California

Charter School Accounting and Best Practices Manual

2017

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Contents

Publishing Information

The California Charter School Accounting and Best Practices Manual is published by the Fiscal Crisis and Management Assistance Team (FCMAT)
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Foreword

The Fiscal Crisis and Management Assistance Team (FCMAT) is pleased to present the first version of the *California Charter School Accounting and Best Practices Manual*.

Established in 1992 by the Legislature as an independent state-funded entity, FCMAT helps California's local educational agencies fulfill their financial and managerial responsibilities by providing fiscal advice, management assistance, training, resources and other related school business services. FCMAT's work ranges from the state policy level to the operational level at schools. This manual is an example of FCMAT's direct support, assistance and leadership to educational agencies statewide.

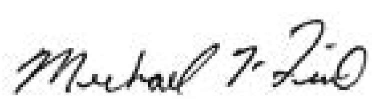
The *California Charter School Accounting and Best Practices Manual* is designed for charter school administrators, governing board members, fiscal services administrators, office managers, accountants, back office service providers, bookkeepers, secretaries and others who are responsible for charter school activities. FCMAT recognizes the increasing demands on charter school leaders, and this manual is designed to help leaders meet them while maintaining fiscal accountability, transparency and accuracy.

This manual has been developed to help charter schools follow legal requirements as well as FCMAT recommendations. The manual covers not only finance but also best practices for operations in other areas. It is intended to serve as an initial guide to some of the main areas in which FCMAT finds charter schools need assistance. It is not intended to be exhaustive and creates no procedural or substantive rights for any individual, group, or entity.

The manual seeks to answer questions and provide guidance in many areas concerning charter schools, including laws, accounting, oversight, nonprofit or exempt status, internal controls, best practices and various roles and responsibilities.

FCMAT will publish periodic revisions to this manual. Suggestions about how to improve this document and make it more useful are always welcome.

FCMAT acknowledges the many people who have taken part in producing this manual. Their time, dedication and shared expertise have been invaluable.



Michael H. Fine, Chief Executive Officer
Fiscal Crisis and Management Assistance Team

Chapter 1 – Introduction

Intent of the California Charter School Accounting and Best Practices Manual

Each chapter of this manual covers one or more critical aspects of charter school financial management and related areas. The manual is intended to be a comprehensive guide to charter school accounting policies and procedures, and a reference to other valuable financial and accounting resources. Its intent is to help charter schools navigate accounting policies and procedures, as well as other common functions. It is not prescriptive for items not required by law; rather, it is intended to be assistive.

Because current laws do not cover every aspect of charter school operations, the guidance in this manual goes beyond the law and official regulations to include information based on best practices and sound internal controls essential to successful charter school operations throughout California. Charter schools come in many shapes, sizes and configurations, so not every practice in this manual will apply to every charter, nor will position titles used always match those in charter schools because of variations in schools' sizes and structures.

It is best practice for charter schools to have the following:

- Comprehensive governing board policies and administrative regulations regarding accounting, operations, and human resources 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; and associated student body manual.
- Ongoing training for staff members who work in finance and accounting.

This manual includes links to sample downloadable forms to help charter schools as they develop their own forms and procedures.

This Fiscal Crisis and Management Assistance Team *California Charter School Accounting and Best Practices Manual* may also be adopted to supplement a charter school's board policies or procedures even if the charter school already has an accounting manual. Sample board policy language for this is as follows:

> The Governing Board of the ____________________Charter School adopts, on an ongoing basis, the most recent Fiscal Crisis and Management Assistance Team (FCMAT) *California Charter School Accounting and Best Practices Manual* as the ________________ Charter School's accounting policies and procedures manual or to supplement the __________________ Charter School's accounting policies and procedures. In the event of any conflict between the most recent FCMAT Charter School Accounting and Best Practices Manual and the ____________________ Charter School's accounting policies and procedures, the ______________________Charter School's policies and procedures will prevail.

This type of language gives a charter school clarity and the flexibility to follow its own policies and procedures when they differ from those in this manual.

The Need to Focus on Finance

In FCMAT's experience, 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. Charter operators often focus their energies on the mission, vision and educational program and provide less attention to a school's fiscal management. Sound financial management, including understanding, establishing, implementing and monitoring proper internal controls and accounting policies and procedures, is essential to a charter school's ability to achieve its mission.

Many new charter schools begin without a deep understanding of the knowledge, competency and time needed for charter school fiscal management. In addition, when established charter schools experience changes such as rapid growth, added schools, or changes in administration or management, fiscal policy and oversight is essential to maintain integrity. 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. 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 California Department of Education (CDE) provides extensive information and resources for charter schools on its website at http://www.cde.ca.gov/sp/cs/. The CDE website has sections on charter school administration and support; announcements and current issues; laws, regulations and policies; and resources.

The California School Boards Association (CSBA) at https://www.csba.org has issued a guide titled *Charter Schools, A Guide for Governance Teams*, which discusses the following:

- How charter school laws have evolved over the years
- Charter school governing boards' roles
- Charter petition review process
- What should be included in a memorandum of understanding
- Converting low-performing schools to charter schools
- Allocation of space for facilities to charter schools
- Oversight responsibilities of the authorizing board
- Revocation of charters and closure

The California Charter Schools Association (CCSA) at http://www.ccsa.org also provides extensive guidance on understanding, starting and operating charter schools. CCSA members receive access to a comprehensive portfolio of programs and services for operating charter schools, charter development teams, charter support organizations, charter-friendly businesses, and charter professionals. The CCSA has also developed interactive spreadsheets for charter school budget, cash flow, personnel and payroll, and start-up costs to help guide charter petitioners through developing a comprehensive multiyear financial projection.

The Charter Schools Development Center (CSDC) at http://www.chartercenter.org/ also offers expertise in all aspects of charter operations, including finance, policy and governance. The center's legal updates are helpful, and it has recently developed a job search resource specific to charter schools. It offers many resources similar to those the CCSA provides.

Many county offices of education and large charter school authorizers have dedicated charter resource staff. Those seeking extra support can usually contact those staff members for assistance or information on similar charters that they can contact and network with. Typically, people working in education are willing to share their best practices and experiences with others.

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.

Charter schools are:

- Funded based on average daily attendance.
- Freed from most state regulations that apply to school districts and county offices of education.
- Usually able to hire their own teachers and other staff (unless agreement with the charter's authorizer states differently).
- 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.

Types of Charter Schools

Although there are many descriptors of charter schools, they usually fall into the following three categories: classroom-based, nonclassroom-based, and a combination of both. Charter schools are governed by EC section 47612.5 and California Code of Regulations (CCR) Title 5.

Classroom-Based Charter Schools

Education Code section 47612.5(e) (1) states that classroom-based instruction in a charter school occurs only when the following take place:

- Charter school pupils are engaged in educational activities required of those pupils and are under the immediate supervision and control of an employee of the charter school who possesses a valid teaching certification in accordance with EC 47605(l) and 47612.5(e)(3).
- At least 80% of the instructional time is offered at the school site.
- The school is used principally as a classroom.
- The pupils attend for at least 80% of the minimum instructional time required under EC 47612.5(a) (1).

Nonclassroom-Based Charter Schools

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

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

Nonclassroom-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 school teachers 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.

Combination Classroom- and Nonclassroom-Based Charter Schools

Combination charter schools have students who receive instruction in classroom-based programs in a traditional school facility as well as those who receive instruction in a nonclassroom-based setting (e.g., online learning and/or independent study programs). The requirements for both classroom- and nonclassroom-based charter schools described above still apply to those respective students.

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. Authorizers must be able to ensure that a charter school maintains compliance with the charter petition, the memorandum of understanding, and the law, including conflict of interest provisions.

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 through 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)	x 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 were 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 ADA	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. Also, 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 of 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 Sources

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

$$\frac{\text{Property Tax}}{\text{LEA ADA + All Sponsored Charter School ADA}} \qquad \frac{\$9{,}879{,}234}{(9{,}881.40 + 176.40)} \quad = \quad \$982.25/\text{ADA}$$

	$982.25/ADA
	x176.40 ADA
	$173,269 In-Lieu Property Tax

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 Princ.
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

Education Protection Account [Section 36 of Article XIII of the California Constitution]

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 55 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 Quarter			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 Lottery

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	✓	✓	✓	✓
Instructional Materials Resource 6300	✓	--	-- (future growth)	✓

*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. Charter schools that use school district facilities as a result of Proposition 39 should have facility use agreements with the district. Education Code section 47614(b)(1) states that school districts may charge a charter school a pro-rata share of the facilities costs that the school district pays for with unrestricted general fund revenues. The pro-rata share is based on the ratio of space allocated by the school district to the charter school divided by the total space of the district, with no other charges for use of the facilities. The district may charge for the actual costs of supervisorial oversight of a charter school not to exceed 1% of the charter school's revenue, unless the district is able to provide substantially rent-free facilities to the charter school. If substantially rent-free facilities are provided, the district may charge actual costs up to 3% of the charter school's revenue for supervisorial oversight (Education Code Section 47613).

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.

Most but not all charter schools are operated as not-for-profit schools; 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 requirements, if applicable." 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.

A charter school that participates as a public school authorized by an LEA is 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 34 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. This local contribution is often referred to as encroachment.

A charter school must contribute an equitable share of its general fund apportionment to districtwide special education services and instruction, and when there is encroachment, unless other sources of funds are available, special education costs may be paid out of the charter school's general operating budget. This is not uncommon in public education.

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

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.

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 should 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 47604.32. 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.

Three Percent Oversight Fee

Charter school authorizers are permitted to charge for the actual costs of oversight, not to exceed 3% of the charter school's revenue, when the authorizer provides the charter school with substantially rent-free facilities. The 3% oversight fee is composed of 1% for oversight and 2% for use of the school facilities. An example of a substantially rent-free facility is when a school district allows a charter school to use a school building that the district is either not using or only partially using.

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. Because conducting business always requires a quorum of board members, and because not all board members may be able to attend every board meeting, having five or more board members is preferable. Many charter schools' governing boards 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.

A charter school must comply with all the provisions of its charter petition, MOU and other local agreements, as well as with the following:

- Brown Act
- Public Records Act
- Fair Political Practices Commission (FPPC)
- California Division of the Occupational Safety and Health Administration (Cal/OSHA)
- California Longitudinal Pupil Achievement Data System (CALPADS) method of reporting to the CDE

Charter schools may also be subject to Government Code section 1090, Conflict of Interest, if required in the authorizing agency's petition and/or MOU, or if the charter has a board policy regarding conflict of interest.

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, although legal, should be considered carefully before being implemented. This includes charter school-related organizations (CSROs) such as a charter management organization (CMO), other nonprofit entities including foundations, education management organizations, affiliated entities, the governing board of the non-profit public benefit corporation, and sole statutory members.

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.

Before considering any delegated governance, a charter school should consult with its authorizer, legal counsel, and independent auditor to determine if the governance would create a relationship that may require or create the option to issue consolidated financial statements.

Sole Statutory Member

Governance structures that reference a sole statutory member or sole member should always be avoided. California Corporate Code section 5056 defines the term member as follows:

> . . . any person who, pursuant to a specific provision of a corporation's articles or bylaws, has the right to vote for the election of a director or directors or on a disposition of all or substantially all of the assets of a corporation or on a merger or on a dissolution unless the provision granting such right to vote is only effective as a result of paragraph (2) of subdivision (a) of Section 7132. "Member" also means any person who is designated in the articles or bylaws as a member and, pursuant to a specific provision of a corporation's articles or bylaws, has the right to vote on changes to the articles or bylaws.

A sole statutory member is appointed, not elected, but may have all the authority of an elected board member.

Charter schools that enter into sole statutory member relationships modify their articles of incorporation or bylaws to define the sole statutory member's authority. For example, a charter school may form a nonprofit CMO to support the charter school. The CMO, with the help of the charter school, may amend the charter school's bylaws to make the CMO the sole statutory member of the charter school. The CMO's level of authority and control will vary depending on how the charter school's bylaws are amended and on the powers granted to the CMO.

Sole statutory member language may mean the charter school's articles of incorporation or bylaws are created or modified to give an individual or entity that is the sole statutory member authority to do the following:

- Approve a board member of the charter school.
- Remove any board member of the charter school at any time, with or without cause.
- Approve charter school directors.
- Dispose of all or substantially all of the charter school's assets.
- Approve or disapprove of the charter school's decision to merge or dissolve.
- Make changes to the charter school's articles of incorporation or bylaws.

This type of authority gives the sole statutory member complete control over the charter school. Sole statutory members by themselves may be able to exercise significant influence over the charter school and are often founders, family members, or other related parties who are not known to the charter authorizer and/or independent auditor.

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. 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 typical deadlines is listed below for specific charter school reports:

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	Audit Status	COE must certify to SSPI and State Controller that prior year audits were reviewed and must identify attendance-related exceptions or exceptions involving state funds.	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. Charter schools should create a budget development calendar that includes a timeline and important tasks to be completed throughout each fiscal year. Under the leadership of the chief financial officer (CFO), budgets should be developed for each school in partnership with the principals and their teams, and for various departments in partnership with their respective managers and staff. All department and school budgets should be combined into an organizationwide budget that is then finalized and monitored by the CFO. The budget may go through several drafts and may include budget proposals from individual departments and sites.

Each budget line item should be accompanied by a detailed narrative explanation of how each budgeted amount was determined. These explanations should include calculations, references, and other metrics that show how the budgeted amounts were determined and the reasoning for the estimated amounts.

After the budget is consolidated and balanced, the chief administrator of the charter school should 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. Many entities start budget development six months before the start of the fiscal year.

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 should monitor the budget each month by reviewing reports that compare actual year-to-date revenues and expenditures with budgeted amounts. The board of directors should also review budget reports monthly.

The CFO should also institute an ongoing monitoring plan to ensure that fiscal operations meet all federal and state requirements and safeguard all funds and assets.

Budget Changes

After the board of directors adopts a budget by July 1 of each year, the CFO will need to adjust budgeted 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 budget to include these new assumptions. Budget revisions of any amount should be ratified by the board of directors.

Financial Reports

Charter schools are required to submit budget and interim reports about their fiscal health to their chartering authority and the county superintendent of schools for review (or only to the county superintendent of schools if the county board of education is the charter authority). Deadlines for these reports are as follows:

- The adopted budget on or before July 1.
- The local control and accountability plan (LCAP) and an annual update to the LCAP on or before July 1.
- The first interim report on December 15. It reports on the actuals ending October 31 (the report covers July 1 – October 31).

- The second interim report on March 15. It reports on the actuals through January 31 (the report covers July 1 – January 31).
- The final unaudited report for the full prior fiscal year on or before September 15.

Although charter schools are not required to file interim reports as positive, qualified, or negative as school districts are, these terms are defined below because certification may be required in an authorizer's MOU with the charter school. In addition, understanding and using the certification definitions on interim reports to show whether the charter school is able to meet its financial obligations is a suggested best practice.

- 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 versus Bookkeeping

Accounting, which starts with bookkeeping, is the foundation of successful financial management for a charter school. Every charter school must know how and where money is being spent and when money is coming in.

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.

Many charter schools use external back office business service providers to perform bookkeeping and accounting services. Charter school administrators should be knowledgeable about their school's financial position and familiar with the components that drive revenues and expenditures.

Bookkeeping entries are used to establish the accounting records, and the accounting records are used to produce financial reports. Bookkeeping and accounting have 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.

Bookkeeping

Bookkeeping is the day-to-day entering and recording of transactions. Examples include writing checks, recording disbursements, processing payroll, and recording receipts.

Whether the bookkeeping is performed in-house or by a qualified back office service provider, ensuring that the charter school has knowledgeable, skilled and experienced bookkeeping staff is foundational to success in this area.

Accounting

Accounting encompasses the broader responsibilities of developing and maintaining the accounting system from which bookkeeping procedures are performed. Accounting involves timely and accurate recording of transactions, and providing this information to management and others.

Developing and maintaining an accounting system involves establishing and maintaining a chart of accounts. For charter schools, the chart of accounts will typically follow the Standardized Account Code Structure (SACS) or another structure approved by the charter school's authorizer. A charter school petition or renewal petition should state which account code structure the charter school intends to use.

Accounting policies and procedures are established to provide guidance for processing financial transactions. A complete, detailed and comprehensive accounting policies and procedures manual will include the following topics:

General and Administrative

- Chart of accounts
- Budget development and monitoring
- School site accounting
- Professional development
- Travel and conference
- Types of management reports (budget, balance sheet/statement of financial position, statement of activities, statement of cash flows)
- Financial and tax reporting
- Files and records management
- Document control
- Electronic signatures
- Electronic backup of data
- Cyber security
- Confidential information
- Political intervention
- Maintenance requests
- Fraud prevention and reporting
- Debt management policy

Cash

- Cash receipts and deposits
- Petty cash boxes
- Revolving funds
- Wire transfers
- Check signing authority
- Problem check issues
- Bank account reconciliation
- Interaccount bank transfers
- Journal and reclassification entries
- Petty cash purchases
- Credit and debit cards
- Intercompany receivables and payables
- Required financial reserves

Fixed Assets

- Fixed asset control and capital leases
- Capitalization and depreciation
- Long-term debt policy

Revenue

- Collecting and recording cash receipts
- Invoicing and accounts receivable
- Progress billing
- Account collections
- Uncollectable accounts
- Recognition of grant revenue and contributions
- Gifts-in-kind
- In lieu property taxes
- Use of restricted funds
- Gifts of public funds

Purchasing and Expenditures:

- General purchasing guidelines
- Vendor selection
- Issuance of contracts and public contract code requirements
- Receiving and inspection of goods and materials
- Accounts payable and cash disbursements
- Prepaid expenses
- Accrued liabilities
- Notes payable
- Employee reimbursements and travel

Accounting policies and procedures should describe in detail their purpose, responsible parties, and step-by-step procedures, including sample forms. Procedures may include samples of source documents; authorization forms; detailed descriptions of how to perform a transaction or complete a task; and information on authorized signatures needed.

Reporting

External and internal reporting is performed for various purposes. Internal reports are used by managers and other charter school personnel to analyze current and historical data to help make decisions. Internal reporting may be subdivided into financial and nonfinancial data.

Nonfinancial and Statistical Data

Nonfinancial data includes a variety of measurements and data for analysis. Examples include comparisons of student enrollment and average daily attendance, 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.

Financial Data

Examples of 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).
- Product inventory and 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, outstanding purchase orders, and direct certification exceptions from CALPADS compared with students' eligibility for free or reduced-price meals.

Although many of the reports described above may be provided to other agencies and parties if requested, their primary purpose is to inform management and others within the organization.

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 education's 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. 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.
    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.

Charter schools may report their unaudited actuals using the SACS format or using an alternative form titled "Charter School Unaudited Actuals Financial Report—Alternative Form," which has been approved by the State Board of Education. Both the SACS and the alternative form are reported to the CDE electronically. Regardless of which the charter school uses, the basis of accounting (accrual or modified accrual basis) used for both unaudited and audited financial statements must 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 and the alternative form. The alternative form instructions are available as a downloadable Microsoft Excel spreadsheet from the CDE School Fiscal Services Division, Financial Accountability and Information Services website at www.cde.ca.gov/fg/sf/fr/.

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.

- **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.

- **Accrual Basis** means revenues are recognized when they are earned. Expenditures are recognized when the liability is incurred.

  Charter schools operated as or by a nonprofit public benefit corporation typically 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. Even if a charter school uses a reputable back office service provider or bookkeeping firm, 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.

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

When a purchase order (PO) is used, funds are encumbered or set aside to indicate that an expenditure is planned. For example, if the charter school purchases books from XYZ Book Publisher, a charter school-approved PO would be sent to XYZ Book Publisher signifying that the charter school has authorized the purchase of books. XYZ Book Publisher ships the books to the charter school and submits an invoice that includes the PO number.

Some accounting systems track POs; under these systems account number 4000, Books and Supplies Expenses, would be increased in the amount of the purchase at the time the PO is authorized, as would the accounts payable account.

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 or vendor account number. 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.

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 correcting or adjusting entries for any accounting transaction are posted as adjusting journal entries and compiled in the general journal, which is then 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.

<u>Assets</u> — 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.

<u>Liabilities</u> — 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.

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 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 2019 *California School Accounting Manual*, which can be found at https://www.cde.ca.gov/fg/ac/sa/. 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 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	Subagreements 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 Interdistrict 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

To help ensure adequate internal controls, a 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 procedures being used is a best practice or should be changed.

Internal Controls Checklist

The following checklist 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. The checklist can also be downloaded in Microsoft Excel format by clicking here.

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.

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 Websites

Charter 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 – Basis of 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

Most charter schools in California are organized as nonprofit public benefit corporations 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 their financial reports may be prepared using nonprofit reporting methods, charter schools are considered local government entities; 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

Charter schools operated as or by a nonprofit public benefit corporation usually follow 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, Determining 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 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 school's and the CSRO"s financial statements can be required, optional, or not allowed, as follows:

- <u>Required</u>: 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.
- <u>Optional</u>: 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.
- <u>Not Allowed</u>: 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 organizationwide 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 accounting department (or back office service provider or bookkeeping service) 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 are recommended:

> A standard set of financial statements should be produced monthly for presentation at a 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 it is helpful to include supplemental information on activities, by department and function (and/or by program or grant), whenever possible.
>
> The monthly set of financial statements may be prepared using the cash, modified accrual, or accrual basis of accounting, except for year-end reports. Year-end reporting must use either the modified accrual or accrual method of accounting. Year-end reports must 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 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, should be distributed to the following individuals:

- All members of the finance and audit committee of the governing board
- Chief executive officer

School principals and any other employees who have budget monitoring responsibilities should receive the budget versus actual report for comparison and review.

Financial statements should include multiyear financial projections and cash flow statements, and may include supplemental schedules such as accounts receivable and accounts payable aging reports.

Annual Financial Statements

The 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 independent auditor will often meet with the charter school's finance and audit committee to provide additional detail and/or answer more specific questions.

Government Returns

A charter school must be aware of its obligations to file tax and information returns, and must comply with all federal, state and local requirements.

Requirements include, but are not limited to, filing the following:

- Annual information returns with the Internal Revenue Service (IRS)
- California charitable solicitation reports
- Annual reports for corporations
- Property tax returns
- Income tax returns
- Information returns for retirement plans
- Annual reporting of compensation paid
- Payroll withholding tax returns

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 may be 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.

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 "noninterests" 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.
- 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 of 1974, 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.

Government Code 1090 – 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 any body 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 discus-

> sions 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 Section 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, Conflicts of Interest, and Enforcement

The Political Reform Act (PRA), Government Code sections 81000 - 91015, was enacted by Proposition 9 in June 1974 and revised in 2015 to include several significant changes to the conflict of interest rules, effective November 17, 2016. The stated intent of the act was to establish a process for most state and local officials, and certain designated employees, to publicly disclose their personal income and assets as follows:

> . . . 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. (Education Code section 81002 (c))

The PRA's provisions are enforced by the Fair Political Practices Commission (FPPC) and require every state and local government agency to adopt a conflict of interest code. The FPPC (www.fppc.ca.gov) is the state agency responsible for interpreting the provisions of the law and issuing California Form 700 – Statement of Economic Interests.

Because charter school governing board members are considered public officials and governing boards are considered legislative bodies, board members and certain 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. In addition, the 2016-2017 Form 700 Reference Pamphlet states, "…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." The pamphlet also discusses who is a consultant and their level of disclosure. Consultants may be required to file Form 700, or Form 805, Agency Report of Consultants.

Section 18700 (d) of amended PRA regulations gives four steps to determine whether a public official has a prohibited conflict of interest. Section 18700 (a) states:

> 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.)

The four-step FPPC process is described in the California Code of Regulations (2CCR 18700 (d)).

> 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 answering the question in step one are contained in section 18701 of the regulations and read as follows:
> >
> > > (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.

<u>Step Two</u>: Will the reasonably foreseeable financial effect be material? To ascertain materiality, a determination utilizing Regulation 18702 – Materiality Standards is applied:

The criteria for answering the question in step two are contained in section 18702 of the regulations and read as follows.

(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 18702.5;

(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.

<u>Step Three</u>: 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 the question in step three are contained in section 18703 of the regulations and read as follows.

(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.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

The criteria for step four are contained in section 18704 of the regulations and read as follows.

(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 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.

The Fair Political Practices Commission's (FPPC's) Regulation 18700, *Basic Rule and Guide to Conflict of Interest Regulations* (http://www.fppc.ca.gov/content/dam/fppc/NS-Documents/LegalDiv/Regulations/Index/Chapter7/Article1/18700.pdf) 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 FPPC website at http://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, 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.

Openness is important to disclosure and avoiding conflicts of interest. Updates to Form 700, Statement of Economic Interests, are available at http://www.fppc.ca.gov/Form700.html. The FPPC describes disclosures for leaving office as follows:

> Generally, the period covered is January 1 of the current calendar year through the date you stopped performing the duties of your position. If the period covered differs from January 1 of the current calendar year through the date you stopped performing the duties of your position (for example, you assumed office between October 1 and December 31, or you are combining statements), the period covered must be specified. The reporting period can cover parts of two calendar years.

Investments, interests in real property, business positions held, and income (including loans, gifts, and travel payments) received during the period covered by the statement must be reported. Do not change the preprinted dates on Schedules A-1, A-2, and B unless you are required to report the acquisition or disposition of an interest that did not occur during the period.

As described above, business positions are required to be disclosed regardless of percentage of ownership.

The reference pamphlet describes a business entity and a conflict of interest as follows:

> **Business Entity**: Any organization or enterprise operated for profit, including a proprietorship, partnership, firm, business trust, joint venture, syndicate, corporation, or association. This would include a business for which you take business deductions for tax purposes (for example, a small business operated in your home).
>
> **Conflict of Interest**: A public official or employee has a conflict of interest under the 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;
> - 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 corpo-

ration 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 a nonprofit public benefit corporation operating a charter school are prohibited from engaging in a self-dealing transaction and are subject to judicial sanctions 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 isn't 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 there 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.

Sample Charter School Conflict of Interest Policy

The following is a sample charter school conflict of interest policy that adopts the Political Reform Act of 1974 and California Government Code sections 81000 - 91015. This sample also identifies those who must report conflicts of interest using Form 700, Statement of Economic Interests, including consultants. To download a Microsoft Word version of the policy, click here.

Conflict of Interest Code

Name

Address

City, State, Zip

CONFLICT OF INTEREST CODE

XYZ Charter School

__________ Date

The Political Reform Act, Government Code sections 81000 - 91015, requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission (FPPC) has adopted a regulation, California Code of Regulations, Title 2, Division 6, Section 18730 (hereinafter CCR 18730), which contains the terms of a standard conflict of interest code. It can be incorporated by reference and may be amended by the FPPC after public notice and hearings to conform to amendments in the Political Reform Act. Therefore, the terms of CCR 18730 and any amendments to it adopted by the FPPC are hereby incorporated by reference and, along with the attached appendix, in which members and employees are designated and disclosure categories are set forth, constitutes the conflict of interest code of XYZ Charter School.

____

(Name/Title of Charter School President)

APPENDIX

Appendix Attachment Wording:

Officials Who Manage Investments

Agency officials who manage public investments as defined by 2 CCR 18701(b) are NOT subject to the agency's code but are subject to the disclosure requirements of the Political Reform Act (Government Code 81000 - 91015). These positions are listed here for information only.

It has been determined that the positions listed below are officials who manage public investments:

- Members of the Board of Directors
- Executive Director
- Director of Finance[1]

[1] Individuals in this position may contact the FPPC for assistance or written advice regarding their filing obligations if they believe that their position has been categorized incorrectly. The FPPC makes the final determination regarding whether a position is covered by Government Code section 87200.

Designated Positions (Examples)
Governed by the Conflict of Interest Code

Designated Employees Title or Function	Disclosure Schedules
Assistant Manager	A-1, A-2, B, C, D, E, F
Chief of Operations	A-1, A-2, B, C, D
Engineer	A-1, A-2, B, C,
General Counsel	A-1, A-2, B, C, D, E, F
Personnel Officer	A-1, A-2, B, C, D, E, F
Purchasing Agent	A-1, A-2, B, C, D

Consultants shall be included in the list of designated employees and shall disclose pursuant to the broadest disclosure category in this code, subject to the following limitation:

> The [Executive Director/President/General Manager] may determine in writing that a particular consultant, although a designated position, is hired to perform a range of duties that are limited in scope and thus is not required to fully comply with the disclosure requirements described in this section. Such written determination shall include a description of the consultant's duties and, based on that description, a statement of the extent of disclosure requirements. The [Executive Director/President/General Manager's] determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code.

Disclosure for designated employees pursuant to Schedule E, Gifts, shall be limited to gifts with a value of $50 or more received from persons doing business with the [Charter School/Nonprofit/Department].

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.

If the charter school's governing board has determined that a particular type of expenditure serves a public purpose, the courts will almost always defer to that determination. Thus, if the charter school has a board policy stating that specific items are allowable (e.g., scholarships), it is more probable that the expenditure will be considered allowable.

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.

Chapter 7 – 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.

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 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 interdepartment loans, transfers and other commingling transactions sufficiently to avoid the blending of funds.

Charter schools should have a policy that prohibits commingling funds to such an extent that they become blended. The policy should allow funds to be shared or loaned only among a related group of charter schools operating under a single nonprofit with one federal identification number. In such a case, the charter school would need an interfund transaction policy and procedure that defines how interfund transactions should be processed and recorded.

A policy on commingling of funds should state:

> The charter school prohibits commingling funds to such an extent that the funds become blended. Interfund, interschool, or interdepartment loans and due-to and due-from transactions are allowable. For purposes of this policy, blending means that the identity, origin, and source of the funds are lost or unidentifiable.

If there is no intent to share resources between related charter schools operated by a nonprofit, the charter school's policy should state:

> Each charter school will operate as a financially independent entity; therefore, interfund, interschool or interdepartment loans and due-to/from transactions are prohibited.

Chapter 8 — Related Organizations and Intraorganizational Loans

Charter School-Related Organizations

Individual charter schools or nonprofits that operate multiple charter schools often have other related support organizations that contribute resources to the charter schools. Charter school-related organizations typically are nonprofit organizations such as foundations or charter management organizations (CMOs), or for-profit entities known as education management organizations (EMOs). Charter school-related organizations may or may not operate under their own federal identification numbers, are typically separate business entities, yet are often under common control because they share board members and management with the charter.

Charter management organizations, foundations, and EMOs (collectively called charter school-related organizations, or CSROs) that have an economic interest in and control of a charter school may be consolidated with the charter school for financial reporting purposes. Before it considers forming a CSRO, a charter school should consult with its legal counsel, its independent auditor, and its authorizer to determine if the relationship between the entities may require or give it the option to issue consolidated financial statements.

As supporting organizations, CSROs do not typically educate students or receive state student attendance-based funding. Because of this, under no circumstances should charter schools loan or transfer funds to these organizations or any similar entity.

CSROs often act as pass-through entities and own facilities or enter into facilities leases on behalf of charter schools, then rent the facilities to the charter schools they support, and fundraise for the charter schools. Any time a charter school is supported by a related organization, the two entities and their governing boards should sign clear, written contractual agreements.

All CSRO's should be fully described in detail and disclosed in a charter school's annual independently audited financial statements.

CSRO Management Fees

A CSRO may charge a charter school fees for the legitimate, contractually agreed upon services it provides to the charter school. The CSRO and the charter school should have an MOU that clearly describes the services for which a CSRO charges, the arrangement for how the CSRO will be paid, provisions for termination of services, and other standard contract clauses such as indemnification and severability.

If the CSRO's fees will be based on a percentage of the charter school's revenue, the CSRO should include in its proposal documents submitted to the charter school governing board a detailed analysis of which categories of charter school revenue will be included when calculating the fee structure percentage and how that percentage and the services provided compare to other charter school fee structures.

The CSRO should invoice the charter school based on the terms of the contract, and ensure that each invoice identifies which services or deliverables are completed, the percentage of work in process, and the percentage of services or deliverables remaining.

Loans to and from CSROs and Charter Schools

A charter school should not loan or transfer any funds to its CSRO; however, CSROs may loan or transfer funds to charter schools.

A charter school should have a policy that prohibits it from loaning or transferring funds to related or unrelated support organizations. The policy should state:

> The charter school is prohibited from loaning or transferring any funds from the charter school to any related or unrelated support organization such as charter school-related organizations.

Intraorganization Receivables and Payables or Loans

Charter schools depend heavily on government funding. Charter school networks operating under the same federal identification number may experience funding shortfalls, government revenue reductions, or funding deferrals that may cause cash shortages. When a nonprofit operates multiple charter schools under a single federal identification number, intraorganization loans may be permissible.

An intraorganization loan policy authorizes the use of intraorganization receivables and payables/loans so that resources can be allocated from within the organization's charter school network and central office to ensure uninterrupted educational services and to safeguard against funding shortfalls.

Intraorganization Transactions

The CFO or CFO's designee should monitor cash balances daily for the charter schools. When there may be a need for funds at a school or the central office, the CFO should assess the funds available for all charter schools as well as the central office. If a school or central office does not have sufficient funds, the CFO may, with board approval, temporarily transfer funds from a charter school that has surplus funds to another charter school and/or the central office.

As long as funds are not blended (i.e., as long as their identity, origin and source remain known and identifiable), loans between charter schools and school sites, interfund, interschool, interdepartment, or intraorganization loans, or due-to/from receivable/payable transactions are allowable.

The CFO should review all intraorganization receivables and payables and ensure that all such transactions' balances and the origin, source and use the funds are clear and open, auditable, and accountable. At the CFO's discretion, intraorganization receivable and payable funding may be via wire transfer, check, or other approved method.

At the end of the fiscal year, each school's receivable or payable loan account (also known as due to/due from account) should be reconciled. Once balances are reconciled, any charter school or central office intraorganization receivable or payable balance that is not fully repaid as of the close of the fiscal year may result in and be subject to an intraorganization loan agreement. Intraorganization loan agreements between each school and the central office are prepared at the end of the fiscal year to formally document the amount owed between the intracompany accounts and the repayment terms.

Intraorganization receivables and payables terms include the following:

- All intraorganization receivables and payables that may be settled or result in a zero balance as of the end of the fiscal year are not subject to any repayment terms or interest accruals.
- Any intraorganization receivables and payables that are not settled to a zero balance as of the end of the fiscal year should be converted to intraorganization loan agreements, with terms that include a reasonable interest rate, monthly or quarterly payments, and a specific duration. The final settlement terms should be determined no later than two months after the close of the fiscal year and are subject to approval by the governing board at its next meeting but before the fiscal year-end independent audit report is completed.

A sample intraorganization loan agreement is provided below, and may be downloaded in MIcrosoft Word format by clicking here.

INTRAORGANIZATION LOAN AGREEMENT

$ _____________ (AMOUNT) ______________________ (DATE)

FOR VALUE RECEIVED, the undersigned, (the "Maker"), hereby promises to pay to the order of _____________________ (NAME) ("Payee"), the principal sum of $ ____________ pursuant to the terms and conditions set forth herein.

PAYMENT OF PRINCIPAL. The principal amount of this intracompany agreement (Agreement) and any accrued but unpaid interest shall be due and payable in ________ (NUMBER OF PAYMENTS) (CIRCLE ONE: equal monthly installments / equal quarterly installments / payments as described below) beginning______________________ (DATE OF FIRST PAYMENT).

All payments under this Agreement shall be applied first to accrued but unpaid interest, and next to outstanding principal. If not paid sooner, the entire remaining indebtedness (including accrued interest) shall be due and payable on _______________________ (DATE OF FINAL PAYMENT).

INTEREST. This Agreement shall bear interest, compounded annually, at______________ (ANNUAL INTEREST RATE) percent.

PREPAYMENT. The Maker shall have the right at any time and from time to time to prepay this Agreement in whole or in part without premium or penalty.

REMEDIES. No delay or omission on part of the holder of this Agreement in exercising any right hereunder shall operate as a waiver of any such right or of any other right of such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The rights and remedies of the Payee shall be cumulative and may be pursued singly, successively, or together, at the sole discretion of the Payee.

STATE DEFERRAL OF REVENUES. If the Maker's state apportionment revenue is subject to payment deferral by order of statue, then the Maker may defer payment to the Payee with no penalty incurred until the Maker receives said deferred funds.

EVENTS OF ACCELERATION. The occurrence of any of the following shall constitute an Event of Acceleration by Maker under this Agreement:

(a) Maker's failure to pay any part of the principal or interest as and when due under this Agreement unless due to state deferrals; or

(b) Maker's becoming insolvent or not paying its debts as they become due.

ACCELERATION. Upon the occurrence of an Event of Acceleration under this Agreement, and in addition to any other rights and remedies that Payee may have, Payee shall have the right, at its sole and exclusive option, to declare the entire remaining amount due under this Agreement to be due and payable immediately.

SUBORDINATION. The Maker's obligations under this promissory Agreement are subordinated to all indebtedness, if any, of Maker, to any unrelated third party lender to the extent such indebtedness is outstanding on the date of this Agreement and such subordination is required under the loan documents providing for such indebtedness.

WAIVERS BY MAKER. All parties to this Agreement, including the Maker and any sureties, endorsers, and guarantors, hereby waive protest, presentment, notice of dishonor, and notice of acceleration of maturity, and agree to continue to remain bound for the payment of principal, interest and all other sums due under this Agreement, notwithstanding any change or changes by way of release, surrender, exchange, modification or substitution of any security for this Agreement or by way of any extension or extensions of time for the payment of principal and interest; and all such parties waive all and every kind of notice of such change or changes and agree that the same may be made without notice or consent of any of them.

EXPENSES. In the event any payment under this Agreement is not paid when due, the Maker agrees to pay, in addition to the principal and interest hereunder, reasonable attorneys' fees not exceeding a sum equal to 15% of the then outstanding balance owed on the Agreement, plus all other reasonable expenses incurred by the Payee in exercising any of its rights and remedies upon default.

GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

SUCCESSORS. All of the foregoing is the promise of Maker and shall bind Maker and Maker's successors, heirs and assigns; provided, however, that Maker may not assign any of its rights or delegate any of its obligations hereunder without the prior written consent of the holder of this Agreement.

IN WITNESS WHEREOF, Maker has executed this promissory Agreement as of the day and year first above written.

Maker: ______________________________ Payee: ______________________________

(Signature) (Signature)

______________________________ ______________________________

(Maker's NAME) (Payee's NAME)

Chapter 9 — California Nonprofit Integrity Act: Senate Bill 1262

A charter school is considered an educational institution; however, it is also operated as or by a nonprofit corporation. Most nonprofit corporations in California must comply with Senate Bill (SB) 1262, also known as the California Nonprofit Integrity Act (religious organizations, cemeteries, hospitals, and educational institutions are excepted). If the nonprofit corporation has not identified itself as a school or educational institution, it is subject to SB 1262. However, if a charter school uses a fundraising counsel or commercial fundraiser, then SB 1262 applies. Additional information about SB 1262 is provided at the end of this chapter.

A nonprofit's IRS Form 990, Schedule A, Part I, lists the reasons for its charitable status. If the reason selected is "A school described in section 170(b)(1)(A)(ii)" of the Internal Revenue code, the nonprofit is most likely a school.

Most charter schools are not required to follow SB 1262; however, SB 1262 guidelines are considered a best practice and should be followed.

Audit and Compensation Review – $2 Million Threshold

A nonprofit that accrues or receives in any fiscal year gross revenue of $2 million or more is required by SB 1262 to undergo an audit and compensation review (however, the fundraising counsel provision of SB 1262 applies to nonprofits with lower gross revenues). Grants or contract income from government sources is not included in the gross revenue determination as long as the governmental entity from which the money is received requires an accounting of those funds.

Audit and Independent Auditor

- The audit must be performed by a certified public accountant (CPA) in accordance with generally accepted accounting principles (GAAP).
- The auditor must be an independent auditor; this means the auditor must conform to the standards of independence set forth in Governmental Auditing Standards, issued by the Comptroller General of the United States.
- The audited financial statements must be available for inspection by the general public and are subject to the same inspection rules as is the nonprofit's IRS Form 990. These rules are as follows:
  - Must be made available to the general public for a period of three years.
  - Must be made available at the nonprofit's principal, regional, or district offices during regular business hours.
  - A copy must be mailed to any person who requests a copy either in person or in writing.
- Best practice is to post the audited financial statements on the charter school's or nonprofit's website.

Audit Committee (required if SB 1262 applies)

- A nonprofit that is a corporation must establish an audit committee appointed by its governing board.
- The audit committee may include non-board-members and members of the finance committee; however, the chairperson of the audit committee cannot be a member of the finance committee, and the members of the finance committee must make up less than half of the audit committee.

- The audit committee may not include any member of the top management or any person who has a material financial interest in any entity doing business with the nonprofit.
- If the audit committee members are paid, they may not receive more compensation than members of the governing board. Best practice is to not pay audit committee or board members.
- The audit committee's duties are:
  - Recommend to the governing board the retention or termination of the auditor.
  - Negotiate the audit fee on behalf of the board.
  - Meet and confer with the auditor(s) to satisfy the audit committee members that the charitable organization's financial affairs are in order.
  - Review the audit and determine whether to accept it.
  - Approve any performance of additional nonaudit services by the auditing firm.

Compensation Review – CEO and CFO

- If the nonprofit meets the $2 million threshold, the compensation and benefits of its chief executive officer (CEO) and CFO/treasurer must be reviewed and approved by the governing board or an authorized committee.
- The purpose of the review of CEO and CFO compensation is to determine whether the compensation is "Just and Reasonable." The review must occur when the officers are hired, when their employment is renewed or extended, and when compensation is modified unless the modification applies to substantially all employees.
- The best practice for a nonprofit is to not compensate its officers or board members.

Fundraising Counsel or Commercial Fundraiser Provision

All nonprofits, including charter schools that are operated as or by a nonprofit, must comply with SB 1262 requirements when engaging a fundraising counsel and commercial fundraiser. Form CT-3CF, Fundraising Counsel for Charitable Purposes, and instructions for registering a fundraising counsel, are available from the Office of the Attorney General at www.oag.ca.gov.

A fundraising counsel or commercial fundraiser is an entity that for some form of compensation plans, manages, advises, consults or prepares materials to solicit funds for the nonprofit. A fundraising company can be considered a fundraising counsel or commercial fundraiser.

If a nonprofit considers using a fundraising counsel or commercial fundraiser, the nonprofit must meet many specific requirements. Nonprofits should research the details of these requirements.

The best practice for nonprofits that operate charter schools is not to use a fundraising counsel or a commercial fundraiser. The charter school's governing board must approve the use of any fundraising counsel or commercial fundraiser.

Nonprofits should always consult with the Office of the Attorney General (www.oag.ca.gov) for the latest requirements for a fundraising counsel or a commercial fundraiser. At the time of this manual's publication, the requirements included the following:

- Establish and exercise control over all fundraising activities including the fundraising activities of others that the charter school/nonprofit is sponsoring, helping, or allowing to use the nonprofit's or charter school's name.
- The control must include approval of all written contracts, and the charter school/nonprofit must make sure that the fundraising activities are conducted without coercion.
- The charter school/nonprofit may not contract with any commercial fundraiser that is not registered as required with the attorney general's Registry of Charitable Trusts. The best practice is to request a copy of any commercial fundraiser's Registry of Charitable Trust, Form RRF-1, and search at www.oag.ca.gov to ensure the fundraiser is in good standing, which means it has complied with all of its explicit obligations and has unabated powers to conduct activities.
  - A commercial fundraiser is any individual, corporation, unincorporated association, or other legal entity that solicits funds, assets or property in California and receives or controls the funds, assets, or property for charitable purposes.
  - If a charter school/nonprofit contracts with a commercial fundraiser, the charter school/nonprofit must submit a notice of a solicitation campaign to the attorney general's Registry of Charitable Trusts at least 10 days prior to the event, campaign, or other services.
  - The notice of solicitation campaign must include the name and address of the charter school/nonprofit, the charitable organization to be served, and the date when the services begin and end.
- The charter school, nonprofit, or commercial fundraiser may not misrepresent the purpose of the organization, the fundraiser, or the nature or beneficiary of the fundraising solicitation. Because misrepresentation may be established verbally by word, conduct, or failure to disclose a material fact, the best practice is for the charter school/nonprofit to always be clear and open about everything it does.
- There must be a clear written contract between the fundraising counsel and the charter school/nonprofit.
  - The nonprofit is most likely set up to serve the charter school, which may be considered the charitable organization to be served.
  - The contract must be signed by the authorized contracting officer for the fundraising counsel and by an official who is authorized to sign by the charter school or nonprofit governing board.
  - The contract must also contain the following two cancellation provisions:
    - The charter school or nonprofit must be allowed to cancel the contract without cost, penalty or liability up to 10 days after signing the contract. The cancellation notice must be in writing.
    - The contract must permit the charter school or nonprofit to terminate the contract on 30 days' written notice, and the notice of cancellation will be effective five days from the date of mailing. The charter school or nonprofit is, however, liable for the service of the fundraising counsel up to the date of termination.

Chapter 10 — General and Administrative Policies and Procedures

Potential Financial Fraud and Misconduct

A strong, organizationwide and management-led ethical culture should be 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 *Blacks 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)

Blacks 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 CEO. The CEO 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.

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 and the finance manager 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. When possible, the accounts receivable aging and accounts payable aging reports should accompany the cash flow report.

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 is responsible for maintaining current financial statements. The CFO, CEO, and the governing board should review the financial statements regularly; monthly is recommended. This will help ensure understanding and the ability to answer any questions when the reports are presented to the governing board.

The 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.

Retention and Management of Files and Records

It is important to have procedures regarding retention of files and records, including which records should be kept and which can be destroyed.

A charter school should establish a policy that departments and employees can follow when determining and identifying which records should be preserved. The policy should include a records retention schedule, which is a list of all records produced or maintained by an agency and the actions taken with those records. A retention schedule is an agency's legal authority to receive, create, retain, and dispose of official public records. It helps the agency by documenting which records require office or temporary storage, which have historic or research value, and which should be destroyed because they no longer have any administrative, fiscal or legal value. In the event of litigation, courts accept a retention schedule as establishing an agency's normal manner of doing business.

Filing System, Record Class, Email, and Other Electronic Records

Filing System

Unless necessary, records should be kept only by their originator or sender, not by the receiver; this helps avoid duplicate filing systems. FCMAT also recommends:

- Keep all documentation and records for each year separate from those for other years.
- Label folders, and use separate folders for different types of documents (e.g., keep invoices separate from bank reconciliation worksheets, and keep income tax returns separate from cash receipts).
- **Record Class**: Adhere to the following record classes to optimize filing efficiency, records access, record classifications, and retention periods:
    - **Class 1: Permanent Records.** Permanent records should be kept indefinitely in accordance with statute or other written guidance.
    - **Class 2: Optional/Temporary Records.** Optional records are any records worthy of temporary preservation not classified as Class 1, Permanent records.
    - **Class 3: Disposable Records.** All records not classified as Class 1: Permanent, or Class 2: Optional/Temporary, shall be classified as Class 3: Disposable.
    - **Email Class Records.** Retain all email records of the charter school for a maximum of one fiscal year beginning July 1 and ending June 30 of the year after the email was created. For example, if the email was created in February 2017, during fiscal year 2016-2017, the email would not be deleted until the end of the 2017-2018 fiscal year, or June 30, 2018. All emails older than one fiscal school year after the year the email was created should be automatically deleted from the charter school's email system, servers, backup servers, and any other electronic storage system as early as the first day of the subsequent fiscal school year. The subsequent fiscal school year is defined as beginning on July 1.
    - Should any email be determined to be retained longer than one fiscal year beyond the date the email was created, the email should be archived in the email system, or printed and filed.
    - **Other Electronic Records**: Other electronic records are electronic records saved on a hard drive, flash drive, or other electronic storage medium of the staff or individual who retains the record

in its final form. Any electronic record not classified as Class 1: Permanent or Class 2: Optional/Temporary shall be classified as Class 3: Disposable. Once an electronic record is considered Class 3: Disposable, employees will conduct a reasonable search of all electronic sources of information (computer hard drives, flash drives, servers, compact discs and other electronic media) in their possession and shall delete those electronic records permanently.

Record classes 1 through 3 are described and defined in further detail later in this manual.

Records Retention

Files should be maintained for as long as necessary but only according to requirements set in the charter school's records retention policy.

Copies of critical records that are vital to the charter school's daily operations should be kept off site in case of disaster. This may include information needed to file insurance claims (asset lists, insurance contacts, policy numbers), financial data for tax purposes (wages paid, income and expenses), contact lists to inform or restart the business (vendors, customers, investors and employees), and other data to help rebuild the business (business plans, intellectual property, or proprietary information).

Destruction of Class 3: Disposable Records

Within three to six months after the end of each school year, all Class 3 records should be destroyed. In other words, **all records are to be preserved until they are deemed Class 3 records.**

FCMAT recommends that a list of records to be destroyed be circulated to all affected individuals for review and comment 30 days prior to destruction. The list of records destroyed should be maintained permanently.

Destruction of the files or records can be performed by an independent, outside service to prevent reconstruction of the records. Disposal of records into the charter school's trash should not be allowed.

Disposal Period

All Class 3: Disposable records shall not be destroyed until after the third July 1 succeeding the completion of the charter school's annual independent audit required by Education Code or of any other legally required audit, or after the ending date of any retention period required by any agency other than the State of California, whichever date is later. For example, if the June 30, 2015 annual independent audit were completed and issued by December 15, 2015, the third July 1 after completion of the audit would be July 1, 2018.

Unless otherwise specified in policy, all Class 3: Disposable records shall be destroyed during the third school year after the school year in which they originated (e.g., 2014-15 records may be destroyed after July 1, 2018).

When in doubt about when a record should be disposed of or destroyed, do not destroy a nonpermanent record until seven years after the end of the fiscal year in which the record was created. For example, if a document was created in February 2016, the end of the fiscal year is June 30, 2016; therefore, the document would not be destroyed until July 1, 2023 or later.

Examples of Class 1, 2 and 3 Records

Class 1: Permanent Records — Do Not Destroy

A. Annual Reports

- Official budget.
- Financial report of all funds, including cafeteria and student body funds.

- Audit of all funds.
- Average daily attendance, including reports for the first and second interim reporting periods (P-1 and P-2).
- Other major annual reports, including:
  - Those containing information about property, activities, financial condition, or transactions.
  - Those the governing board has declared permanent.

B. Official Actions

- Minutes of the governing board or committees thereof, including the text of a rule, regulation, policy or resolution not set forth verbatim in the minutes but included therein by reference.
- Elections, including the call for and the result (not including detail documents such as ballots) of an election called, conducted or canvassed by the governing board for a board member, his or her recall, issuance of bonds incurring any long-term liability, change in maximum tax rates, reorganization, or any other purpose.
- Records transmitted by another agency that pertain to that agency's action with respect to the charter school's reorganization.

C. Personnel Records (Employees)

- All employee records related to employment, assignment, amounts and dates of service rendered, termination or dismissal, sick leave, rate of compensation, salaries or wages paid, and deductions or withholdings made and the person or agency to whom such amounts were paid. In lieu of detailed records, a complete and accurate summary payroll record for every employee of the school district containing the same data may be classified as Class 1: Permanent, and the detailed records may then be classified as Class 3: Disposable.
- Information of a derogatory nature as defined in Education Code section 44031 shall be Class 1: Permanent only after it becomes final. This information becomes final when:
  - The time for filing a grievance has lapsed, or
  - The document was for a grievance that has been sustained by the grievance process.

D. Pupil Records

- The enrollment and scholarship records for each pupil.
- All records pertaining to any accident or injury involving a minor and for which a claim for damages has been filed as required by law, including any policy of liability insurance relating thereto, except that these records cease to be Class 1: Permanent records one year after the claim has been settled, or sooner if the statute of limitations has run out.
- Any item of information in any form (i.e., written, electronic, or other) that is directly related to a current or former pupil and is maintained by the charter school is considered a pupil record.

E. Property and Insurance Records

- All detailed records related to land, buildings and equipment. In lieu of such detailed records, a complete property ledger may be classified as Class 1: Permanent, and the detailed records may then be classified as Class 3: Disposable, if the property ledger includes the following:
  - All fixed assets.

    - An equipment inventory.
- For each item of property, the date of acquisition or augmentation, the person from whom acquired, an accurate description or identification, and the amount paid. Comparable information is required if the unit is sold, lost, or otherwise disposed of.
- Keep all insurance records. Insurance policies are contracts and should be retained indefinitely. Certain lawsuits may go back many years.

F. Historical records.

- Articles of incorporation
- IRS nonprofit determination letter
- Administrative guides
- Annual reports
- School employee directories
- Employee newsletters and handbooks
- Educational objectives, charter school goals and reaffirmation of loyalty
- Racial and ethnic surveys
- Yearbooks and other school publications
- All unique or old administrative and instructional publications
- All identified or identifiable photos of charter school people, places and events
- All unique or old documents or publications about the history of the charter school

Class 2: Optional/Temporary Records

Any record worthy of temporary preservation but not classified as Class 1: Permanent may be classified as Class 2: Optional/Temporary and shall then be retained until reclassified as Class 3: Disposable.

If the CFO, charter school president, or governing board decide that classification should not be made, all records of the prior year may be classified as Class 2: Optional/Temporary, pending further review and classification within one year. Optional/Temporary records may include records considered useful for administrative, legal, fiscal or other purposes, and they may remain Optional/Temporary for a period of years.

Examples of Optional/Temporary records include:

A. Gross receipts

Gross receipts show the income received. The charter school should keep supporting documents that show the amounts and sources of gross receipts, such as the following:

- Cash register tapes (e.g., for student store sales)
- Bank deposit slips
- Receipt books
- Invoices
- Credit card charge slips
- Forms 1099-MISC, Miscellaneous Income

- Other cash receipts such as cash count forms and receipt books

B. Inventory

Inventory is a record of any item purchased and resold to customers, even if it is for fundraising. If the charter school is the manufacturer or producer of an item, the inventory includes the cost of all raw materials or parts purchased for manufacture. Supporting documents should show the amount paid and that the amount was for inventory. Documents that report the cost of inventory include the following:

- Canceled checks
- Cash register tape receipts
- Credit card sales slips and invoices

These records help a charter school determine the value of its inventory at the end of the year.

C. Expenses

Expenses are the costs incurred (other than the cost of inventory) to carry on the charter school's business. Supporting documents should show the amount paid and that the amount was a business expense. Documents include the following:

- Canceled checks
- Cash register tapes
- Account statements
- Credit card sales slips
- Invoices
- Petty cash slips for small cash payments

D. Travel, transportation, entertainment, and gift expenses

Specific recordkeeping rules apply to these expenses. For more information, see IRS Publication 463.

E. Employment taxes

Specific employment tax records must be retained. For a list, see IRS Publication 15.

- Keep employment tax records for at least four years after the date the tax is due or is paid, whichever is later.

F. Assets

Assets are the property the charter school owns and uses, such as real estate, machinery and furniture. A charter school must keep records that verify certain information about its assets. These records are needed to determine annual depreciation and the gain or loss when assets are sold.

Asset records should show the following information:

- When and how the asset was acquired
- Purchase price
- Cost of any improvements

- Deductions taken for depreciation
- Deductions taken for casualty losses, such as losses from fires or storms
- How the asset was used
- When and how the asset was disposed of
- Selling price
- Expenses of sale

The following documents may provide this information:

- Purchase and sales invoices
- Real estate closing statements
- Canceled checks

G. Other

- General ledger detail report
- All bank records (e.g., bank statements and bank reconciliations)
- All income tax returns
- All minutes of all charter school meetings

H. Record retention time limits – IRS nonprofit tax return standards

To help nonprofits follow its record retention requirements for documents related to filing nonprofit tax returns, the IRS provides guidance for how long records should be kept. Record retention time limits for income tax returns offer the best guidance because most recordkeeping is to comply with IRS requirements.

1. Keep records for three years if situations 4, 5, and 6 below do not apply to the nonprofit.
2. If the nonprofit files a claim for a credit or refund after having filed its return, keep records for three years from the date the original return was filed or two years from the date the tax was paid, whichever is later.
3. If the nonprofit files a claim for a loss from worthless securities or a deduction for bad debt, keep records for seven years.
4. If the nonprofit does not report income that it should have reported, and that income is more than 25% of its gross income shown on its return, keep records for six years.
5. If the nonprofit does not file a return, keep records indefinitely.
6. If the nonprofit files a fraudulent return, keep records indefinitely.

Class 3: Disposable Records

All records not classified as Class 1: Permanent or Class 2: Optional/Temporary shall be classified as Class 3: Disposable, including but not limited to the following:

- Records essential to an audit, including those related to attendance, average daily attendance, or business or financial transactions (e.g., purchase orders, invoices, warrants, ledger sheets, canceled checks and stubs, and student body and cafeteria fund records), and detailed records used in the preparation of any other report.

- Teachers' registers may be classified as Class 3: Disposable only if all pupil information associated with the teachers' registers is retained in other records or if the pupil record information is removed from the teachers' register and is classified as Class 1: Permanent.
- Periodic reports including daily, weekly, and monthly reports, bulletins and instructions.

Federal Funds

United States Code, Title 20, Section 1232f (a) states:

> Each recipient of federal funds under any applicable program through any grant, subgrant, cooperative agreement, loan, or other arrangement shall keep records which fully disclose the amount and disposition by the recipient, of those funds, the total cost of the activity for which the funds are used, the share of that cost provided from other sources, and other records as will facilitate an effective financial or programmatic audit. The recipient shall maintain such records for three years after the completion of the activities for which the funds are used.

Title 20, Section 1232f (b) states,

> The Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access, for the purpose of audit examination, to any records maintained by a recipient that may be related, or pertinent to, grants, subgrants, cooperative agreements, loans, or other arrangements to which reference is made in subsection (a) of this section, or which may relate to the compliance of the recipient with any requirement of any applicable program.

Electronic Records

For purposes of this policy, an electronic record is defined as a computer-generated record. This means an email, pdf, Microsoft Excel, Word, or PowerPoint file, JPEG, WAV, or other file created using computer software or hardware and stored in any electronic medium including but not limited to magnetic, tape, disc, or other type of drive device, or cloud-based storage. A paper printout of an electronic record is not considered an electronic record.

Records Not Subject to Records Retention

The following are not considered records and therefore are not covered by the records retention policy and may be destroyed at any time by any member of the charter school:

- Preliminary drafts and informal notes that have no further value to the charter school.
- Personal notes and personal correspondence, including personal email correspondence, even if it is created or sent using a charter school computer or on the charter school's premises.
- Personal financial or tax information, or any other information of a purely personal nature, even if those records are kept on the charter school's premises or on its computers.
- Advertisements, spam or junk email of any kind received by the charter school or any charter school employee or computer.
- Library books, magazines, and pamphlets not prepared by or for the charter school.
- Textbooks, maps used for instruction, and other instructional materials.
- Any other document (paper or electronic, including email) that has nothing to do with the charter school's business or with its students, teachers, management, other employees, or contractors.

Litigation Hold

In the event of a threatened or pending lawsuit, the charter school may be required by law to retain records, including emails, beyond the established retention period so that they remain subject to legal discovery. Consult legal counsel if such a demand is received, and do not dispose of the records until advised by counsel.

Expense Reimbursements

Reimbursements for purchases and travel should be made according to guidelines set by the charter school. Reimbursements apply to both employees and board members.

The following are sample guidelines:

Charter school principals are responsible for reviewing and approving all reimbursements pertaining to their schools, up to $1,000. The CFO is responsible for approving all reimbursements for $1,000 to $3,000. The CEO is responsible for approving all reimbursements of more than $3,000.

Reimbursement steps are as follows:

- Submit accurate receipts and the completed and signed reimbursement or purchasing documentation such as the original invoice, purchase request, employee expense report or reimbursement request.
- Obtain authorization.
- Prepare and issue reimbursement payment, and file all paperwork.

Reimbursement receipts should be submitted monthly, and any receipt older than 60 days may not be reimbursed, at the discretion of the office manager.

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

Expense report forms must be filled out completely. Original receipts for items charged must accompany all reimbursement documentation. Any questions regarding completion of the expense report 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 report and all attached documentation should be submitted to the employee's supervisor for approval. After approval, the expense report is submitted to the accounting department for processing and reimbursement. To expedite reimbursement, ensure the report 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 reimbursement requests 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 charter school governing board. No travel reimbursements will be made in excess of the amount budgeted for such travel. Directors, principals, and manager of programs and sites are responsible for reviewing travel records and for giving initial approval for claims within the budget limits.

Every employee's or board member's reimbursement or purchase request should be documented with proper travel authorization, 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

A limit should be set on the number of personal reimbursements that can be made to any individual, and on the amount per reimbursement. 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 don't have a suspicious amount of payments being made to staff or board members. Although this is not a legal issue, it is a recommended best practice.

Gifts

Reimbursement for gifts of any kind is never allowed.

Other Expenditures

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

Nonreimbursable 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 nonreimbursable 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
- Shoe shines
- 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 at least 15 days in advance 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 at the most current IRS mileage rate. The employee should document in their expense report 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 for 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.

Car pools 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 can authorize the use of aircraft privately owned by an employee if the employee has a valid United States pilot license and carries insurance with at least minimum coverage for public liability and property damage as specified by the State of California. Reimbursement should be at the current approved rate per statute mile, applied to the shortest air route from origin to destination.

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 one example:

Employees traveling on approved charter school business may choose to be reimbursed for the actual costs of meals, or receive a per diem meal allowance. The actual and per diem cost of meals may not exceed $46 per day for breakfast, lunch, and dinner. Actual meal costs require receipts; per diem meal costs do not. Both actual and per diem meal reimbursement amounts are limited to the following maximums: breakfast, $11; lunch, $12; and dinner, $23. To qualify for reimbursement for either actual or per diem meal cost, the following leave and return time limits apply:

Breakfast: leave before 6:30 a.m.

Lunch: leave before 11:30 a.m., or return after 1:30 p.m.

Dinner: leave before 4 p.m., or return after 6:30 p.m.

Officers of the charter school may include in their request for reimbursement the actual cost of meals for guests, at their discretion, when those meals are for charter school business. When officers are being reimbursed per diem for meals and pay for guests' meals, the reimbursement amount must not include the officer's meal because its cost is already being reimbursed under the per diem arrangement.

For non-per diem meals, a 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 should 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 reimbursement 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 reimbursement 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.

Nonreimbursable 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.

A sample travel expense report form is shown on the next page and may be downloaded in Microsoft Word format by clicking here.

Sample Travel Expense Report Form

Name		Department	
Email		Approved by	
Employee ID		Purpose	

TRIP HOURS	Dates	Hours	How spent

EXPENSES	Dates	Details	Amount
Transportation			$
			$
			$
			$
Own car			$
Lodging			$
			$
			$
			$
Meals			$
			$
			$
			$
Conference fees			$
			$
Other			$
			$
			$
			$
		Subtotal	$
		Less amount paid by charter school	$
		Total amount owing to employee	$

Employee Signature	Date
Office Manager Signature	Date

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

The proper insurance levels and terms of these policies should be determined based on the value of the assets at risk and the requirements of the charter authorizer.

The general liability insurance coverage should be no less than:

- General aggregate — $2,000,000 (annual)
- General liability — $1,000,000 (per occurrence)

Other insurance that should be considered includes coverage for the following:

- Sexual harassment
- Discrimination
- Mismanagement of employee benefit plans
- Wrongful discipline
- Wrongful terminations
- Negligent evaluations
- Breach of employment contract
- Failure to employ or promote
- Deprivation of career opportunity
- Infliction of emotional distress

Insurance policies are contracts and should be saved in a permanent file and retained indefinitely. They should also be reviewed regularly to ensure they provide adequate coverage as situations change.

Public and Confidential Information and Document Control

The charter school should determine which information is public and which is confidential. The release of any information, public or confidential (if subpoenaed), should be controlled.

All requests for information should be directed to the CFO or designated administrator, who will determine the appropriate response.

If the CFO is briefly unavailable (e.g., a meeting) when a charter school receives a request for confidential information by phone or in person, another employee should record the request in writing and forward the following to the CFO: the requester's name, organization, telephone number, address, reason for the request, and brief description of the information requested. If the CFO will be unavailable for more than one day, the request should be forwarded to the person the CFO has designated to receive such requests in their absence.

Public Information

Requests for financial information are usually for tax documents or financial statements. Charter schools are considered public agencies: they hold public board meetings, receive public funding, and submit their audited financial reports to the charter school's authorizer, the State Controller's Office, and the CDE, which are also public agencies. Thus a charter school's financial audit and tax documents are public documents and must be made available when requested.

In addition, anything that is part of a charter school's public board meeting (e.g., report or information) becomes public information.

Public Tax Reporting Information

Charter schools operated for and by a nonprofit public benefit organization must allow the public to inspect certain records.

All nonprofit organizations that are tax-exempt under IRS Code Section 501(c)(3) or 501(c)(4), including private foundations, must make the following documents available when requested by the public:

- Form 1023, Application for Recognition of Exemption Under Section 201501(c)(3) of the Internal Revenue Code.
- Form 990s (the three most recent Form 990s), Return of Organization Exempt from Income Tax.
- Copies of the information returns forms 990 and 1023 must usually be provided immediately when someone makes the request in person and within 30 days when the request is in writing. Any supporting documents submitted with these forms must also be provided, though the names and addresses of donors do not have to be disclosed. Forms 1023, 990, and any supporting documents may be posted on the organization's website or another public website rather than mailing copies, as long as:
  - The nonprofit can inform anyone requesting copies that the materials are widely available and that they can be found on the organization's website, or,
  - The materials can be posted and available at a public website database, such as GuideStar (www.guidestar.org), from which they may be downloaded free of charge.
  - A reasonable copying fee can be assessed when copies are requested.

The IRS has information about nonprofit organizations' tax reporting at https://www.irs.gov/charities-non-profits.

Public Information and Public Records Requests

Financial information not disclosed in a public board meeting may be considered confidential unless a public records request for it is received.

The California Public Records Act (Statutes of 1968, Chapter 1473, currently codified as California Government Code sections 6250 through 6276.48) requires inspection or disclosure of governmental records to the public upon request, unless exempted by law. The Public Records Act is similar to the Freedom of Information Act, except that the statement, “the people have the right of access to information concerning the conduct of the people’s business” is part of Article 1 of the California Constitution because of California Proposition 59 (also known as the Sunshine Amendment).

Any public records requests should be forwarded immediately to the CFO because they are time-sensitive and an attorney may need to be notified.

The League of California Cities prepared a public records act guide, revised April 2017, titled *The People’s Business: A Guide To the California Public Records Act*. The guide is available at: https://www.cacities.org/Resources/Open-Government/THE-PEOPLE%E2%80%99S-BUSINESS-A-Guide-to-the-California-Pu.aspx

Government Code Section 6250 states, “…access to information concerning the conduct of the people’s business is a fundamental and necessary right of every person in this state.”

Government Code Section 6252(e) defines a “public record” as:

> . . . any writing containing information relating to the conduct of the public’s business prepared, owned, used, or retained by any state or local agency regardless of physical form or characteristics.

Section 6252(g) defines writing in a public record as follows:

> “Writing” means any handwriting, typewriting, printing, photostating, photographing, photocopying, transmitting by electronic mail or facsimile, and every other means of recording upon any tangible thing any form of communication or representation, including letters, words, pictures, sounds, or symbols, or combinations thereof, and any record thereby created, regardless of the manner in which the record has been stored.

Personnel Information Requests

One staff person, such as the CFO, director of human resources, or other administrator, should oversee all responses to requests for references. No other employee, including a former employee’s immediate supervisor, should be allowed to respond independently to personnel information requests, unless the CFO, director of human resources, or designee directs them to do so, usually for the sake of continuity.

Some entities require that all requests for personnel information be made in writing and indicate the nature of the request. Information should not be provided over the phone. Charter schools should adhere to the following guidelines when responding:

- Only designated staff may respond.
- The CFO shall review all responses to ensure that only factual information about the employee’s job performance and qualifications for employment are included.
- Responses should not include opinions, conjecture, emotions, personal feelings, rumors, or non-work-related comments or exaggerations.
- Copies of each response should be retained in the employee’s personnel file.

Public Document Production and Copying

The charter school should comply with public access and document production requirements as follows:

- In-Person Requests

  Anyone who appears in person at the charter school's business office during normal working hours and makes a request to inspect allowable current year documents that are in the charter school's possession should be granted access to a file copy of the documents immediately if they are readily available, or within 24 hours if staff are not available to supervise the review of documents or if the documents are archived, in off-site storage or otherwise not readily available. The designated administrator (e.g., CFO or director of human resources) should be responsible for maintaining a copy of each document and making it available to all requesters.

- Written Requests

  For requests for copies of documents, if they are in the charter school's possession, the charter school should require payment in advance for the estimated cost of all copying and shipping charges. When a request is received without prepayment, the charter school should notify the requester of the prepayment requirement within seven days of receipt of the original request.

- Copying Costs

  Although there is no industry-standard amount to charge, one suggestion is to charge $1.00 for the first page copied and $0.25 for each subsequent page. All copies should be shipped to requester via postal Priority Mail, and the requester should be charged for the actual cost of shipping.

  Copying charges apply only to the cost of reproduction, not time spent searching for records. However, if electronic records are requested, the time needed to create an electronic version is reimbursable to the charter school. If the requester comes to the charter school to view requested records in person, the requester may pay only for the records they want copied.

  AB 2853 now permits agencies to make public records available electronically on a website, and the requester can be directed to the site rather than the charter school having to make copies or email records directly. If the requester claims they are unable to access files electronically and need a physical copy, the options above should be followed.

Timeline to Produce Information

A charter school should respond to a public records request within 10 days of the request. The response should indicate whether the charter school will reply to the response and state a reasonable estimated time for the production of the requested information.

As a general procedure, and depending on how many documents are being requested, the charter school's business office should make copies of the requested information and ship them to the requester within 30 days of receiving the request.

When a request for copies is made in person during normal business hours, copies should be provided while the requester waits if the documents are available and accessible if the request is for 25 pages or less. If the request is for more than 25 but less than 100 pages, the copies should be made available the next business day. If the request is for 100 or more pages, they should be available to the requester within 30 days after the request.

The charter school should accept cash, certified checks, and money orders as payment for requested copies. Personal checks should be accepted as payment only when the request is in writing; this enables the charter school to ensure that the personal check clears the bank before copies are made or delivered to the requester.

Maintenance Requests

A charter school may have contracts with various maintenance and repair services, or it may choose to have charter school staff (or district staff under a fee for service arrangement) perform maintenance or repair work.

Regardless of who performs the work, the CFO or CFO's designee should preapprove and authorize maintenance and repair requests; this can help control costs and ensure that appropriate contractors perform the work. Only authorized maintenance and repair contractors should repair, replace or adjust equipment and physical facilities.

Employees should submit all maintenance requests using a maintenance work order request form. A sample form is provided on the following page, and can be downloaded in Microsoft Word format by clicking here.

Maintenance Work Order Request Form

Maintenance Department

Requester Name: ______________________________ Date: ______________

Department: ______________________________ Telephone: ______________

Location: ______________________________ Urgent: Yes ______ No ______

Room: ______________

Approved by: ______________________________

Description of work requested:

____

____

____

____

____

—————————————— **Maintenance Use Only** ——————————————

Description of completed work order and material used:

____

____

____

____

____

Completed By: ______________________________ Date: ______________

Date Started: ______________________________ Time Started: ______________

Date Ended: ______________________________ Time Ended: ______________

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 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 – IRS and EDD

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.

If a charter school is not sure whether a vendor is an independent contractor or an employee, the IRS guidelines and criteria for determining this are available at https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee.

When determining whether the person providing service is an employee or an independent contractor, all information that provides evidence of the degree of control and independence must be considered. A "yes" answer to the first four questions on the checklist below indicates that the worker is probably an independent contractor. A "yes" answer to one or more of questions five through 20 of the checklist means the worker is probably an employee.

20-Point Checklist for Independent Contractor

1. Profit or loss. Can the worker make a profit or suffer a loss as a result of the work, aside from the money earned from the project? (This should involve real economic risk, not just the risk of not getting paid.)
2. Investment. Does the worker have an investment in the equipment and facilities used to do the work? (The greater the investment, the more likely the worker is an independent contractor.)
3. Works for more than one firm. Does the person work for more than one company at a time? (This tends to indicate independent contractor status but isn't conclusive because employees can also work for more than one employer.)
4. Services offered to the general public. Does the worker offer services to the general public?
5. Instructions. Do you have the right to give the worker instructions about when, where, and how to work? (This shows control over the worker.)
6. Training. Do you train the worker to do the job in a particular way? (Independent contractors are already trained.)
7. Integration. Are the worker's services so important to your business that they have become a necessary part of the business? (This may show that the worker is subject to your control.)
8. Services rendered personally. Must the worker provide the services personally, as opposed to delegating tasks to someone else? (This indicates that you are interested in the methods employed and not just the results.)
9. Hiring assistants. Do you hire, supervise, and pay the worker's assistants? (Independent contractors hire and pay their own staff.)
10. Continuing relationship. Is there an ongoing relationship between the worker and yourself? (A relationship can be considered ongoing if services are performed frequently but irregularly.)
11. Work hours. Do you set the worker's hours? (Independent contractors manage their own time.)

12. Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when and where they will work.)

13. Work done on premises. Must the individual work on your premises, or do you control the route or location where the work must be performed? (Answering no doesn't by itself mean independent contractor status.)

14. Sequence. Do you have the right to determine the order in which services are performed? (This shows control over the worker)

15. Reports. Must the worker give you reports accounting for his or her actions? (This may show lack of independence)

16. Pay Schedules. Do you pay the worker by the hour, the week, or the month? (Independent contractors are usually paid by the job or on commission, though some are paid an hourly rate.)

17. Expenses. Do you pay the worker's business or travel costs? (This tends to show control.)

18. Tools and materials. Do you provide the worker with equipment, tools, or materials? (Independent contractors usually supply the materials for the job and use their own tools and equipment.)

19. Right to fire. Can you fire the worker? (An independent contractor can't be fired without subjecting you to the risk of a breach of contract lawsuit.)

20. Worker's right to quit. Can the worker quit at any time without incurring liability? (An independent contractor has a legal obligation to complete the contract.)

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 U.S. 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.

1099 Reporting to Employment Development Department

All independent contractor Form 1099 payments must be reported to California's Employment Development Department (EDD). The EDD uses this information to locate parents who are delinquent in their child support obligations. See http://www.edd.ca.gov/payroll_taxes/independent_contractor_reporting.htm for the specific requirements.

The independent contractor reporting requirements apply if the charter school hires an independent contractor and if all three of the following statements are true:

- The charter school is required to file a Form 1099-MISC with the IRS for the services performed by the independent contractor.
- The independent contractor is paid $600 or more, or enters into a contract for $600 or more.
- The independent contractor is an individual or sole proprietorship.

If all the above statements are true, the independent contractor must be reported to the EDD within 20 days of when they were paid or when they were contracted for $600 or more in services. Independent contractors that are corporations, general partnerships, limited liability partnerships, or limited liability companies do not have to be reported to the EDD.

Reporting to the EDD is completed by filing Form DE 542, Report of Independent Contractor(s), which can be submitted electronically or on paper.

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.

Donations may be received but should never be deposited, acted on or put into use until after the charter school's governing board 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.

Charter School Support Organization Donations for Hiring Employees

To ensure that no conflict exists, charter school support organizations, such as parent organizations and booster clubs, must obtain permission from the charter school's business office to hire any charter school employee or any other individual to serve as an employee of the support organization in a role that assists the charter school, such as coaching sports.

Procedures for Support Organizations to Pay for Personnel

If a support organization (i.e., parent organization or booster club) decides to provide funding for additional charter school personnel, those personnel must be hired by the charter school, not the support organization. These positions are often temporary and subject to funding from year to year. The support organization must inform the charter school site principal about the position(s) they want to fund so the charter school has sufficient time to approve and process the position as follows:

- The school site principal must decide whether they support the type of position being considered; if the principal supports the position, he or she then must consult with and obtain approval from the charter school's business office and human resources department regarding the legality of hiring for the proposed position and whether adequate funding exists to do so.
- Upon approval from the human resources department, the principal will complete a personnel requisition and forward it to human resources for processing.

- The charter school's business office will collect and deposit the donation from the support organization for the total cost of the employee, including the employee's pay and any benefits, reimbursed costs, or any other costs.
  - If the support organization employee works additional hours or earns additional units of compensation as described in the personnel requisition, the charter school's business office will invoice the support organization for the additional employee costs, and payment shall be due immediately to the charter school's business office.
- The employee will be hired through charter school's normal process, subject to all rules and regulations imposed by the charter school's human resources department and state and federal law.
- The employee is not authorized to perform any services until after the charter school's governing board has approved the position and the hiring, and the charter school has received the donated funds.
- The employee will not begin work and thus will not be paid by the charter school until after the above procedures have been completed.
  - Payment will be made in accordance with any applicable collective bargaining agreement and in accordance with charter school procedures.

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

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 cartridges 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 and inventoried. The cost value of the supplies should be adjusted in the accounting records at the end of each fiscal year.

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 the CFO's 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, or designated professional development committee 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, as well as an agreement to remain with the charter school for one year from the date of the educational reimbursement. If the employee terminates their employment within that year, he or she can be required to repay the charter school a percentage of the cost of the professional development, based on a monthly proration of the total amount.

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 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 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.

FCMAT recommends that charter schools adopt a minimum cash reserve of 5% of the total of all budgeted expenditures and develop a five-year plan to increase that reserve from 5% to 10% of total budgeted expenditures. Care should be taken to not spend more on nonclassroom-based instruction than the percentage allowed by the funding determination for this, if applicable.

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.

An actual cash reserve of 5%, increasing to 10% over five years, is ideal for charter schools. 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.

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 writing by the CFO or CFO's 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.

The CFO or CFO's designee should authorize in writing, by initialing or signing, any journal entries that do not originate from subsidiary lenders.

Chapter 11 – Cash Receipts and Banking Policies and Procedures

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 should be prepared, and the governing board and CEO should approve in writing 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.

Dollar limits may be assigned for classes of check signers. For example, the CEO and CFO may sign checks that do not exceed $50,000, and other designated signers may only sign checks that do not exceed $5,000.

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, and signing authority limits.

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 two copies 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.
- The bank's name.

Anyone who wishes to pay the charter school in cash for any service, fundraiser donation or other reason should be directed to the business office, which should 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.

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, fireproof safe with restricted access until ready for deposit.

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 could be 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 log book.
- 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.

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 Site 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, fireproof safe in a secure location until the funds can be taken to the charter school's business office. This means the cash receipts should be counted by two people at the school, then taken by one person to the business office, where they are counted, confirmed and receipted by the person from the school and the business office person.

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 receivable 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 the CEO or CEO's designee as the secondary approver. Outgoing wire transfers should not be issued unless the secondary approver logs on to the bank's secure website and approves the transfer electronically.

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 $5,000 should require governing board approval.

Petty Cash

Schools often 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 governing board and should be minimal (e.g. limited to $250-$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.
- Assign a budget account number based on the type of expenditure to record the expenditure amount in the financial system.

- 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, such as $20, 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.

A sample petty cash reimbursement request form and petty cash reconciliation form are provided on the following pages. To download a Microsoft Word version of the petty cash reimbursement request, click here. To download a Microsoft Excel version of the petty cash reconciliation form, click here.

Petty Cash Reimbursement Request

Note: Reimbursements from petty cash cannot exceed $50.00.

Date ______________________ Department ____

Amount of reimbursement __________________ Requested by: ___________________________________

Description of expense

____

____

____

Account Number ___________________________ Approved by: ____________________________________

Signature _______________________________________

Amount Approved _________________________ Received by: _____________________________________

Signature _______________________________________

Petty Cash Reconciliation Form

Account Number ___________________________

Signature ____

Amount Approved __________________________

Received by ____

Signature __________________________________ Date________________________

Prepared by ____

Date	Description	Purchases	Reimbursements	Running Balance
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00
				0.00

Cash Boxes

A portable cash box issued by the business office may be used to collect money at fundraising activities, ticket sales and other events or activities.

Individuals who collect cash for fundraisers and activities for which a cash box is issued should safeguard the cash properly. Once all cash has been collected, it should be recorded on a cash count form. Two individuals should count the cash together, and both should sign and date the cash count form and remit the funds to the school principal or business office. Every effort should be made to turn in the cash the same day as fundraiser or activity. Any funds collected but not turned in to the business office for the final counting and deposit to the bank should never be taken home or left in any unprotected environment. Instead, they should be sealed in a tamper-proof plastic bank bag and placed in a locked, fireproof safe on the charter school premises.

When the principal or the business office receives the cash box funds, the funds should be counted again by the principal or business office staff member and a witness, and each should sign the cash count form as verification of their confirmation. The cash and the verified cash count form should be placed in a tamper-proof plastic bank bag and secured in a locked, fireproof safe until the cash is remitted to the business office for deposit.

Cash box proceeds should be controlled and processed in the same manner as other cash receipts. If the cash balance at the end of day exceeds $500, a bank deposit should be made the same day. Otherwise, all bank deposits should be made by the last business day of the week. No funds should be left in the cash box.

A sample cash count form is provided on the following page, and can be downloaded in Microsoft Excel format by clicking here.

Cash Count Form

Name of School

Name of Event

Fiscal Year

Name of Person Completing Form: ____

Date Form Completed ____

	(A) Denominations		(B) Number of Bills or Coins	(A times B) Total Amount Collected
	Pennies	.01		
	Nickels	.05		
	Dimes	.10		
	Quarters	.25		
	Half dollars	.50		
	Dollar coins	1.00		
	Dollar bills	1.00		
	Five dollar bills	5.00		
	Ten dollar bills	10.00		
	Twenty dollar bills	20.00		

					Totals from Receipt Adding Machine Tape	
	Total amount of all cash		$	(D)	$	Total Cash Receipts
	Total amount of all checks		$	(E)	$	Total Check Receipts
	Total amount of all cash and checks		$			
	(Prerecord amount and initial the amount of change funds received)	LESS STARTUP CHANGE FUND AMOUNT	$	1		Initial upon receiving change funds

		Total net amount of all cash and checks	$				

1. The person(s) receiving start-up change fund cash should initial that they agree to the amount received prior to taking custody of the cash box containing the start-up change.

		Office Manager	
Note: Confirm that total "cash & coin" receipts equals total amount of all cash.	(D)		initial
Confirm that all check receipts agree to attached receipts.	(E)		initial
Confirm that all check payees individually agree to attached receipts.			initial
Confirm that all receipt numbers are sequential with none missing.			initial

Follow up on ANY differences.

Cash count form prepared by:

____
Signature, Title and Date

Signature of fundraiser staff counting the cash:

____
Signature and Date

Signature of fundraiser staff counting the cash:

____
Signature and Date

Verified by:

____
Signature, Title and Date

Verified by:

____
Signature, Title and Date

Credit and Debit Cards

The charter school governing board should establish policies and procedures regarding the issuance and use of credit and debit cards. 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, including 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.

A sample credit and debit card use certification statement form is provided on the following page, or download a Microsoft Word version by clicking here.

Credit and Debit Card Use Certification

Certification of receipt of the charter school policy and procedures on the use of credit and debit cards

I, ____ ,
(Print name of employee) (position)

hereby certify that I have received and understand the charter school's credit and debit card policy and procedures, and I will comply with those procedures. Failure to comply with the procedures may subject me to disciplinary action as outlined in the charter school's human resources policies and procedures manual.

______________________________ ______________________

Signature of employee Date

______________________________ ______________________

Chief Executive Officer Date

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 should be made personally liable for all inappropriate charges and personally responsible for settling any dispute over any purchase from a vendor.

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 must be approved in 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 $500 in total unless the CEO has expressly approved a higher amount in writing or higher purchasing levels are determined necessary and are established when the card is issued.
- 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.
- 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 by the close of the last business day of the first week of the month following the month in which the credit or debit card statement was issued. For example, if the credit card statement date is March 18, the required documentation must be submitted to the accounting department no later than the last business day of the first week in April.
- All original, detailed receipts must be attached to the credit or debit card's monthly statement.
- All documents should be initialed by the cardholder.
- If a receipt is missing, payment will be the responsibility of the cardholder, unless the CFO 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 review.
- The CFO 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 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.

- 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.
- The CFO will review and approve or disapprove principals' credit and debit card use; the CEO will review and approve or disapprove the CFO's credit and debit card use; and the chairperson of the governing board will review and approve or disapprove the CEO's credit card use.
- The CFO 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, 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 request for reimbursement, but only with prior approval for the purchase, 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 Reconciliations

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.

Manual Bank Reconciliation

The monthly manual bank reconciliation starts with the ending bank statement balance. The following procedure should be used: first, list any deposits in transit that were made but not yet recorded by the bank, and add them to the bank balance; next, list all checks that were written on the account prior to the bank statement ending date but that have not yet cleared the bank, and deduct them from the bank balance.

Usually the bank statement date is the last day of the month; however, regardless of when it falls, the bank statement date is the date to which the books are reconciled in the general ledger. If the statement date is not the end of the month, a charter school may ask its bank to change the statement date.

The bank reconciliation process ensures that transactions in the bank statement, such as fees and interest, are included in the general ledger; ensures that checks and deposit amounts agree with both the bank statement and the general ledger; and ensures that the bank statements list the checks and deposits that are written in the general ledger books but have not cleared the bank statement. These steps help ensure that the general ledger deposits and disbursements are reconciled to the bank statement, and that any adjustments such as interest or other bank credit items are added into the general ledger balance.

This process reconciles the adjusted ending book balance with the adjusted bank balance. In some cases a discrepancy may be caused by an incorrect entry of bank-generated credits or charges such as fees or interest, an accidental clearing of a check or deposit that has not cleared, or other errors. Any difference between the two should be researched and corrected.

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. The computer screen is usually divided in half, with one half showing a list of all deposits and items that increase cash, and the other half showing a list of all checks and other charges that reduce cash.

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.

A sample bank reconciliation worksheet is provided on the following page and can be downloaded in Microsoft Word format by clicking here.

Bank Reconciliation Worksheet

Name of Bank:______________________________ Account Number:______________

For the Month of:______________________________

A. Ending Balance
per Bank Statement______________

B. Plus Deposits in Transit:

____
____
____
____
____
____
____

C. Total Deposits in Transit:____________

D. Less Outstanding Checks:

Date	Check #	Amount

E. Total Outstanding Checks: ______________

F. Ending Balance (A + C – E): ______________

G. Balance per
Accounting Records:______________

H. Plus Interest: ______________

I. Plus Adjustments:

____
____
____
____
____
____

J. Total Adjustments:__________

K. Bank Charges:

____
____
____
____
____
____
____
____

L. Total Bank Charges: ________

M. Ending Balance (G + H + J + L): ____________

Reconciliation prepared by:______________________________
(Name, Title, Date)

Reconciliation Reviewed by:______________________________
(Name, Title, Date)

Chapter 12 – 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.

Asset purchases that cost $5,000 or more and have a useful life of more than one year should be capitalized and depreciated. Remodeling of facilities and replacement of structural components should be capitalized only when their cost exceeds $50,000.

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.

Any assets purchased that cost $5,000 or more should be recorded in a depreciable fixed asset schedule. Microsoft Excel's database of forms and templates includes various fixed asset schedules that use straight-line depreciation.

The depreciable fixed asset schedule should include the following information:

- Name of the asset
- Location of the asset
- Asset class (e.g., equipment)
- Description
- Serial number
- Asset tag number
- Date purchased and placed in service
- Vendor purchased from
- Original cost
- Depreciation method
- Estimated useful life
- Accumulated depreciation
- Net book value
- Estimated salvage value, if any

Any assets purchased that cost more than $500 and less than $5,000 should be recorded in a fixed asset ledger for inventory purposes.

The fixed asset inventory ledger should include the following information:

- Name of the asset
- Location of the asset
- Asset class (e.g., equipment)
- Description
- Serial number
- Asset tag number
- Date purchased
- Vendor purchased from
- Original cost

Asset Purchase Approval

All purchases of assets costing more than $500 and less than $1,000 should be approved by the employee who manages purchasing. Assets costing more than $1,000 should require both the CFO's and purchasing manager's approval.

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.

FCMAT recommends requiring three quotes for any purchase of $5,000 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, who will forward their recommendations to the CEO 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.

Asset Sales and Dispositions

Capital assets may be sold or traded for new equipment; when this occurs, an asset sale and disposition form should be completed. A sample form is provided on the following page, and may be downloaded in Microsoft Excel format by clicking here.

Asset Sale and Disposition Form

Date: ______________________________

Requested by: ____

Reason for Sale or Disposition:

____

____

____

Description	Serial Number	Date Purchased	Original Cost	Net Book Value	Expected or Actual Proceeds	Gain or Loss

Principal / Business Office: ______________________________________ Date: ________________
Signature

Chief Financial Officer: ______________________________________ Date: ________________
Signature

For any assets with an original value of more than $1,000, the CFO's approval should also be required for a sale or disposition.

Upon approval, the school may advertise the property for sale or submit a list to the purchasing department for sale and disposition. Many bill of sale documents are available on the internet that can meet the needs of each particular type of sale. The following page shows a sample that has the elements common to almost all such documents. This sample may also be downloaded in Microsoft Word format by clicking here.

Bill of Sale

This sale is made on [date] between [Charter School Name], with its principal place of business at [Charter School Address] (“Seller”) and [Buyer’s Contact Information] (“Buyer”).

In exchange for the payment of [Dollar Amount] dollars that has been received, the Seller sells, assigns and transfers all of its right, title and interest in the [Surplus Asset Sold] (“Surplus”).

The Seller warrants that it owns the Surplus and that it has the authority to sell the Surplus to the Buyer. The Seller further warrants that the Surplus is free and clear of all liens, indebtedness, and liabilities. The Seller makes no additional warranties and is selling the Surplus in the condition it is.

I have carefully reviewed this Bill of Sale and agree to and accept its terms and conditions. I am executing this Bill of Sale as of the day and year first written above.

Seller:	Buyer:
______________________	______________________
Name	Name

After completion of the sale, a completed original bill of sale form with wet signature in blue ink should be submitted to the business office. The business office should delete the item from the asset records and record any gain or loss on the disposition.

Worn Out or Obsolete Assets

Worn out or obsolete assets with no cash value should be reported to the business office on the asset disposition form, which includes a description, serial number and condition of the asset. The business office should inspect all worn out or obsolete property before it is discarded. The asset can then be removed from the asset records.

Missing or Stolen Assets

Any missing or stolen asset should be reported in writing to the school principal and the business office as soon as its absence is discovered. The report should include the description, serial number, and other information about the lost item.

The business office should determine the proper course of action and should notify the charter school's insurance carrier and any outside authorities if deemed appropriate. If the asset is not recovered, it can be removed from the asset records.

Transfers of Assets Within the Organization

Transfers of assets within the organization (e.g., from one school to another) should be reported to the business office in writing; the report should include a description, serial number and the name of the school or location that is to receive the property.

The school principal or location manager to whom the asset was originally assigned remains accountable for the asset until the business office approves the transfer. Once the business office approves the transfer, the business office updates the asset in the asset record. The asset should then be transferred. Once the asset is transferred to the new location, the school principal or location manager at the school or location acquiring the property assumes responsibility.

Employees Using Their Personal Assets

Employees may bring their personal tools, equipment or furniture for use at the charter school, subject to the approval of the school principal and the business office. To maintain proper segregation and control upon termination of any employees, any employee-owned tools, equipment or furniture to be used at the charter school should be reported to the school principal and the business office. The report should include the employee's name, a description of the item or items, identification numbers (if any), and the reason for using the item.

Asset Tagging

When an asset is purchased, the warehouse or business office is responsible for assigning and attaching an asset number tag to the property in a readily visible location. If an asset tag cannot be attached and the asset has no serial number, other means should be used to permanently identify the asset, such as engraving or heat stamping it with the charter school's name and a sequential number.

The business office should maintain a detailed list of each capital asset item along with depreciation records. This documentation should include the name, location, asset class, description, serial number, asset tag number, date purchased, date placed in service, vendor, original cost, depreciation method, estimated useful life, accumulated depreciation, net book value, and any estimated salvage value.

Once a year the business department should give each school or location a report that includes a list of assets assigned to that school or location and any acquisitions, disposals and transfers during the past year. The school or location should review and validate the report, note any discrepancies, and provide this information to the business office as soon as possible.

Vehicle Replacement, Maintenance and Accidents

The safety and comfort of charter school employees, parents and board members is vital to the organization; therefore whenever possible, vehicles owned or leased by the charter school should not be kept for more than 10 years or 100,000 miles of use, whichever occurs first. A mileage and maintenance log should be established to ensure vehicles are monitored and replaced on schedule.

Maintenance and Service

All vehicles should be maintained and serviced regularly at an authorized vendor. The charter school should evaluate vehicle repair and maintenance vendors' performance and cost of service at least every two years. New purchased or leased vehicles that have free maintenance and service as part of the warranty period, or as part of the purchase or lease, should have their maintenance and repairs performed according to the terms of their warranty or lease or purchase contract.

Vehicle Problems

Charter school employees to whom a charter school vehicle is assigned must report any suspected problems or issues with the vehicle immediately.

Vehicle Accidents

Any employee driving a charter school vehicle who is involved in an accident should ensure that the charter school's insurance carrier is notified. The driver should document in writing the specifics of the accident, including where and when it occurred, how it occurred, who else was involved, and whether another vehicle was involved. The driver should also take photos at the scene if possible. The driver should submit their report and photos to the business office immediately when they return to the charter school. For anything other than a minor incident with no injuries and no dispute, the police should also be contacted.

Leases

A lease can be classified as either a capital lease or an operating lease. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840-30, Capital Leases, describes the criteria for determining which of these two classifications applies. Under those criteria, a lease should be treated as a capital lease if any of the following are true when the lease is entered into:

- The lease transfers ownership to the charter school at the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75% or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments is 90% or more of the fair value of the leased property (using as the interest rate the lesser of the charter school's incremental borrowing rate or, if known, the lessor's implicit rate).

Any lease for which none of the four preceding statements is true, or that is immaterial in nature, should be recognized and accounted for as an operating lease. An operating lease is similar to a rental agreement in that the monthly lease costs are expensed.

The charter school should maintain a list or inventory of capital leases and operating leases; the list should include all relevant lease terms.

Fixed Asset Capitalization and Depreciation

Asset purchases with a cost basis of $5,000 or more and a useful life of more than one year should be capitalized and depreciated. Remodeling and replacement costs for integral structural components should only be capitalized when their cost exceeds $50,000. Depreciation or amortization should be calculated using the straight-line basis over the useful life of an asset, unless the CFO has determined an alternative depreciation method.

Cost basis is not the market value or list price of an asset; rather, it is the total amount invested in the purchase or the total amount paid, whether paid in cash or received in kind. The cost basis should include all charges related to the purchase, including the purchase price, sales tax, freight charges, and installation charges if applicable.

Capitalization

Capitalization is the method used to record the purchase of a fixed asset in the charter school's accounting records. When an asset is capitalized, it is not expensed in the same year it is purchased. This means the asset is usually recorded both in the balance sheet and individually in an asset schedule. Examples of capital expenditures are purchases of buildings, equipment, leasehold improvements, vehicles, and land. When an asset is capitalized, a prorated share of the capitalized cost of the asset is expensed each year as depreciation until that cost is exhausted.

All assets that have a useful life of more than one year and cost more than $5,000 should be capitalized and recorded in the asset schedules and accounting records. Land is considered to have a perpetual life, not a useful life, so is not depreciated but is capitalized as an asset.

Any asset that is not capitalized should be expensed. For example, small tools and equipment, or repairs and maintenance, are usually expensed.

Leasehold Improvements

Leasehold improvements, including painting, should be capitalized if they relate to the occupancy of a new office or to a major renovation of an existing office or site, and meet the capitalization threshold of $50,000.

Repairs

Expenditures for maintaining vehicles, equipment or an existing building should not be capitalized; they should be expensed as a repair.

Cost of Buildings

The capitalized cost of a building should include all expenditures related directly to its acquisition, construction or rehabilitation. This includes all associated costs such as materials, labor and overhead incurred during construction, and any fees such as attorney's fees, architect's fees, and building permit fees.

The best practice to account for the cost of buildings is to capture and record the details of all costs in a construction in progress account. Costs recorded should include acquisition costs and expenditures made to prepare the building for occupancy.

Depreciation

Depreciation is an expense that allows for and tracks an asset's decline in value because of wear and tear, age, deterioration, or obsolescence. It typically involves allocating a prorated share of the capitalized cost of an asset over its estimated useful life. The purpose is to recover the cost or other basis of the asset over the time it is used.

The decline in value is measured by the depreciation method used. For example, the straight-line depreciation method measures the same amount of decline in value each year.

At the end of an asset's depreciation period or useful life, its value on the balance sheet will be zero, or fully-depreciated. A depreciation expense is recorded in the income statement each year until an asset's cost is fully depreciated.

Land, unlike a building or other assets, is not depreciated because it does not wear out, become obsolete, or become used up. Land is usually viewed as an appreciating asset, whereas all other capital assets are usually viewed as depreciating over time and with use. An asset's appreciation, however, is not recorded in the accounting books until the asset is sold.

To ensure consistent financial reporting and tax compliance, the depreciation method and expected life of an asset must be selected when it is first placed into service.

A charter school should use the straight-line method of depreciation.

The State Controller's Office (SCO) provides a list of the estimated useful life of various items in Appendix A on the following page of its website: http://www.sco.ca.gov/ard_local_rep_uas_special_dist.html.

The useful lives in the SCO's list are suggestions rather than mandates. How the charter school determines an asset's useful life will depend on the asset's intended use.

Chapter 13 – 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 nonmerchandise 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 voucher package.

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. Check marks or tick marks should be made on the invoice to indicate that the quantities and calculations were reviewed.

Accounts Payable for Nonmerchandise

The purchase order process is usually not used for nonmerchandise 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 nonmerchandise) 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 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 for review and authorizing signature.

When the invoice package is returned from the CFO, 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. The invoice(s) should be stamped as "paid" to document payment and to prevent duplicate payments. Only checks that include a two-stub or more check form should be used; one stub should be attached to the paid invoice and the other to the remittance copy of the invoice.

If one check or online bill pay is used to pay for multiple invoices, the stub should be either photocopied or the online bll 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.

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. Before the purchasing process can continue, staff must confirm that sufficient funds are budgeted and available for the purchase or expenditure. Some financial systems determine availability of funds automatically and prevent a requisition from becoming a purchase order if funds are not adequate. However, other financial systems have many more manual functions, and thus at some charter schools a person may manually check the budget to ensure adequate funds exist. Regardless of the extent of automation, a purchase requisition should not move forward if adequate funds are not available.

Purchase 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 should be required for any purchase that costs more than $5,000. The purchasing manager 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 for final review and decision.

Purchase orders should be made on prenumbered three- or four-part forms. The original signed form should be presented to the supplier, a yellow copy should remain with purchasing, and a pink copy should be given to accounting. If a four-part form is used, another copy may be returned to the purchase originator or to another party as needed. 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 $5,000 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 and budget account number.
- 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. See the travel guidelines and the expense report preparation and reimbursement guidelines in Chapter 10 for additional policies and procedures regarding reimbursements.

Placing a Purchase Order

The requester of goods or services is responsible for completing a purchase order form 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.

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:

- Two copies of the invoice are 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).

A sample purchase order form is shown on the following page and may be downloaded in Microsoft Word format by clicking here.

YOUR LOGO HERE

Purchase Order

[Your Charter School Name]

Date:

P.O. #: [100]

Customer ID: [ABC12345]

Vendor		Ship to	
	[Name]		[Name]
	[Company Name]		[Charter School Name]
	[Street Address]		[Street Address]
	[City, ST ZIP Code]		[City, ST ZIP Code]
	[Phone]		[Phone]

Shipping Method	Shipping Terms	Delivery Date

Qty	Item #	Description	Job	Unit Price	Line Total

Subtotal	
Sales Tax	
Total	

1. Please send two copies of your invoice.
2. Enter this order in accordance with the prices, terms, delivery method, and specifications listed above.
3. Please notify us immediately if you are unable to ship as specified.
4. Send all correspondence to:

   [Name]
   [Street Address]
   [City, ST ZIP Code]
   [Phone]
   [Fax]

Authorized by *Date*

Authorized by *Date*

[Street Address], [City, ST ZIP Code] [Phone] [Fax] [E-mail]

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.

- Quality Assurance

  The vendor should have an internal quality assurance program such as peer review; preference should be given to vendors that have such a program.

- References and Background Checks

  Sufficient references and background checks should be made and should reveal no problems. Search for lawsuits and proper business licenses, and match the vendor name and federal identification number.

- 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 subcontractors 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 nonmerchandise vendors should complete an IRS form W-9. For more detailed information about Forms W-9 and Form 1099 reporting, refer to the section titled "Independent Contractors and 1099 Reporting – IRS and EDD" in Chapter 10.

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 in inventory.

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 and inspection log can be used to document the condition of items and other receiving information. A sample receiving and inspection log form is provided below.

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.

A sample receiving and inspection log form is provided on the following page and may be downloaded in Microsoft Excel format by clicking here.

Receiving & Inspection Log					
Date	Sender	Carrier	No. of Packages	Condition Good/Damaged	Received/Inspected By

Use additional lines to write comments or other information

Prepaid Expenses

Prepaid expenses are expenses that result in a future benefit. At the option of the CFO, 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 year end 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.

If the board has authorized such reimbursement, the CEO should approve and sign an employee relocation costs reimbursement form (see below) before any relocation expenses are incurred. When approving a reimbursement for relocation expenses, the CEO should write the maximum amount of relocation expenses authorized in the appropriate space and initial and date the amount. When the employee completes and returns the form, the CEO should sign and date the form in the spaces for this at the bottom.

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'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's. A sample employee relocation costs reimbursement form is included on the following page and can be downloaded in Microsoft Word format by clicking here.

Employee Relocation Costs Reimbursement Form

CEO Amount Authorized $ __________

Name ____ Employee ID _____________________

New Address ____

Departure City & State ____

Employment Start Date _____________ Move Date ________________ No. of People Moved ________

Nontaxable (Qualified) Expenses - Directly related to the move

Travel and lodging from old home to new home:

	Amount Requested by Employee	Amount Reimbursed to Employee	Amount Paid Directly to Provider/Vendor
Airfare (list number of tickets below)	$	$	$
Qualified Mileage Reimbursement	$	$	$
Lodging en route	$	$	$
Transportation and up to 30 days storage of household goods and personal effects	$	$	$

Taxable (Non-Qualified) Expenses - Indirectly related to the move

Meals and travel from old home to new home:

	Amount Requested by Employee	Amount Reimbursed to Employee	Amount Paid Directly to Provider/Vendor
Meals during move from old to new home	$	$	$
Mileage reimbursement*	$	$	$
House Hunting (meals, lodging and misc.)	$	$	$
Transportation (including airfare)	$	$	$
Temporary living (including meals)	$	$	$
Real estate/early lease termination expenses	$	$	$
Other (specify)	$	$	$

* Mileage to move from old to new home is usually reimbursed at the standard IRS rate. A portion of this is taxable. See IRS regulations for details

Acknowledgment:
I authorize [charter school name] to deduct from my next salary payment any costs in excess of allotments, as set forth in the charter school's policy, if I do not reimburse [charter school name] for expenses that must be paid by the employee. I understand payment is due within 30 days from the date of notification from the hiring agency.

If I terminate or cause termination of my employment with the charter school within one year of the date of my employment, I agree to reimburse the charter school for all moving costs that have been paid and hereby authorize the charter school to withhold any amount due to me as a part or full payment of such costs.

Employee Signature ____Date ______________

CEO's Approval ____Date ______________

Chapter 14 – 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 time cards 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. Receivable accruals are those amounts that are reasonably known and quantifiable. The charter school should require that fiscal year-end receivable accruals be quantified and recorded no later than August 15.

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.

The following are required to issue a cash receipt:

- A prenumbered three-part cash receipt book.
- Photocopies of any checks received.
- A completed receipt in the three-part cash receipt book. The original receipt is given to the payee who provided the payment, the yellow or first copy accompanies the cash count form and deposit documents, and the pink or second copy remains in the receipt book.

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 as 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 year end, 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 donations, 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-contributions-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. The charter school should not attempt to assign any cash value to property; this is the donor's responsibility.

A sample donation receipt is included below and can be downloaded in Microsoft Word format by clicking here.

Donation Receipt from XYZ Charter School

Questions? Contact the XYZ Charter School at (XXX) XXX-XXXX.

Donated by	
Address	
City	
State/Province	
ZIP/Postal Code	
Phone	
Type of donation	i.e., cash, merchandise, or service
Description	
Other	

No goods or services were provided in exchange for your donation.
Thank you for your generosity. We appreciate your support!

Donation Acknowledgment Letter

All donations should be acknowledged with a donation acknowledgment letter. This is the preferred method for accepting a donation because it is more formal and better conveys gratitude.

A sample acknowledgment letter is included on the following page and can be downloaded in Microsoft Word format by clicking here.

Donation Acknowledgment Letter

Charter School Name
Street Address
City, State, Zip Code

Date

Recipient Name
Title
Company Name
Street Address
City, State, Zip Code

Dear [Name of Recipient]:

Thank you so much for your generous donation of $ __________ to__________________________________ Charter School received on [month, day, year]. No goods or services were provided in exchange for your donation.

As you know, our school programs are always in need of additional support. With the generous help of people like you, we will be able to continue providing much-needed school programs and services to our students.

For more information on how your donation is helping to make a difference in students' lives, we invite you to visit our website at www. ____________________. You can also find information there on upcoming events for this year and volunteer opportunities.

Thank you again, and we look forward to your continued support.

Sincerely,

Name

Title

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.

A sample in-kind donation recognition form is provided on the following page and can be downloaded in Microsoft Word format by clicking here.

In-Kind Donation Recognition Form

Date: ____________________

Event Name: ____

Donor Name: ____

Donor Contact Person: ____

Address: ____

City: ________________________________ State: ____________ Zip: ______________

Daytime Phone: __________________________ Email Address: __________________________

Description of Donation: ____

____

____

Estimated Fair Market Value (By Donor): $ ________________________

Special Instructions: (e.g., delivery, pickup, restrictions, etc.):

____

____

Please return this form to:

XYX Charter School
Street Address
City, State, Zip Code

Phone: (XXX) XXX-XXXX

Per IRS regulations, any item you value at more than $500 requires IRS Form 8283. Any item you value at more than $5,000 requires both Form 8283 and a written appraisal.

This form does not serve as a receipt for this contribution; it is intended for internal recordkeeping only. A receipt describing the items or merchandise donated will be mailed to the address above. The charter school is unable to include the estimated value on the donor receipt. It is the donor's responsibility to obtain an estimate of the fair market value for his or her own tax purposes. The donation of services, although valuable and appreciated, is usually not considered tax-deductible by the IRS. Please consult with your tax advisor to determine the tax implications of your donation.

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 15 – 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 diamond are 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.

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 should occur only if charter school policy allows them.

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 the 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.

Falsifying Attendance

Charter schools receive their funding based on their students' average daily attendance. If student attendance is declining, staff who understand that each student absence creates a loss of revenue may falsify attendance records. The perpetrator may be an administrator, attendance clerk, teacher, or other staff member with access to such records.

There are many types of attendance software, but all can be manipulated. Attendance recording starts with teachers, who take attendance either electronically or using a manual form. The attendance from the teachers is then entered, or summarized electronically in the attendance software. Managers should perform periodic internal attendance reporting verification to ensure that attendance is reported accurately and not modified except for legitimate corrections.

Fundraising and Deposits

There are five main points at which fraud may occur with funds raised at a fundraising event:

- **During a fundraising event.** If nobody is monitoring how funds are collected, safeguarded and accounted for, cash can be taken and will be untraceable; people will be left wondering why the event raised less money than was possible or expected.

  Without proper cash controls or safeguards, allegations of fraud can and often are made against an innocent and unsuspecting staff member or volunteer.

  Recommended Preventive Measure: Always monitor and safeguard cash collections during events.

- **After the fundraising event but before the money is taken to the bookkeeper.** A lack of cash controls that results in a staff member or volunteer counting the cash alone is problematic and should not be allowed. Cash should always be counted in the presence of at least two people so that there are witnesses.

  For example, consider a fundraising event at which people believe approximately $2,000 was raised but a staff member counted the cash alone, without witnesses, and says that only $1,100 was raised, so that is the amount deposited. After the event someone asks how much money was raised and is surprised when they are told $1,100 was deposited. They then become suspicious because they worked at the event and feel much more should have been raised based on the number of attendees. Questions and allegations follow, and the reputation of the staff member who counted the cash alone is at stake with only his or her own word to defend it.

Cash controls are meant to protect people more than to catch a thief. Every year many staff members, volunteers, bookkeepers and others are accused of stealing cash when differences exist. If a charter school does not enforce strong cash controls, including witnesses and appropriately completed forms, these individuals' defenses are limited to their word.

Recommended Preventive Measure: Never allow money to be counted by only one person. Ensure that money is always counted in the presence of a witness, and that both witnesses sign and date the cash count form.

- **After the cash is counted but before it is taken to the bookkeeper.** After a fundraiser, often one individual is given custody of both the cash and the only signed and witnessed cash count form, which may be placed in a desk or locked file cabinet overnight, or put in the trunk of an individual's car, or delivered to the business office. Often that individual realizes that there is an opportunity to remove cash on the way to the business office. Proper procedures are needed to provide controls, including retention of duplicate cash count forms, and clear rules about where deposits may be placed after a fundraiser but before being brought to the bookkeeper. Money should never be placed in a desk drawer, locked file cabinet, or a trunk of a car. All money, and the cash count form, should be delivered immediately to the bookkeeper and kept in a locked safe.

  - Cash kept in desk drawers or file cabinets is not secure and can be lost or stolen easily, sometimes after the person who placed it there forgets about it. These types of practices unnecessarily make everyone a potential suspect, placing honest individuals, including school employees, volunteers and students, at risk of suspicion, rumors and accusations, simply because the money was not properly deposited with the business office bookkeeper.

  - Without proper cash controls, the real thief can also easily blame someone else for the theft.

  - Honest staff, bookkeepers and volunteers have put cash in their car with good intentions, then forgotten about it, then had it stolen. Imagine this happening at a car wash with $10,000 left in the vehicle's trunk from the sale of fundraising gala tickets designed to benefit charter school students. Some employees have also intentionally left cash in their car for weeks to see if anyone noticed the missing cash or deposit. The longer the missing cash goes unnoticed, the braver the potential thief becomes and the greater their sense of ownership of the cash.

  - After the money is counted in the presence of a witness and the cash count form is completed and signed by both witnesses, individuals sometimes do not make multiple copies of the cash count form for their own records; instead, they give the deposit and the only cash count form to another individual for delivery to the business office bookkeeper. Subsequently, the bookkeeper receives a deposit that is less than the individual who counted it remembers or less than they notated and signed off on the form. The bookkeeper, appropriately, refuses the deposit to avoid being blamed for the discrepancy, while the person delivering the deposit to the bookkeeper claims to have only received the amount they delivered for deposit and/or claims they never saw a cash count form.

    Without a copy of the cash count form signed by the counter of the funds and at least one witness, there is no recourse in this situation.

  Recommended Preventive Measures: Always use a cash count form, and ensure that it is signed and dated by the individual responsible for the cash and by a witness. Make multiple copies of the completed cash count form, and always keep at least one copy in a safe place, separate from the copy sent with the deposit. Whenever possible, have two people transport a deposit to the school safe. If one person must transport the deposit, it should be one of the individuals who counted the money. The business office and each school must establish after-hours cash security procedures so cash and checks can be stored safely in a locked bag in a safe until the amounts can be counted or verified with the business office or school bookkeeper (also with a witness).

- **After the deposit reaches the business office bookkeeper.** Trusting a helpful bookkeeper, some individuals send the bookkeeper their only copy of the cash count form and do not count the cash again with the bookkeeper. In other cases the bookkeeper is absent, so individuals simply leave the deposit on the bookkeeper's desk.

  Each of these actions eliminates fundamental controls and allows a dishonest bookkeeper unchecked control of the deposit. The bookkeeper is able to swap cash and checks within multiple deposits to take the cash, take as much of the cash deposit as they want and change the amount(s) on the cash count form, or take the entire deposit and say they never received it.

  This type of fraud has occurred in numerous schools. Without documentation to show the chain of custody, there is little or no recourse.

  A common scheme for dishonest bookkeepers is to take a deposit that is part cash and part checks (e.g., $400 in cash and $550 in checks), wait for another deposit equal to or greater than the amount of the first deposit that contained checks ($550), then swap the check deposit with the same amount of the later cash deposit. Thus one deposit is used to cover for another deposit, and it is hard to reconcile because of timing.

  Neglecting to count the money with the bookkeeper can also leave an honest bookkeeper open to accusations of theft or fraud. A bookkeeper may be trusting enough to accept a deposit even if the staff member, volunteer or other individual is too busy to count the money with them. If there is a difference in the deposit because of an error caused by fatigue or haste on the part of the depositor, it may look as though the bookkeeper committed fraud even though they did not. For example, if the depositor, even though fatigued at the time, is sure they counted a certain amount (e.g. $2,520) but the bookkeeper counted a lesser amount (e.g. $2,250), there is no way to prove or disprove what the correct amount should be. Because the bookkeeper counted a lesser amount, they could be accused of theft and would have no alibi, no witness and no help to prove otherwise.

  Recommended Preventive Measures: Always keep a copy of the completed and signed cash count form. Always count the cash in the presence of the bookkeeper, and document this second count. When the cash and checks are retrieved from the safe, the bookkeeper should issue a receipt for the cash and checks, but only after the two individuals (the volunteer, staff member and the bookkeeper) have counted the dollar amount together and recorded that amount on the receipt. If the volunteer or staff member is not able to count the funds with the bookkeeper, another individual should be chosen to do so; the bookkeeper should never count funds alone.

- **When receiving startup cash for change.** Some events require a cash box containing cash to make change.

  For example, if the bookkeeper has the person checking out the cash box sign a form that acknowledges receipt of $400 in startup cash for change, but the money is not counted when they are both present, the person could end up with less money than stated on the form (e.g. $300) and as a result be held accountable (i.e. be blamed) for the difference.

  If the bookkeeper places startup money in the cash box but fails to document it with a cash count form signed by both parties, and then cash is stolen or miscounted for any reason, or the individual receiving the startup funds incorrectly identifies a smaller amount than was actually provided, the event will receive less revenue than expected, and someone may be accused of wrongdoing rather than simply committing an error.

Recommended Preventive Measures: Always have both the bookkeeper and the person receiving the startup cash count the money together and document this count with signatures signifying agreement regarding the amount.

Ensure that the bookkeeper keeps a startup cash log and requires everyone who receives startup cash to sign it signifying that they have counted the startup cash together with the bookkeeper and that they agree regarding the amount. Failure to keep such a log creates the potential for simple errors that can result in allegations of wrongdoing.

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 as a way 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.

Every employee should be evaluated annually. No one should be able to authorize an employee for payroll or other purposes without several layers of verification. The best preventive measure is to ensure that the human resources and hiring functions are separate from the payroll functions and that the human resources and payroll departments reconcile their employee and pay information separately.

Whether it prepares its own payroll or uses a service, a charter school is responsible for paying and remitting to the government all employee and employer payroll taxes. Perpetrators of payroll tax fraud set up fictitious accounts and funnel the payroll tax amounts to them rather than paying the government.

External payroll services are not immune to payroll and payroll tax frauds: their employees may set up fictitious employees or divert payroll taxes to other accounts because they know the charter school business office is inattentive or inexperienced.

Appendices

Appendix A: Sources of Research and Documents

- FCMAT
- 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

Charter School Annual Oversight Checklist

Click 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 Administration
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
EDD	Employment Development Department
Ed-Data	Education data website; a Partnership of CDE, EdSource and FCMAT/CSIS
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
ESSA	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
HQT	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 Schools
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
QSCB	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