract.

Individuals who receive reimbursement for relocation and moving expenses should be aware of any personal income tax implications and should consult a tax professional.

If an employee ceases employment with a charter school less than one year after incurring reimbursable relocation expenses, the employee may be obligated to reimburse the charter school for any payments received for relocation. The final decision on whether reimbursement will occur is the CEO or designees.

Chapter 12 – Revenues, Receivables, and Restricted Funds

Accounts Receivable, Invoicing, and Receivable Accruals

Invoicing is the process of billing for services, fees or other charges, such as reimbursements for services or costs, federal, state, and local grants, lost book charges, or school meal account reimbursements. When an invoice is prepared, the accounting process records an account receivable for the amount billed, in the name of the person or organization being billed. Timely preparation and distribution of invoices is important because it helps recapture costs and improve cash flow.

Preparing Invoices

Electronic accounting systems can typically generate invoices in many formats, but they should all be numbered sequentially, and the business office should approve each invoice before it is sent to the customer.

If the charter school does not use an electronic accounting system, or if it uses one that lacks an invoice module that tracks invoices electronically, staff should keep a printed copy of each invoice in a file so outstanding invoices can be tracked.

Each invoice should describe clearly and in detail the services and charges, date, invoice number, type of service or item, quantity, rate, class or program code, price and extended amounts, and the customer's billing address.

Progress Billing

Progress billing is billing for a portion of labor and materials up to a certain point in time before a project is fully completed. Projects and programs that should be progress billed consistently include federal, state, and local grants and contracts, and services and projects provided by the organization. Billing monthly or incrementally as work or a service is performed helps maximize cash flow and ensure that grant and contract funding terms are met.

Progress billing should be reconciled monthly with the contract or service agreement to ensure it is accurate and should be supported by detailed documentation such as employee timecards charged to the contract or service agreement. The business office should ensure that all fees, costs, and services are billed for completely and accounted for in each contract.

Receivable Accruals

Receivable accruals may be prepared as needed and authorized by the CFO or designee.

Receivable accruals are those amounts that are reasonably known and quantifiable. The charter school should require that fiscal year-end receivable accruals be.

Cash Receipts

Any time cash or a check is received, whether at the business office, a school site, fundraising events or other locations, every effort should be made to issue a cash receipt from a receipt book. Cash receipts are not required for payments received on an account invoiced from and owed to the charter school.

The individual who issues a cash receipt should always verify that all of the correct documents and information are provided to support the transaction.

Grant and Donation Revenue

All major types of revenue (e.g., grants, donations, state apportionment, and special education revenue) should be recognized and accounted for separately. This is particularly important for donations, grants and state funding because these revenue types often have statutory requirements or other restrictions.

Donations and grants may include donor-imposed or contractual requirements or conditions that must be met before the revenue can be recognized or earned. All such requirements or conditions should be monitored to ensure the requirements are met. Any revenue that has not met the requirements or conditions should be considered a liability and is often categorized as deferred revenue.

Recognizing Grant and Donation Revenue

Grant income is recognized as income when it is received. Charter school-related grants are usually awarded on a cost-reimbursement basis or as advances against services to be performed. Revenue is based either on allowable costs incurred, such as with cost-reimbursement awards, or on other terms of the award such a s a fixed price or unit of service. The types of grant income charter schools usually receive are education payments, and federal, state and local grants and contracts with various compliance requirements.

At fiscal yearend, grant income that has been incurred but not yet received should be accrued to comply with generally accepted accounting principles (GAAP).

Donations should be recognized as income when received, unless accompanied by restrictions or conditions.

Accounting for Donations

The charter school should recognize donation income in the period in which the contribution is received unless it is restricted. Donation income should be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on whether the donation has any restrictions.

Unconditional and Conditional Promises to Give

Unconditional promises to give should be recorded as assets, such as a receivable. When the promise is received, contribution revenue is recognized and is considered a temporarily restricted net asset. Unconditional promises to give that are to be collected within one year should be recorded at the promise's face value, less any reserve for uncollectible promises, as estimated by the CFO.

Unconditional promises to give that are collectible over more than one year should be recorded at their discounted net present value. The interest rate used when calculating net present value of an unconditional promise to give should be the risk-free rate of return available to the charter school when the promise was received.

When all restrictions associated with a donated asset have been met, the business office should

record a change in classification of the asset from temporarily restricted to unrestricted net assets.

Conditional promises to give are donations that the donor will give to the charter school only when certain conditions are met. Conditional promises should not be recorded in the accounting records until all conditions are met. If the charter school receives a donation under conditional promises, the money or asset received is subject to being returned to the donor until the condition is met or until the donor waives it.

Volunteer Labor

The service of volunteers is a donation of time, and its value should be recorded as donation income and increased value of assets. This is the case when the services (donated time) create or improve a nonfinancial asset, such as a roof replacement. In such cases, the charter school should recognize revenue as the value of the hours donated and as the change in fair value of the improved asset.

Volunteer labor should be recognized in the accounting records if one or both of the following criteria are met:

- The donated service creates or improves a nonfinancial asset (such as a building or equipment).
- The donated service possesses all three of the following characteristics:
- It is a type of service that the charter school would typically need to purchase if it had not been donated.
- It requires specialized skills (i.e., formal training in a trade or profession).
- It is provided by an individual who possesses those specialized skills.

Donated services that meet one or both of the two preceding criteria should be recorded at the fair market value of the service rendered.

Donated services should be recognized in the charter school's accounting records. For example, if a roof needs repair and the fair value estimate for that repair is $3,000, the accounting records should recognize in-kind donation revenue of $3,000 and a repair and maintenance expense of $3,000. When a donor donates time and services, there is no tax deduction for the donor (IRS Publication 526, Charitable Contributions, lists "the value of your time or services" as a type of contribution individuals cannot deduct).

Receipts and Disclosures

When donations are received, a donation receipt and/or an acknowledgement letter should be provided to the donor. Internal Revenue Service Publication 1771, Charitable Contributions: Substantiation and Disclosure Requirements, is available at https:/ www.irs.gov/pub/irs-pdf/p1771.pdf. For information on vehicle d o n a t i o n s , see IRS Publication 4302, A Charity's Guide to Vehicle Donations, and IRS Publication 4303, A Donor's Guide to Vehicle Donations.

Donors are responsible for making sure they have a written acknowledgment for any single contribution of $250 or more. There is no legal requirement to acknowledge single contributions of less than $250 unless the donor receives something of value in return for the gift, in which case special rules for quid pro quo apply.

The IRS (see https:/ www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribu-tions-quid-pro-quo-contributions) describes and defines a quid pro quo donation as follows:

… a payment a donor makes to a charity partly as a contribution and partly for goods or services. For example, if a donor gives a charity $100 and receives a concert ticket valued at $40, the donor has made a quid pro quo contribution. In this example, the charitable contribution part of the payment is $60. Even though the deductible part of the payment is not more than $75, a disclosure statement… must be provided by the organization to the donor because the donor's payment (quid pro quo contribution) is more than $75.

The charter school and its donors are subject to certain disclosure and reporting requirements in the Internal Revenue Code and its underlying regulations. To comply with those rules, the charter school should adhere to the following guidelines for donations.

Donation Receipt

For every contribution it receives, whether cash or goods, the charter should provide a receipt to the donor. The business office or school principal should prepare the receipt and present it to the governing board for acceptance before depositing any donated funds or using any donated items.

The donation receipt should contain as much information as possible to identify the donor and the donated cash, merchandise, or services.

In-Kind Donation or Gift Receipt

In-kind donations can be stocks, vehicles, art, or other assets. Most charter schools are 501(c)(3) nonprofit organizations, and the law does not allow such organizations to provide a donor with the estimated dollar value of an in-kind gift. Valuations of in-kind donations are the responsibility of the donor, and donors should have their donated items professionally assessed and certified by a professional to obtain an accurate fair market value. Donors will need to provide this certification to their tax preparer to ensure compliance with IRS regulations.

In-kind donations should be recognized with a recognition form. Noncash charitable contributions of more than $500 for which a donor desires a tax deduction must be listed in detail on IRS Form 8283, Noncash Charitable Contributions. The charter school and donors should review the IRS instructions for this form each year for changes in regulations regarding noncash charitable contributions.

To receive a tax deduction for any item the donor values at more than $5,000, the IRS requires the donor to submit both Form 8283 and a written appraisal from a qualified appraiser.

Restricted Funds

Funds or assets may be unrestricted, temporarily restricted, or permanently restricted.

Unrestricted net assets are assets the use of which is not restricted by donors, even though their use may be limited for other reasons, such as by board designation.

Temporarily restricted net assets are assets the use of which has been limited to a specific purpose or a later date by grantors, or contractual restrictions, or donors.

Permanently restricted net assets are assets the use of which is restricted in perpetuity, such as endowments.

When revenue is earned, the business office should review any documents associated with the revenue to determine whether any restrictions apply to the funds. Examples of restricted funds include, but are not limited to, the following:

- A grant received to operate a specific program or project, for which certain performance objectives must be met.
- An individual donation given with the intent to support a particular program.
- Donations given on the condition that they be held in perpetuity.

Information on restrictions should be included in the grant of contract award letter or on the financial instrument itself.

If revenue is determined to have restrictions, the business office should record the transactions for that revenue in a separate and trackable account or class within the accounting records to keep them separate from unrestricted funds. The business office should also track the restricted funds in a separate spreadsheet and keep a program binder or file of all pertinent documents so the account can be reconciled at the end of the fiscal year.

Temporarily restricted funds should be monitored regularly to ensure that the terms of the grant, contract or donor restrictions are satisfied.

Permanently restricted funds are restricted by the donor for a designated purpose and never become unrestricted unless the donor rescinds the restriction. Typically, the principal balance of the donation or asset should remain invested permanently, and the charter school should use the interest and/or investment returns. An endowment is a common type of permanently restricted donation.

Restricted Funds Accounting

The charter school is bound by law to spend donated dollars as directed by the grantor, contract, or donor. If a condition on restricted funding has not been met and the money has been spent, the grantor can disallow the expenditure and demand that the funds be returned. In some cases, grantors or donors may pursue legal action.

When budgeting for restricted funds, a charter school should not budget money that is not available. When planning and budgeting, charter schools should be mindful of the conditions governing the use of restricted funds and how they will affect cash flow and the availability of funds. Restricted funds should be clearly segregated in the budget.

Chapter 13– Fraud

Every year FCMAT is called upon to perform Assembly Bill (AB) 139 extraordinary audits, also known as fraud audits, on charter schools in which fraud is suspected. The reasons for fraud and its methods vary, but fraud is occurring in charter school organizations. An AB 139 audit must be requested by a county office of education, pursuant to Education Code Section 1241.5(c), which states the following:

At any time during a fiscal year, the county superintendent may review or audit the expenditures and internal controls of any charter school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The review or audit conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner. The county superintendent shall report the findings and recommendations to the governing board of the charter school at a regularly scheduled meeting and provide a copy of the information to the chartering authority of the charter school, within 45 days of completing the review, audit, or examination. The governing board of the charter school shall, no later than 15 calendar days after receipt of the report, notify the county superintendent and its chartering authority of its proposed response to the recommendations.

County superintendents often call upon FCMAT to conduct such audits. If a county superintendent, then determines that fraud, misappropriation, or other illegal fiscal practices may have occurred, it will report this determination to the district attorney.

Charter schools have potential for fraud because compared to traditional public schools they may have less oversight, less regulation, fewer staff (and thus more overlapping duties), and staff with less formal accounting experience. In addition, like other schools, charter schools generate cash, have many people who are trusting, and often lack internal controls because many people do not understand their importance and often everyone is in a hurry.

In any organization, regardless of size, four elements increase the chances that fraud will occur: incentive or pressure, opportunity, capability, and rationalization or attitude. These four factors are known as the fraud diamond, and all four are usually present when fraud occurs. No program or person is immune to fraud. A person who is honest today can experience change or new circumstances that may make fraud an option for them tomorrow.

The purpose of internal controls is to help protect individuals from situations in which all elements of the fraud is present. Strong checks and balances on vendors, good cash controls, and managerial and governing board oversight can all limit the incentive, opportunity, capability, and rationalization that make fraud more likely, and prevent individuals from doing something they may otherwise never have considered.

If fraud does occur, strong internal controls can also help identify the suspect and exclude from suspicion innocent individuals who may be wrongfully accused, in some cases by the actual thief. Controls can also provide a document trail to help quantify the loss and to limit ongoing losses.

The following sections discuss the various types of fraud found in school organizations, including charter schools. This is not a comprehensive list of every possible type of fraud but is designed to give examples of what may occur if internal controls are weak or otherwise lacking. In all cases, a school's managers and leaders are responsible for designing, implementing, and monitoring best practices for internal controls to prevent and deter fraud and to prevent staff from being falsely accused of fraud.

Vendors, Checks, Reimbursements and Advances

People often think fraud cannot occur with vendors, checks, reimbursements, and advances because they require multiple signatures, receipts, or other verification. However, this is not the case.

As with all types of payment schemes, once a fraudster is able to conduct the fraud and remain undiscovered the first time, it is easier to continue the fraud because supervisors and those who review transactions now view the vendor, services, or expense as normal and thus question those transactions less often or not at all.

Vendors

When cash controls and authorization procedures are weak or nonexistent, an unauthorized vendor can be added to the payee lists, fictitious invoices for products or services can be created, and money can then be taken from the charter school's bank accounts.

For purposes of this discussion, vendors include suppliers, contractors, and consultants. Vendors should always be vetted thoroughly; this includes obtaining and checking their references. Charter schools have experienced many types of vendor fraud, including the following:

- Vendors may give the business office a completed W-9 form using another vendor's federal identification number and may not be who they claim.
- Vendors may claim they have the required licenses when they do not. Services performed by an unlicensed vendor may result in the charter school being liable, even to the extent that it may be sued or may have funding for certain programs revoked.
- A vendor may have an inside co-conspirator; this could be a family member, a friend, someone in a senior management position, or even an individual over whom the vendor has some form of leverage. This vendor may be a verifiable business that may or may not provide other legitimate services or may be a shell company designed solely to extract money from the charter school. In such cases the vendor often charges inflated prices for supplies or services, or even provides no product or service, and the co-conspirator approves the vendor invoices, and the fraudulent payments are processed.
- Shell companies can be designed by charter school staff who buy supplies from a legitimate vendor and then resell the supplies to the charter school at excessive prices.
- Vendor list is provided to the governance board annually for review.
- The following actions can help prevent vendor fraud:
- Separate verification of merchandise received.
- Random product price verification.

- Background checks on vendors.
- Verification of vendors' licenses.
- Reviews of deliverables and invoices for products and services.
- Reference checks.
- Random visits to a vendor's place of business.

Personal Purchases with Charter School Funds

Disguising personal purchases as purchases of supplies, merchandise, or as payments for property tax, insurance or rent, is a common fraud scheme. Charter schools can also be defrauded when common supplies such as paper, ink and janitorial products are taken home for personal use.

Large supply purchases may include uncommon line-item personal purchases such as work boots or even watches. Property tax or rent payments for multiple school sites can easily include an additional tax assessment or additional rent check paid directly to a staff member's property tax account or landlord.

Checks

Fraudulent vendors and services with credible looking invoices and business names can present invoices for payment. Checks can be altered by removing the legitimate payee's name and inserting another. These are common types of fraud.

Check Altering

In more sophisticated check altering schemes, someone will obtain the proper authorizations and purchase orders for a check, then the office manager, bookkeeper, or other person in control of the check will remove the payee's name and insert their own.

Increasingly, banks are including electronic copies of checks with the account statement rather than the original checks. Extra care must be taken to confirm that the payee on the check is the same as that listed on the check register. Confirming who endorsed a check helps establish the chain of custody.

When original checks are returned with bank statements, there is the potential for a perpetrator who has sole custody of the returned checks to alter the checks again to restore the original payee's name and thus avoid detection of the prior check-altering fraud.

If it is not cost-effective to separate the duties related to bank statement reconciliation between two or more employees, the charter school administrator or a designated business office staff member should examine the returned checks for fading and other signs that a payee has been altered. The digital copies of checks printed in the bank statement should also be compared periodically with the cleared check register, and the endorsements on the reverse side of the checks verified.

Reimbursements

With reimbursements, two types of fraud can occur: the person receiving the reimbursement can falsify the reimbursement request, or the amount of reimbursement can be altered, and cash stolen. The first type of fraud, falsifying a request, is more common.

Every receipt and every line item of a request for reimbursement should be confirmed. Original receipts should be presented; copies are not sufficient. If a charter school does not have a policy requiring original receipts for reimbursement requests, it should develop one.

The second type of fraud, altering reimbursements, is less common but is usually perpetrated by managers, business office staff, or someone with access to petty cash, the accounting software, and the completed reimbursement form. The perpetrator typically does the following:

- Pulls the completed reimbursement form from the payee file, adds expenses that do not have backup documentation, and increases the cash advance.
- Pockets the amount of the cash increase and alters the accounting records to show the new, larger cash advance total.

Advances

Like all cash transactions, cash advances attract more fraudulent activity than noncash advances (e.g., advances by check). Cash advances are authorized only as an exception based on the circumstances and approved by the corporate officers.

Theft

The opportunity for theft exists when advances are not documented with signatures, initials next to a line item on the reimbursement form, and an advance log that requires signatures.

To guard against cash advance fraud and to protect innocent parties, a charter school should ensure that t h e cash advance amount is written on at least two separate documents, or on a multiple-copy document, and require that the recipient sign both documents and initial the cash advance amount. This makes it more difficult for a potential perpetrator to alter the cash advance amount, and it protects the bookkeeper from allegations that he or she issued a different cash advance amount.

Fictitious Advances

Although completely false, a fictitious cash advance may have documentation and is usually booked to an unsuspecting staff member who does not check their monthly financial report. For example, a dishonest bookkeeper could take $60 from cash and record it as an advance or a petty cash expense for a certain club. If the staff member does not check the financial report monthly, he or she is unlikely to remember or recognize that the $60 advance was not used for club purposes. This is particularly true for relatively small amounts, especially when the transaction is one of many.

Kickbacks and Pay-To-Play

A kickback is money paid to someone for steering business to an individual or business. For example, a charter school's executive director may be approached by a vendor with an offer to pay the executive director in cash a percentage of the business earned. This is a kickback. Often, after the vendor has paid the executive director the kickback, and to the surprise of the executive director, the vendor begins charging even more inflated prices, and the quality of services declines. When the executive director questions the vendor, the vendor gives the executive director a choice: continue paying and receiving the kickback or the vendor
will show the public the video taken of the kickback and pretend the vendor was uncovering

corruption at the charter school often the kickbacks continue.

Charter school purchasing managers or business office managers are often presented with extra sample products, gifts, event tickets, or travel opportunities to say thank you for all of the business. These are forms of kickback. Charter school managers should never accept gifts of any kind from those with whom the charter school does business or may do business.

Pay-to-play is another form of kickback, initiated by the potential recipient: a dishonest manager will explain to a prospective vendor that the vendor must pay the manager if they wish to conduct business with the charter school. Managers who engage in pay-to-play often find the tables turned later when the vendor increases prices as in the other kickback example, then threatens to expose the manager if the manager does not pay the inflated charges.

Pay-to-play can also occur when managers or staff members in authority extort kickbacks from other charter school employees. For example, a manger has extorted charter school bus drivers by requiring them to pay the manager some cash each month to keep their job.

Fictitious Employees and Payroll Tax Fraud

Almost all charter schools use an electronic payroll process, and most use an outside payroll service. When an independent service performs payroll functions electronically, charter school employees often have a false sense of security and believe that internal controls for payroll cannot be breached. However, with current technology it is not difficult for perpetrators to create and pay a fictitious employee.

For example, during one fraud audit of a charter school, FCMAT found that a fictitious employee had been created and continued as a salaried employee at the charter school for several years. Further examination revealed that the perpetrator was a charter school administrator who had taken over the identity of another person, authorized the employee, and was collecting the pay.

Financial Reserves

Financial reserves are needed to manage cash flow and to help protect a charter school from unforeseen revenue shortfalls, unexpected costs, and economic uncertainties. Financial reserves also help a charter school save for large purchases and reduce the cost of borrowing money.

Although not specifically related to charter schools, regulations regarding school districts' financial reserves are updated at the CDE website, www.cde.ca.gov and are described at http:/ www.cde.ca.gov/fg/fi/ss/ distbudgetcsfy1718.asp as follows:

(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 $65,000 for districts with 0-300 ADA

the greater of 4% or $65,000 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

Available reserves as recommended by CDE for districts listed above are the unrestricted amounts in the Reserve for Economic Uncertainties and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund.

According to FCMAT recommendation in combination with CDE guidelines listed above, the school adopts a minimum (unassigned) cash reserve of 5% of the total of all budgeted expenditures and develop a five-year plan to increase that reserve from 5% or less to 10% of total budgeted expenditures. Care should be taken to not spend more on non-classroom-based instruction than the percentage allowed by the funding determination for this, if applicable. If the school already maintains 10% or higher (unassigned cash) reserve, the management, corporate officers and the board could recommend to target the funds for specific purposes.

Reserves Versus Cash on Hand

Financial reserves are often confused with cash on hand. In general, a 5% cash reserve does not mean that the charter school has 5% of total budgeted expenditures available as cash on hand. For example, an increase in accounts receivable represents an increase in revenue, which increases overall all net assets;

however, this does not increase cash at the time the receivable is recognized. Sometimes a receivable is not recognized until months later, and in rare cases may become disallowed because the charter school has not followed certain state compliance requirements. For this reason, some or all of a reserve may not be immediately available.

Larger cash reserves are prudent for charter schools because during economic downturns charter schools have fewer options for borrowing than non-charter public schools, and often pay higher premiums and interest rates when they do borrow. The board of directors adopts a minimum of 45 days cash reserve fund (13% of total expenditures) to allow for uncertainties, deferrals and unexpected circumstances (designation for economic uncertainties). The school will develop a 3-year cash reserve plan to maintain or reach from 45 days to 60 days (17% of total expenditures) cash on hand reserve fund. The cash reserve fund balance and school reserve percentage will be reported along with financial reporting to the board of directors. If the amount of cash on hand reserve and % of reserve is below the minimum a plan will be presented along with the financial update reporting.

Appendix A: Sources of FCMAT-CSAM Research and Documents

- FCMAT https://www.csba.org/GovernanceAndPolicyResources/FairFunding/FundingAdequacy/FiscalCrisisAndManagementAssistanceTeamFCMAT.aspx
- State Controller's Office
- California Department of Education
- Los Angeles USD Charter Division
- Los Angeles County Office of Education
- Riverside County Office of Education
- Orange County Department of Education
- California Charter Schools Association
- California School Boards Association
- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
- Arizona State Charter School Manual
- Utah State Charter School Manual
- Nevada State Charter School Manual
- Colorado State Charter School Manual
- Microsoft Excel forms and templates
- The Housing Authority of the City of Lawrenceville, Georgia
- Municipality of Skagway
- Magnolia Educational Research Foundation
- Oracle
- Family Resource Centers
- New Partners Initiative
- Price Waterhouse Coopers

- First Nation

Appendix B: Charter School Annual Oversight Checklist

https://www.fcmat.org/charter-school-oversight-checklistClick on the title above to view and download the checklist

Appendix C: Glossary of Acronyms

AB	Assembly Bill
ACSA	Association of California School Administrators
ADA	Average Daily Attendance
ADA	Americans with Disabilities Act
AFDC	Aid to Families with Dependent Children
AP	Accounts Payable
AP	Advanced Placement
AR	Accounts Receivable
ARRA	American Recovery and Reinvestment Act
ASB	Associated Student Body
ASC	Accounting Standards Codification
ASES	After School Education and Safety Program
CAHSEE	California High School Exit Examination
Cal/OSHA	California Division of the Occupational Safety and Health
CALPADS	California Longitudinal Pupil Achievement Data System
CalPERS	California Public Employees' Retirement System
CalSTRS	California State Teachers' Retirement System
CalWORKS	California Work Opportunity and Responsibility to Kids
CARSNet	Charter Authorizers Regional Support Network
CASBO	California Association of School Business Officials
CASH	Coalition for Adequate School Housing
CBEDS	California Basic Educational Data System
CBO	Chief Business Official
CCC	California Community Colleges
CCEE	California Collaborative for Educational Excellence
CCR	California Code of Regulations (Title 5)
CCSA	California Charter Schools Association
CDE	California Department of Education
CELDT	California English Language Development Test
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CFT	California Federation of Teachers
Charter Day 20	Charter School 20 Day Attendance Report
CLAD	Cross-cultural, Language and Academic Development
CMO	Charter Management Organization
CNIPS	Child Nutrition Information Payment System
COE	County Office of Education
COLA	Cost of Living Adjustment
COP	Certificate of Participation
CPA	Certified Public Accountant
CPI	Consumer Price Index
CPO	Chief Personnel Officer

CRB	California Research Bureau
CR	Credit
CSAM	California School Accounting Manual
CSBA	California School Boards Association
CSDC	Charter Schools Development Center
CSEA	California School Employees Association
CSFG	Charter School Facility Grant
CSIS	California School Information Services
CSR	Class Size Reduction
CSRO	Charter School-Related Organization
CST	California Standards Test
CTA	California Teachers Association
CTC	Commission on Teacher Credentialing
CTE	Career Technical Education
CY	Current Year
DGS	Department of General Services
DIS	Designated Instruction and Services
DOF	Department of Finance
DR	Debit
DSA	Division of the State Architect
EAAP	Education Audit Appeals Panel
EC	Education Code
Ed-Data	Education data website; a Partnership of CDE, EdSource and
EdSource	Nonprofit journalism website reporting on key education issues
EERA	Educational Employment Relations Act
EIA	Economic Impact Aid
EL	English Learners
ELA	English Language Arts
ELAC	English Language Advisory Committee
ELAP	English Language Acquisition Program
EMO	Education Management Organizations
EPA	Education Protection Account
ERAF	Education Revenue Augmentation Fund
ERISA	Employee Retirement Income Security Act
ERT	Economic Recovery Target
ESEA	Elementary and Secondary Education Act
ESL	English as a Second Language
SA	Every Student Succeeds Act
ESY	Extended School Year
F/RPM	Free and Reduced-Price Meals
FAC	Federal Audit Clearinghouse
FAPE	Free Appropriate Public Education
FASB	Financial Accounting Standards Board
FCMAT	Fiscal Crisis and Management Assistance Team
FERPA	Family Educational Rights and Privacy Act
FPM	Federal Program Monitoring
FPPC	Fair Political Practices Commission
FTE	Full-time Equivalent

GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Accounting Standards
GAO	Government Accountability Office (US)
GASB	Governmental Accounting Standards Board
GATE	Gifted and Talented Education
GC	Government Code
GO	General Obligation (Bond)
GSA	Grade Span Adjustment
HSA	Health Savings Account
HOT	Highly Qualified Teacher
IASA	Improving America's Schools Act
IDEA	Individuals with Disabilities Education Act
IEP	Individualized Education Program
IRS	Internal Revenue Service
IS	Independent Study
ISBN	International Standard Book Number
JPA	Joint Powers Agreement
K-8	Kindergarten through grade 8
K-12	Kindergarten through grade 12
K-14	Kindergarten through grade 14
K-16	Kindergarten through college undergraduate university
LAIF	Local Agency Investment Fund
LAO	Legislative Analyst's Office
LCAP	Local Control and Accountability Plan
LCFF	Local Control Funding Formula
LEA	Local Education Agency
LEP	Limited English Proficient
LRE	Least Restrictive Environment
M&O	Maintenance and Operations
MAA	Medi-Cal Administrative Activities
MOU	Memorandum of Understanding
MSA	Minimum State Aid
MTYRE	Multi-Track Year-Round Education
MYP or MYFP	Multiyear Projection or Multiyear Financial Projection
NCLB	No Child Left Behind
NPS/A	Nonpublic School/Agency
NSL	National School Lunch
NSS	Necessary Small School
OAG	Office of the Attorney General
OAL	Office of Administrative Law

OMB	Office of Management and Budget
OPEC	Other Post-Employment Benefits
OPSC	Office of Public-School Construction
P-1	First Principal Apportionment
P-2	Second Principal Apportionment
PAR	Peer Assistance and Review
PENSEC	Pupil Estimates for New and Significantly Expanding Charter
PEPRA	Public Employees' Pension Reform Act
PERB	Public Employment Relations Board
PERS	Public Employees' Retirement System
PKS	Particular Kinds of Services
PL	Public Law (Federal Law)
PL 81-874	Public Law 81-874 (Federal Impact Aid)
PO	Purchase Order
PRA	Political Reform Act
PTA	Parent-Teacher Association
PY	Prior Year
OSCB	Qualified School Construction Bond
QZAB	Qualified Zone Academy Bond
R1, R2, R3	Annual Recertification - 1, 2, 3
RAN	Revenue Anticipation Note
RDA	Redevelopment Agency
REU	Reserve for Economic Uncertainties
RFA	Request for Application
RFP	Request for Proposal
ROC	Regional Occupational Center
ROP	Regional Occupational Program
ROTC	Reserve Officer Training Corps
RRMA	Routine Restricted Maintenance Account
RSP	Resource Specialist Program
RTI	Response to Intervention
S/C	Supplemental and Concentration Grant
SAB	State Allocation Board
SACS	Standardized Account Code Structure
SAIT	School Assistance and Intervention Team
SARB	School Attendance Review Board
SARC	School Accountability Report Card
SAS	Statement of Auditing Standards
SB	Senate Bill
SBAC	Smarter Balanced Assessment Consortium
SBE	State Board of Education
SCO	State Controller's Office
SDC	Special Day Class
SELPA	Special Education Local Plan Area
SERAF	Supplemental Educational Revenue Augmentation Fund
SPI	Superintendent of Public Instruction
SPSA	Single Plan for Student Achievement
STEM	Science, Technology, Engineering and Mathematics

STRS	State Teachers' Retirement System
SWD	Students with Disabilities
TIN	Taxpayer Identification Number
TK	Transitional Kindergarten
TRANs	Tax and Revenue Anticipation Notes
UPC	Unduplicated Pupil Count
UPP	Unduplicated Pupil Percentage