

# COLORADO CHARTER SCHOOL FINANCIAL MANAGEMENT GUIDE

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## **Executive Summary**

With the creation of charter schools, several changes occurred that affect the framework in which a school operates. However, when it comes down to the functions of an individual school, nearly all of the functions are similar to other public schools. Teachers teach, nurses provide medical care, maintenance people take care of buildings, administrators fulfill their roles, and so on. Although the issues they face may be somewhat different, their experience in schools and interaction with others in similar positions serve as valuable resources.

The function in charter schools that is completely different from anything else that had existed previously is the financial management function. Unlike a typical public school, responsibility for accounting systems, contract negotiations, complete budget development, facility planning, and so on, rest with the individual school. Also, unlike a typical private school, all of these functions must be managed with the added responsibility that comes with being publicly funded. The hybrid nature of charter schools (public entities, many of which are also non-profit corporations) creates unique challenges for the financial management function of an individual school.

Although there are several resources for information, it can be difficult to even know what information is needed when managing a school's finances. This guide is intended to summarize what a charter school needs to be aware of and offer links to resources where schools can find more detailed information in a specific area. This is not a "how to" guide for financial management of a charter school. Part of the nature of charter schools is the individuality of each situation. Due to so many varied circumstances (school district relationships, contract requirements, size of school, type of school, community dynamics, etc.), specific advice needs to be tailored to specific situations.

The format of this guide is simple. There is a brief narrative about topics that apply to financial management of charter schools. For each topic, there are links or references to more information. The reference is often to the CDE website. In some cases, more information means examples attached as appendices.

At the end of the narrative, there are sections that provide quick reference information, such as a glossary of terms, a list of resources for detailed information, and some examples of documents used in schools. Due to the continuing evolution of charter schools, regulations change and new resources become available frequently. In addition to the resources listed in this guide, individual charter schools with similar missions are the best source for information and specific examples.

## **Nature of Charter Schools**

The Colorado Revised Statutes (C.R.S.) are the laws of the State of Colorado. Education is governed by Title 22, C.R.S. The Charter Schools Act is found in Section 22-30.5, C.R.S. This information is available in many forms. It can be accessed electronically through several links as well. One way to find all education laws and regulations in one place is to visit the index of Colorado education laws and regulations on the CDE website at [www.cde.state.co.us/index\\_law.htm](http://www.cde.state.co.us/index_law.htm).

According to section 22-30.5-104(1), C.R.S., “A charter school shall be a public, nonsectarian, nonreligious, non-home-based school which operates within a public school district.” Therefore, charter schools are public schools. As a result, charter schools are subject to the same requirements as other public schools, except for laws which have been specifically waived for a particular charter school. The process for requesting waivers is outlined in sections 22-30.5-104(6) and 22-30.5-105(3), C.R.S.

In addition to being a public school, a charter school may organize as a nonprofit corporation. According to section 22-30.5-104(4), C.R.S., “A charter school may organize as a nonprofit corporation pursuant to the “Colorado Nonprofit Corporation Act”, articles 121 to 137 of title 7, C.R.S., which shall not affect its status as a public school for any purposes under Colorado law.” If a charter school chooses to organize as a nonprofit corporation, then it is both a nonprofit organization and a public entity. It is not one or the other.

## **Financial Reporting**

A charter school is required to report its financial status and the results of its financial operations on a regular basis. School management needs to have financial information in order to make decisions, both for current expenditures and for future financial planning. In addition, regulatory bodies such as the charter school authorizer (in Colorado that is the authorizing school district or the Colorado Charter Schools Institute), CDE, and others need to have financial information in order to prepare required reports and to monitor past financial activity of the charter school. Although some financial reports can satisfy both needs, financial reporting can generally be classified into either management reporting or regulatory reporting.

## **Management Reporting**

The main purpose of providing financial information to management (school administration and the governing board) is to allow them to make knowledgeable decisions about items that affect the school financially. In order for this information to be useful it must be timely, accurate, and clearly presented. The timeliness and accuracy of information are products of the accounting procedures that are in place. Reports that are easily understood can vary in format based on the people reading the information. However, the following types of reports are helpful in understanding the finances of any entity. (For sample management reports see Appendix A)

### *Balance Sheet*

A balance sheet provides a snapshot of financial status at a given point in time. It lists what is owned (assets), what is owed (liabilities), and what is left over (net assets or fund balance). Looking at a balance sheet allows management to see how much cash is in the bank and what outstanding debts are owed, such as earned but unpaid salaries. In addition, by analyzing the fund balance, management can quickly determine compliance with TABOR and any other reserve requirements. Monitoring changes in fund balance from month to month is the quickest way to track bottom-line progress of the school financially.

### *Income Statement/Profit and Loss Statement/Statement of Revenues and Expenditures*

An income statement measures financial activity over a given period of time. It shows how much income is earned, how much is spent, and what is left over (net income or loss). It also allows management to see sources of income and to see where money is spent. While a balance sheet measures financial status on a given date (typically the end of a month), an income statement shows the changes in financial position that take place in between balance sheet dates. Regular review of the statement of revenues and expenditures leads to a better understanding of the regular sources and uses of funds at the school.

### *Statement of Cash Flows*

A statement of cash flows shows the increases and decreases in cash for a given period. With accrual accounting, increases and decreases in cash do not necessarily coincide with income and expenditures. Please see the glossary for definitions of cash basis and accrual basis accounting. Particularly in the early years of existence, it's critical for management to monitor the school's cash position and its upcoming cash needs. While a statement of cash flows helps management understand past patterns of cash inflow and outflow, it's important to use this information to help project future cash needs and to make sure that sufficient cash will be available to meet those needs, including payroll.

### *Statement of Income and Expenditures vs. Budget*

This report has many different titles and many different formats, but the purpose is the same. The report measures income and expenditures for a given period and compares the actual amounts to budgeted amounts by category. This report will often include an explanation column that is used to explain significant differences between monthly or year-to-date actual amounts and budgeted amounts in a particular line item. Some prefer to compare year-to-date expenses to the total annual budget in order to see how much is left in the budget at a given point in time. Others prefer to compare year-to-date expenses with the amount that was budgeted for the same time period in order to see how accurate the budget estimates are at that point. Regardless, management should regularly compare actual financial performance with projected financial performance and take the time to understand the reasons for any significant variances.

## *Other Reports*

Several other reports that are unique to a certain school or situation may also be used. These range from enrollment analyses to full five and ten year building needs projections to financial projections that are part of an overall strategic plan. With good financial procedures that lead to accurate information, useful reports are not difficult to generate.

## **Regulatory Reporting**

In addition to management reporting, there are several regulatory bodies that require financial information. The types and purposes of these reports are not easily summarized. In addition to specific requirements from school districts, there are other requirements that apply to all charter schools. Five general requirements are discussed below, with directions to resources that can provide more details.

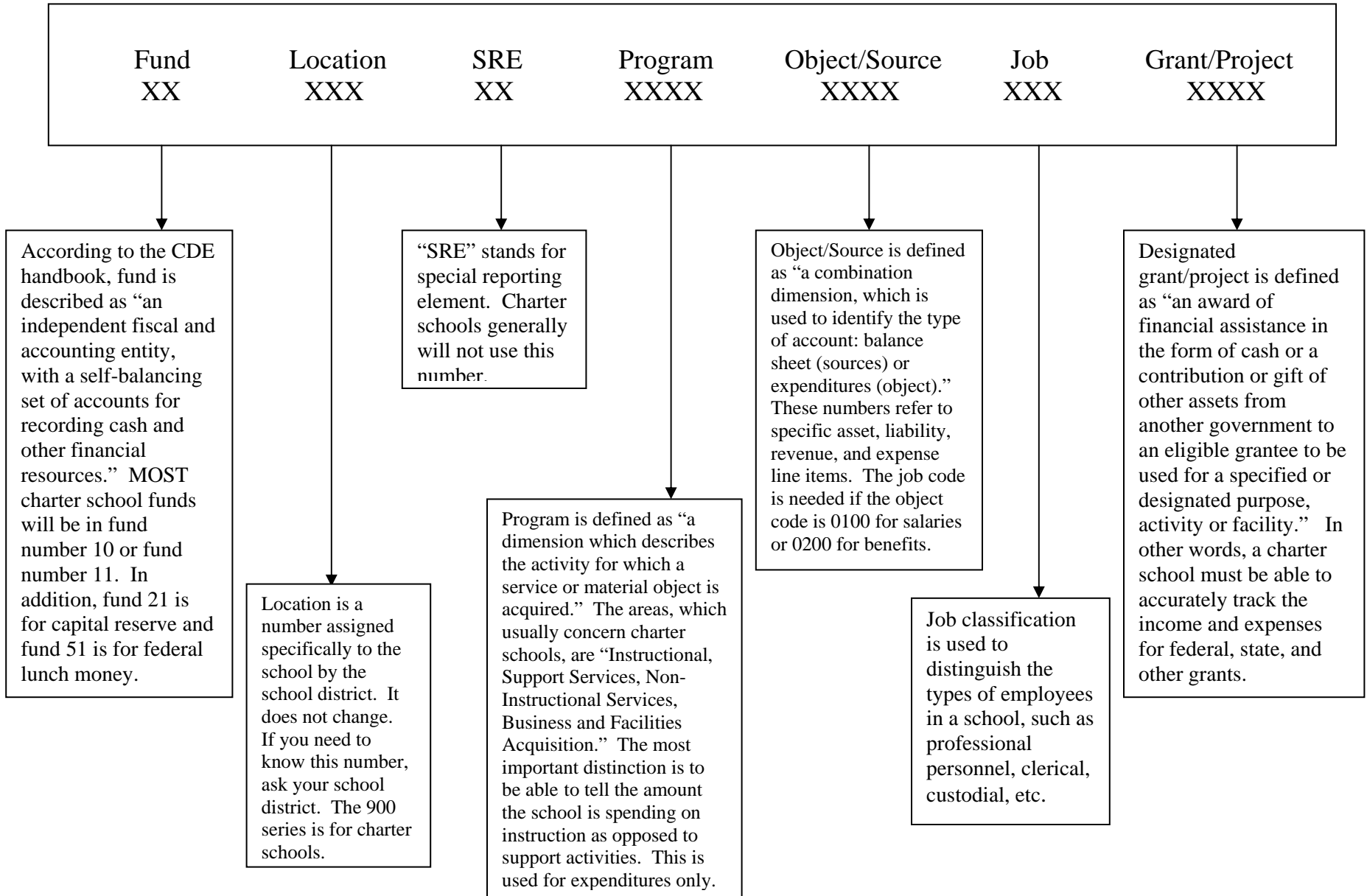
It may be helpful to remember that wherever there is a source of revenue, there is probably a reporting requirement to that entity. For instance, if grant money is received, financial reporting requirements come with the award. Also, state reporting requirements are typically met through the authorizer. The authorizer is often the best source of information about these requirements.

## *CDE Chart of Accounts*

The CDE Chart of Accounts is a prescribed format for reporting financial information. Charter schools are required to report financial information in this format each year, but individual schools do not submit this information directly to CDE. The reporting is done through the authorizer. Formatting, frequency of reporting, and deadlines should be worked out between the charter school and the authorizer. The chart of accounts, in its entirety, is in the Financial Policies and Procedures handbook, which can be accessed from the School Finance section of the CDE website at [www.cde.state.co.us/index\\_finance.htm](http://www.cde.state.co.us/index_finance.htm).

The CDE Chart of Accounts was designed for use by all public schools in the state, from elementary to middle school to high school. It includes reporting elements for all of the extra-curricular activities, maintenance, capital acquisition, transportation, food service, and myriad ancillary items that could possibly apply to a public school. It's important to understand the chart of accounts elements that apply to the specific school. In most cases, it can be simplified a great deal. The best source of information for reporting requirements and the pertinent parts of the chart of accounts is the authorizer.

The chart of accounts is broken down into a series of numbers, each of which refers to something specific. Refer to the table on the following page for more details.





## *GASB 34*

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34 – “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments”), requiring a new financial reporting model for governmental entities. This significantly changed the way governmental financial statements are presented at the end of each fiscal year. Complying with this reporting format is best worked out with the authorizer and/or the charter school’s independent auditor, depending on circumstance. Two significant aspects of GASB 34 are the preparation of Management’s Discussion and Analysis (MD&A) each year and the requirement of schools to capitalize and depreciate fixed assets. (For a sample Management Discussion and Analysis see Appendix B)

A comprehensive MD&A is now required. The MD&A must be prepared by school management, not by the auditors. It is then included in the final audit report. This document will introduce the financial statements by presenting an analysis of the school’s financial performance for the year, and its financial position at year end. The format is prescribed and the best source for finding an acceptable format is another charter school. The document should include:

- Objective and easily readable analysis of the school’s financial activities based on currently known facts, decisions, or conditions.
- A brief discussion of the basic financial statements, including the relationships of the statements to each other (if different) and any significant differences in the information they provide.
- Comparisons of current to previous year.
- An analysis to whether financial condition has improved or deteriorated over the year including: total assets (distinguishing between capital and other assets), total liabilities (distinguishing between long-term and other liabilities), total net assets (distinguishing among amounts invested in capital assets, net of related debt; restricted amounts and unrestricted amounts), program revenue, by major sources, general revenue, by major source, total revenue, program expense, at a minimum by function) total expenses, contributions, change in net assets and ending net assets.
- Analysis of significant changes that occur in funds and significant budget variances.
- Capital asset and long-term debt activity.
- Currently known facts that are expected to have a significant effect on financial position

The other significant requirement of GASB 34 requires charter schools (as governmental entities) to record fixed assets and depreciate those assets over time. In standard governmental accounting, when large items such as an HVAC system, a bus, playground equipment, etc. were purchased, the cost was recorded as an expense in that year. With the GASB 34 requirements, the cost is recorded as an asset owned by the school and as the value depreciates, the depreciation expense is recorded over the estimated life of the asset.

The practical implications of the GASB 34 requirements are felt at the end of each fiscal year. During the budgeting process and throughout the fiscal year, charter schools report their finances in a typical governmental accounting format. For budget compliance purposes, fixed assets are expensed in the year of purchase. However, at the end of the fiscal year, each charter school must also prepare financial statements in the GASB 34 format, which shows fixed assets on the balance sheet, with depreciation expense on the income statement. These statements are in addition to the governmental statements. Therefore, the audit report at each year will include both sets of financial statements, along with the MD&A.

### *TABOR (Taxpayers' Bill of Rights)*

The Taxpayers' Bill of Rights (TABOR) was added to the Colorado Constitution (Article X, Section 20) as a result of the passage of Amendment 1 in the November 1992 election. It sets limits on the amount of tax revenue a governmental entity can collect and sets certain other restrictions on government finances. The two most practical and direct effects TABOR has on individual charter schools are the TABOR emergency reserve requirement and the restriction on entering into long-term debt.

Each school is required to keep in reserve an amount equal to 3% of current year expenditures. It's critical to plan for this reserve every year, but it's particularly important in the first year of operation. Establishing the 3% reserve in the first year means saving a full 3% of expenditures in that year. In future years, once the initial 3% is set aside, it's not as difficult to add to the reserve as expenditures grow because you only need to add incrementally. In some cases, school districts maintain the TABOR reserve for their charter schools. Regardless, it is the school's responsibility to make sure that this reserve is maintained.

TABOR also requires governmental entities to get approval through a vote of the people in order to incur debt for more than one fiscal year. This applies to charter schools. There are several ways to deal with this issue and still be able to enter into long-term leases or long-term debt for building purposes. However, a charter school in Colorado cannot simply take out a standard 30-year loan to buy or build a building. There are several legal and financial experts that work with charter schools and understand this issue. Your authorizer, other charter schools, CDE, and the Colorado League of Charter Schools are good resources to help find the right experts.

Complete information on TABOR can be found at:

[http://www.cde.state.co.us/artemis/gov3\\_10/GOV32T112004INTERNET.pdf](http://www.cde.state.co.us/artemis/gov3_10/GOV32T112004INTERNET.pdf)

### *Fiscal Emergency Restricted Reserve*

For fiscal year 2009-10, each school district and each charter school are required to budget a total dollar amount determined by CDE to a fiscal emergency restricted reserve. The amount is available from the School Finance Unit at CDE. If no action to require a rescission is taken by the General Assembly by January 29, 2009, then each school can spend its reserve.

### *Grant Reporting*

Opportunities for receiving grant money have increased significantly for charter schools over the years. There are several sources of grant funds, but they can be classified into two categories, public or private. Reporting requirements vary greatly depending on the source of funding. Whenever grant funds are received, review the award documents to check for types of reports required and for deadlines for those reports. Generally, private grant awards have relatively simple and clear reporting requirements. For public awards, help in understanding reporting requirements is often available from the school district and from CDE. The complete guide for Federal education grants is called the Education Department General Administrative Regulations (EDGAR). It, along with a wealth of other Federal grant information, is available in hard copy or electronically at:

<http://www.ed.gov>

### *Bondholder/Lender Reporting*

Charter schools have several different arrangements to meet their facility needs. This includes various rental, lease, and long-term debt arrangements. In many cases, particularly in bond transactions, there are reporting requirements included. These requirements can be found in the closing documents (or in the rental or lease agreement as the case may be). Again, it is the school's responsibility to know the requirements and to meet them.

## **Accounting System Components**

The quality of information in any financial report is dependent on a sound accounting system. Specific accounting procedures may vary, depending on several factors such as school size, location, types of programs in place, etc. Below is a brief summary of components in an accounting system. When tailoring sound concepts to an individual school, common sense is often the best guide.

### **Financial Policies and Procedures**

When developing financial policies and procedures, the unique nature of charter schools plays a role. As a public entity, policies must be established within certain guidelines for managing public money. This puts constraints on issues ranging from investing money to public bidding requirements. Requirements for managing public money are not always easy to find or understand, and many issues that larger public entities deal with are not applicable to individual charter schools. However, understanding the requirements is the responsibility of the school and two complete sources of regulatory information are school district financial policies and procedures handbooks and the CDE website.

Within the above framework, the goal of financial policies is to establish a decision-making process for receiving and spending money, and to establish a system that provides timely and accurate financial information. There are several ways to accomplish this. (For sample financial policies see Appendix C)

Developing and implementing financial procedures establishes how day-to-day financial activities are accomplished. Sound procedures help ensure accurate financial information. When developing accounting procedures, the goal is to establish controls over how transactions are processed. These controls include proper authorization, proper documentation, proper physical controls, and segregation of duties. The basic concept is that no financial transaction should be carried out from beginning to end (approval to reconciliation) by one person. Even in very small environments, a minimum of three people should be involved at some point in a transaction.

Below is a general overview of the components of an accounting system. Each of these components requires procedures to help ensure proper functioning. This is a basic summary, with examples of how a transaction could work in each area with an appropriate segregation of duties. (For sample financial procedures see Appendix D)

### **Cash Management**

For purposes of discussing cash management procedures, this will focus on handling and recording cash. Cash management, in terms of investing or maximizing earnings on cash, is best dealt with by schools individually. Decisions related to how a school invests its cash are based on many variables, including overall financial health, stage of development of the school, need for liquidity of assets, reserve requirements,

whether or not a school even has access to its own cash and, most importantly, an understanding of the requirements for investing public money in Colorado. As referenced elsewhere in this document, those requirements can be accessed through the CDE website. Regardless, it is best to have a professional help develop an investment strategy if one is appropriate.

In total dollars, cash transactions are probably a very small percentage of all transactions carried out by an individual school. However, due to volume of transactions and in exposure to risk of theft, cash can take a significant amount of time to handle and record properly. Various activities, field trips, fund raisers, etc. are carried out every year and entail cash (including checks) being turned in to the school. As a result, it is important to establish procedures for receiving, recording, depositing, and reconciling cash.

There are different ways that this can be accomplished, but the basics are the same in any situation. The person receiving cash should document the amount received, the purpose of the receipt, and issue a receipt to the person turning in the cash. A different person should then verify the totals and deposit the cash at the bank. It would be best if a third person records the deposit in the accounting system and a fourth person reconciled the bank statements each month. In small environments, some variations occur for practical reasons, but there should not be fewer than three assigned individuals who are involved from beginning to end.

Adequate documentation should exist to show that procedures in place were followed. That means that some form of signature, or initials should be used at each stage. An example would be the person who reconciles the bank statement initialing the statement when reconciliation is complete. Finally, with cash, physical controls are necessary as well. This simply means that cash should be stored in a secure place and deposits should be made on a regular basis to keep unnecessary accumulations from developing on site.

### **Purchasing/Accounts Payable**

Most of a charter school's expenditures are fixed by the beginning of a school year. Salaries and benefits, building costs, utilities, special education services, and the like usually take up over 90 percent of an individual school's budget. However, textbooks, supplies, and other items need to be purchased throughout the year. It is important to establish procedures for purchasing and paying for things.

Again, the principle of segregation of duties should be followed. Items need to be ordered, checked for completeness when received, recorded in the accounting system as amounts to be paid, and paid. Each of these steps should be carried out by different individuals and documented. The most common ways of documenting each of these steps include purchase orders (signed by an authorized person) to document the order, packing slips (initialed by a different person) to document receipt of the order, invoices (initialed by a third person to authorize payment) to document accounts payable, and

checks (signed by a different person who is an authorized check signer) to pay the invoice.

The guide for developing these procedures should be policies established by the Board authorizing individuals for each step and establishing types of authorization needed for spending certain amounts of money.

### **Accounts Receivable**

Accounts receivable are amounts owed to you by another entity. Charter schools may or may not have accounts receivable to track. If the school bills for something, it will have accounts receivable. This may include services such as preschool or day care activities.

If this situation exists, procedures for billing, tracking amounts owed, receiving/recording payments, and collection need to be established. Again, each step should be handled (or at least verified) by a different individual. Typically, accounting software programs will generate invoices and track accounts receivable amounts. Collecting and depositing funds should follow the procedures established for handling cash.

### **Payroll**

Payroll is the largest expense for any charter school. Establishing compensation is discussed in another section of this document. Beyond compensation, understanding payroll taxes, benefits, filing requirements, etc. is a critical part of operating any entity. This is often the most time consuming part of running the business functions of a charter school.

First of all, just like all other components of an accounting system, payroll procedures must be established. Again, segregation of duties is critical. Payroll can be processed by staff on site or it can be processed by someone else (a school district or a private payroll service) through a contract. Regardless of the mechanism for preparing payroll, a school still needs to document how employees are paid. The person who either prepares the paychecks or provides the pay information to the payroll service should be different than the person who signs the checks, who should be different than the person that signs the payroll register, who should be different than the person who reconciles the bank account. Individual situations vary greatly but there should never be fewer than three people involved in the payroll process from beginning to end.

In addition to establishing procedures, payroll presents different items to be aware of. Below is a summary of items to be aware of, with links or ideas for more information.

## *Payroll Taxes*

Federal, state, and local governments require certain things from employers. The best places to access complete information are at [www.irs.gov](http://www.irs.gov) for federal regulations, [www.state.co.us](http://www.state.co.us) (follow links to both the Department of Revenue and the Department of Labor and Employment) for state regulations, and check with your local taxing jurisdiction to see if there are any local requirements.

In summary charter schools, as employers, are required to withhold and remit federal income taxes, the employee Medicare portion of FICA, the employee portion of PERA and state income taxes from employees. Schools must also pay state unemployment taxes, the employer portion of Medicare, the employer portion of PERA, and follow any local tax requirements. As public schools in Colorado, charter schools are generally exempt from federal unemployment taxes and from the social security portion of FICA, since PERA replaces that. Information regarding how to do this and how to file necessary reports is provided by the appropriate entities listed above.

## *Benefits*

Employee benefits include health insurance, dental insurance, short and/or long term disability insurance, life insurance, 401(k) or 403(b) plans, and other items. These benefits may or may not be offered. If offered, they may be paid for by the school, paid for by the employee, or the cost may be shared. Determining what a school can afford and what is part of a benefit package depends on several factors. Managing these benefits can be complicated and time consuming. Typically, a professional in the insurance industry or a human resources professional, either on site or offsite (at the authorizer or privately), can provide guidance.

As benefits relate to payroll, documentation of each employee's benefits package is essential. Based on choices made by the school and the employee, deductions from paychecks and remittances to various benefit providers will need to be made. As with all other accounting processes, this needs to be documented.

## *PERA*

The Public Employees' Retirement Association (PERA) is the retirement plan for public employees in the state of Colorado. Employees of charter schools are public employees. Therefore, employees participate in PERA essentially as a replacement for social security. PERA offers retirement benefits, 401(k) plans, life insurance, and several other products and services to its members. Charter schools participate in PERA by law (except for Denver Public Schools, which has its own retirement plan). As employers, charter schools must deduct employee contributions and make employer contributions to PERA monthly. Please go to [www.copera.org](http://www.copera.org) for detailed information about services, reporting requirements, processes, etc.

## **Fixed Assets**

Fixed assets are assets that exceed a certain dollar amount and have an estimated useful life of more than one year. A common dollar amount that is used to determine whether something is a fixed asset is \$5,000. Unless a charter school has an approved policy establishing a certain amount, the authorizer guidelines serve as the amount to use.

It has always been necessary to record and track fixed assets for inventory purposes. With the implementation of GASB 34, public entities now must also record fixed assets on the balance sheet or statement of net assets and must depreciate that amount over time. Individual schools vary significantly in their situations, but there often are very few fixed assets in an individual charter school. A school needs to develop a system of recording fixed assets. This includes recording fixed assets when purchased, determining the amount of depreciation to record each month and for how many years, and recording the disposal of any fixed assets.

A few examples of fixed assets include buses, some playground equipment, some science equipment, buildings that are owned, and leasehold improvements (renovations to leased facilities). With the requirement to show these items as fixed assets, as opposed to capital expenditures in a given year, it is critical to understand the nature of your fixed assets and the real value of them. Several hundred thousand dollars of leasehold improvements to a temporarily rented facility probably do not provide the school with an asset of any real value. This should be considered when analyzing your fund balance.



## **Budget Development/Management**

Developing and managing a budget is one of the most critical functions in managing any type of entity. Charter schools face unique challenges in this area and, by virtue of being a small, semi-autonomous public entity, there is little room for error. A budget deficit in an individual school cannot be covered by cuts in other areas, since there really is no such thing as “other areas.” Money received is used to operate the academic and supporting programs of the school. Any cuts in a budget directly impact the school’s operation.

A budget for a school should reflect the philosophy of the school. This takes a great deal of work and communication, especially in the early stages, between Board members and administration. There are different models and concepts of how a budget can be developed to meet the goals of a school. In general, however, the school’s mission should be fully understood when establishing spending priorities. Examples of items that may be important include textbooks, science equipment, technology, library items, resources to support special programs like art, music, physical education, and the like.

While keeping in mind the mission of the school, three basic budgeting principles should be applied at all times. Estimate revenue low. Estimate expenditures high. Estimate large factors (such as enrollment) that impact revenue and expenditures very conservatively. It is not a problem to have more money than anticipated, but it can be devastating to have less.

### **Revenue**

Charter schools receive revenue from varying sources. Per Pupil Revenue (PPR) is what funds a school’s operations. There are several other sources of revenue, some which are temporary and some which are dependent on market factors other than enrollment. However, PPR is the guaranteed stream of revenue which makes up most of the funding a school receives. This amount is calculated each year and made a part of the School Finance Act in March or April for the following fiscal year. For a summary of all of the factors that go into school finance in Colorado, the Public Schools Finance Unit at CDE prepares a summary booklet titled Understanding Colorado School Finance and Categorical Funding. This can be found at:

<http://www.cde.state.co.us/cdefinance>

#### *Sources of Funding*

Below is a summary of some of the most common sources of revenue. This does not address specific sources available to some schools for specific programs, such as preschool, extended day, or other unique situations.

PPR (per pupil revenue) - PPR is established by the legislature each year. This is sometimes confused with PPOR. PPOR is per pupil operating revenue. PPOR represents PPR less capital reserve and insurance reserve money. Beginning in fiscal year 2009-10, PPOR will no longer exist. This is because there will be no more requirement to fund capital reserve and insurance reserve amounts.

Charter schools receive a percentage of their school district's PPR amount. Schools authorized by the Charter School Institute receive a percentage of the PPR of the school district in which the school resides. Charter schools receive 100% of the school district's PPR, but the school district may withhold up to 5% to cover central administrative costs attributable to the charter school. The difference between 100% and 95% must be accounted for by the school district to the charter school. Details of this requirement are in Section 22-30.5-112, C.R.S. The Charter School Institute withholds 5% of PPR from its charter schools. A portion of that covers central administrative costs of CSI and a portion of that covers administrative costs of CDE.

At-Risk Funding - At-risk funding may be available to charter schools on a per pupil basis. Determination of amount is driven by eligibility for the federal free and reduced lunch program. This should be worked out with the authorizer. There is also an alternate at-risk funding calculation that applies to some charter schools. More information is available in Understanding Colorado School Finance and Categorical Funding.

Capital Construction Funds – During the last several years, the legislature has appropriated an amount to be distributed on a per pupil basis to charter schools with capital construction needs. For fiscal year 2009-10, \$5 million is appropriated for this purpose. The mechanisms for determining eligibility and distributing the money change frequently, and the amount to be appropriated can change or be eliminated from year-to-year. Nearly all charter schools in Colorado have received this money. Current information can be found at the CDE website.

Mill Levy/Tax Overrides/Other Revenue – Although not required by law, some school districts provide additional funds for their charter schools. Mill levies and tax overrides are a result of local tax-payer approved assessments. These funds *may* be ear-marked for certain expenditures such as “books” or “computers.” The charter school law does require school districts to notify their charter schools of upcoming bond or mill levy elections. Charter schools may submit projects for consideration to be a part of a bond election or they may ask to be included as a separate question on a mill levy election. A charter school should work through this process with the school district.

There can be several other sources of revenue, depending on the school. Revenue can come from governmental programs, private sources, fee-based school programs such as activities or before and after school programs, and more. Other similar charter schools are great resources for exploring different revenue options.

Restricted Funds - Each year there is the possibility that schools must spend a portion of their PPR on certain items. This depends on the legislature. The amounts can change each year. Current information can be found at the CDE website.

*Instructional Supplies and Materials* – Each school once was required to spend a certain amount per pupil for instructional supplies. This requirement no longer exists as of fiscal year 2009-10.

*Capital Reserve and/or Insurance Reserve* – Each school once was required to spend a certain amount per pupil for capital expenditures or risk management activities. This requirement no longer exists as of fiscal year 2009-10.

Grant Funds – The amount of grant money available to charter schools has increased significantly over the years. Several private foundations support charter schools and federal start-up money is often available as well. Information on these sources is available from CDE or from the Colorado League of Charter Schools.

#### *Factors to Consider*

The most important factors to consider when budgeting revenue are PPR and enrollment. The number of students in a school drives the amount of revenue received. Per pupil funding amounts are calculated based on full-time equivalent students (FTE). For purposes of school funding, students in kindergarten are counted as less than 1. Kindergartners used to be counted as .5 FTE, but the legislature increased that amount. For fiscal year 2009-10, kindergartners are counted as .58 FTE. A realistic projection of the number of students enrolled is critical for properly budgeting revenue amounts. Other factors, such as preschool enrollment, fundraising plans, grant eligibility, etc. are specific to each school and should be considered. In the long-term, enrollment still is the main factor in revenue projections.

### **Expenditures**

Planning expenditures begins with understanding where money will need to be spent in order to operate the school. Simply put, money available for all other expenditures will be dictated by the amount of money paid for salaries, benefits, and building costs. Expenditures should be prioritized based on the mission of the school.

This summary of major categories is intended as a simple way to group expenditures that are necessary for running a school. It does not necessarily reflect categories for regulatory reporting purposes. The categories are listed in descending order in terms of percentage of total expenditures.

#### *Salaries and Benefits*

Salaries and benefits make up anywhere from 45 – 85 percent of a charter school's total expenditures. This broad range reflects differences in school missions, culture, and choices in staffing structure. For example, if a school chooses to contract for

services such as accounting, maintenance, etc. instead of hiring its own employees, the school's salary and benefits costs will be lower, but their contracting costs will be higher. Regardless, staffing costs are by far the most significant part of a school's expenditures.

Determining compensation for employees is one of the most difficult jobs a Board and/or administration face. Policies governing employee compensation vary greatly from school to school. Depending on the program, a school will budget salaries for teachers, administration, teacher aides, librarians, maintenance staff, preschool staff, extended day staff, lunchroom staff, coaches, and more.

Factors to consider when establishing salary goals include class size, support staff, performance pay, quality of environment, type of benefits, and more. The importance of understanding how these factors affect each other cannot be overstated. For example, every dollar spent on a facility is a dollar that is not available for salaries. Balancing the need for a facility to support your program with the ability to competitively pay staff can be a difficult thing to do. Another example of cause and effect would be determining the number of teacher aides needed to support the program. Each additional staff member reduces the pool of money available for other salaries. Trying to staff appropriately while trying to achieve salary goals can also be difficult. Finally, class size is another balancing act. Each new student in a classroom could mean another \$6,000 or so for salaries. Balancing the desire for small class sizes with the desire for higher salaries can again be very difficult.

In short, nearly every decision impacts how much can be spent on salaries. The Board and administration need to communicate regularly and discuss thoroughly their compensation goals for their employees.

### *Facilities/Capital Expenditures*

Facility costs make up the most significant part of charter school budgets after salaries and benefits. It is also the component of the budget that is most unique to each individual school. Facility arrangements vary from donated office space to brand new built-to-suit school buildings. Any analysis of a school's facility needs and budget must include local knowledge and an analysis of the local real estate, political, and population landscape. It must also include an understanding of the school's mission and the school's priorities.

What is applicable to all situations is the fact that facility availability and costs will affect everything else in the budget. Decisions on facility needs should consider the balance between the desire for a perfect facility and the amount of money that will not be available for other needs (most notably salaries). Charter schools that are not in free facilities are spending between 10 – 25 percent of their budgets on facilities.

No matter what the facility situation is, there are always costs of maintaining and upgrading a building. From utilities to maintenance to major repairs and replacement of equipment, these items need to be planned and budgeted.

### *Purchased Services*

Purchased services include various professional and technical services that a school needs to support its operation. These include such things as legal services, audit services, technology support services, custodial services, professional development services and several other services that are needed either occasionally or on an ongoing basis. These services can be purchased from a school district or from a private provider.

Of the services that charter schools choose to purchase from school districts, two are most common. Risk management services and special education services are often purchased from school districts. When developing a budget, special education services are usually the largest portion of purchased services. Understanding the services required and the costs of those services is important.

While charter schools may request waivers from certain laws, they cannot waive special education laws. In Colorado, the charter school authorizer is the Local Educational Authority (LEA) and the LEA is ultimately responsible for adherence to special education laws. That is one of the primary reasons that so many charter schools purchase special education services from the authorizer. Whether or not services are purchased from the authorizer, the charter school and the authorizer must work together regarding the provision of special education services. The CDE website has links to detailed information regarding special education requirements.

### *Supplies and Materials*

Supplies and Materials make up the smallest part of a charter school's budget in terms of dollars. However, from a day to day management standpoint, decisions about purchasing classroom supplies, textbooks, etc. are always in the forefront. There are different philosophies about how to budget and manage supply purchases. Regardless of philosophy, budgeting for these expenses should again support the mission of the school and managing these expenses should include proper authorization and control procedures.

### *Other Expenditures*

Once again, the individual nature of charter schools leads to other miscellaneous expenses that may be unique to a school or at least to a type of school. The best resource when planning expenditures is to get information from other like charter schools to make sure everything is covered. Also, make sure to assume that there will be unforeseen expenditures.

## **Audit**

At the end of each fiscal year an independent audit firm performs a governmental audit of a charter school. This is sometimes accomplished as part of the school district's audit and sometimes accomplished by contracting directly with an independent audit firm. These are financial audits. Financial audits examine financial statements to determine their conformity with specified criteria. Financial audits are not conducted to examine the financial quality of an entity, the wisdom of its management's decisions, or the risk of doing business with the entity.

An annual audit is required, but it is also necessary even if it wasn't. Again, given the nature of an individual school and the importance of timely, quality information to its management, the sooner an audit can be completed after the end of the fiscal year, the better. Important information and recommendations can be very helpful if received in a timely manner. The audit arrangements must be worked out with the authorizer. Regardless of the arrangements, it is in the charter school's best interest to have an auditor who is familiar with the unique nature of charter schools to perform the audit. (For a sample audit preparation list see Appendix E)

Again, the audit arrangements must be worked out with the authorizer. This includes contracting for the audit, timing of the audit, and reporting of the audit. Audits are submitted to CDE through the authorizer.

## Important Dates for Charter Schools

A much more complete master calendar that is updated frequently can be accessed on the CDE website. These are key dates or periods of time that remain the same from year to year. Some authorizers need information from charter schools prior to the submission to CDE. Therefore, check with your authorizer on the appropriate deadlines.

- July 1 – The first day of the fiscal year.
- July/August – An audit of the previous fiscal year is conducted during July or August.
- September 30 – This is the date school districts are required to provide to each charter school the itemized accounting of all actual costs of “district services the charter school chooses at its discretion to purchase.” (22-30.5-112(2)(a.4)(II), C.R.S.)
- September 30 – On this date the school districts should provide to each of its charter schools itemized information concerning “all of its central administration overhead costs. Actual costs shall be the amount charged to the charter school.” (22-30.5-112(2)(a.4)(I), C.R.S.)
- October 1 – This is the “October Count Day.” (22-54-103(10)(a), C.R.S.) School districts must report this information on the Automatic Data Exchange (ADE).
- October 1 – Charter school applications must be filed no later than October 1. The exact filing date is determined by the local board of education.
- December 31 – All negotiations on contracts between the local board and the charter school must be completed on this date or not later than 90 days after the ruling on the application, whichever is earlier, unless both the charter school and the school district agree to waive this deadline.
- January 10 – School districts must report an estimate of the number of students they expect to be in “qualifying” charter schools for the next budgeted year.
- January 31 – All W-2 and 1099 forms must be distributed to employees/independent contractors.
- February/March – Prepare budgets for the next fiscal year. It is necessary to communicate with the school district about the appropriate deadlines.
- June 30 – The last day of the fiscal year.

## **Glossary**

**Accounting Equation** – The relationship between the assets, liabilities, and capital of an organization.  $\text{Assets} = \text{Liabilities} + \text{Capital}$ .

**Accounts Payable** – A current liability representing an amount owed to a creditor.

**Accounts Receivable** – A current asset representing an amount due from a customer.

**Accrual** – An accumulation of revenue or expense items whose value has been incurred but for which no cash has yet been transferred.

**Accrual Basis** – An accounting system that recognizes revenue when it is earned rather than when it is actually received, and recognizes an expense when it is incurred, rather than when cash is disbursed.

**Articles of Incorporation** – The charter under which a corporation conducts business.

**Asset** – Anything that is owned and has monetary value.

**Balance Sheet** – A financial statement that shows the financial position of an entity at a particular point in time.

**Capital Reserve** – The amount included in the payments from the school district that is to be used for capital expenses. Capital-related expenditures are allowed for: (1) acquisition of land, improvements, buildings, equipment, and furnishings and construction of new facilities and additions to existing facilities; (2) alterations and improvements to existing structures; (3) acquisition of school buses and certain other equipment; (4) installment purchase or lease agreements; and (5) software licensing agreements. An individual item must cost at least \$1,000 and any given project must cost at least \$2,500. Beginning in fiscal year 2009-10, there is no requirement to fund a capital reserve.

**Cash Basis** – An accounting system that recognizes revenue when it is actually received and recognizes an expense when cash is disbursed.

**Chart of Accounts** – A listing of the account titles and identifying numbers that an entity uses to keep track of and report financial information.

**Colorado Department of Education (CDE)** – The department of state government that is responsible for implementing the laws governing education in the state of Colorado.

**Colorado League of Charter Schools (CLCS)** – A non-profit organization formed to support and promote charter schools in the state of Colorado.

**Colorado Revised Statutes (C.R.S.)** – The laws that govern the state of Colorado.



**Credit** – The right side of a ledger account. It represents a position or location within a specific account.

**Credit Balance** – The balance that results when the total credit amount exceeds the total debit amount in a specific account.

**Current Asset** – An asset that can reasonably be expected to be used up or converted into cash within one year.

**Current Liability** – A debt that is payable within one year.

**Debit** – The left side of a ledger account. It represents a position or location within a specific account.

**Debit Balance** – The balance that results when the total debit amount exceeds the total credit amount in a specific account.

**Depreciation** – The systematic and rational allocation of the cost of an asset over its useful life.

**Double-entry Accounting** – A method of accounting in which, for every debit entry, there must be a corresponding credit entry of the same amount. Every transaction must be represented by at least two changes.

**Employee Benefits** – Employee compensation other than salaries. This includes mandatory items, such as PERA, and other items, such as health insurance, vacation pay, sick pay, etc.

**Equity** – The money value of a property beyond any mortgage or liabilities existing on it.

**Financial Statements** – Formal reports that present financial information about an entity to interested parties such as managers, creditors, future investors, and governmental agencies.

**FICA** – The Federal Insurance Contribution Act, which established the social security system. FICA deductions from employee pay are comprised of an amount for social security and an amount for Medicare. Generally, charter school employees have the social security portion of FICA replaced by PERA.

**Fiscal Year** – A period of time (usually one year) over which financial activity is measured, reported, and audited. For schools in Colorado, this period begins on July 1<sup>st</sup> and ends on June 30<sup>th</sup>.

**501(c)(3)** – A section in the Internal Revenue Code which designates a certain type of non-profit status. A non-profit corporation can apply to the IRS for a formal designation of their status under section 501(c)(3).

**Fixed Asset** – An asset that meets or exceeds an established amount in terms of cost and has an expected useful life of one year or more.

**Form 1099** – A document indicating total earnings during the calendar year of an independent contractor. It is prepared by an entity at the end of every calendar year for independent contractors who are paid \$600 or more in that year by the entity.

**Form W-2** – A document indicating an employee’s total earnings and total taxes withheld during the calendar year. It is prepared by the employer at the end of every calendar year.

**Fund Balance** – The amount that is left after subtracting liabilities from assets.

**Generally Accepted Accounting Principles (GAAP)** – A broad set of principles that have been developed by the accounting profession and the Securities and Exchange Commission to guide accounting practices.

**Governmental Accounting Standards Board (GASB)** – An oversight entity that develops accounting standards for state and local governments.

**Gross Pay** – The earnings of an employee before any required taxes have been deducted.

**Income Statement** – A financial statement that measures financial activity (revenues and expenditures) for an entity over a given period of time.

**Independent Contractor** – An individual or business not directly employed by an entity, but used to perform specific activities for the entity. The Internal Revenue Service has guidelines for determining if someone is an employee or an independent contractor.

**Internal Control** – Control of an organization’s operations through procedures designed to safeguard its assets, generate appropriate accounting information, and ensure efficient productivity.

**Journal** – A book of original entry in which transactions are recorded.

**Liability** – An amount due to a creditor or other interested party.

**Liability Insurance** – Insurance purchased to protect an entity from loss.

**Long-term Liability** – A financial obligation that is not expected to mature and become payable within one year.

**Medicare** – A portion of the FICA tax that is withheld from an employee’s pay and which must be matched by the employer.

**Net Pay** – The actual amount of money an employee takes home after deductions have been made from his or her gross pay.

**Petty Cash** – A small amount of money kept on hand to pay for insignificant purchases when other means of payment are not practical.

**Policies** – A set of guidelines which governs the activities of an entity.

**Procedures** – A set of established methods used for carrying on the operations of an entity.

**Profit and Loss Statement** – See Income Statement

**Public Employees' Retirement Association (PERA)** – The retirement system, in place of social security, that public employees in the state of Colorado participate in.

**Reserve** – An amount of money that is saved or withheld for a particular purpose.

**Taxpayers' Bill of Rights (TABOR)** – A reference to Article 10, Section 20 of the Constitution of the State of Colorado. TABOR Reserve is used as a reference to the requirement that public entities in Colorado must maintain an emergency reserved equal to 3% of current year expenditures.

**Unemployment Insurance** – Insurance which schools pay to the State for settling unemployment claims from eligible past employees. There is also a Federal Unemployment Insurance requirement of most employers but charter schools, as public employers, are generally exempt from this.

**Workman's Compensation** – Insurance a school must provide in order to financially cover employees in the case of injury while working.

## **Resource List**

### Colorado Department of Education (CDE)

Charter Schools Unit  
201 East Colfax Avenue  
Denver, CO 80203  
Phone: (303) 866-6740  
Website: [www.cde.state.co.us](http://www.cde.state.co.us)

Public Schools Finance Unit  
201 East Colfax Avenue  
Denver, CO 80203  
Phone: (303) 866-6843  
Website: [www.cde.state.co.us](http://www.cde.state.co.us)

### Colorado State Revenue Department

1375 Sherman Street  
Denver, CO 80203  
Phone: (303) 205-8411  
Website: [www.revenue.state.co.us](http://www.revenue.state.co.us)

### Colorado League of Charter Schools (CLCS)

25 South Broadway – Suite 7  
Denver, CO 80209  
Phone: (303) 989-5356  
Website: [www.coloradoleague.org](http://www.coloradoleague.org)

### Internal Revenue Service (IRS)

600 17<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Denver, CO 80202  
Tax-Exempt/Government Entities: (1-877-829-5500)  
Tax Forms: (1-800-829-3676)  
Website: [www.irs.gov](http://www.irs.gov)

### Public Employees Retirement Association (PERA)

1300 Logan Street  
Denver, CO 80203  
Phone: (303) 832-9550  
Website: [www.copera.org](http://www.copera.org)

# **Appendix A: Sample Management Reports**

**Appendix B:  
Sample Management Discussion  
and Analysis (GASB 34)**

# **Appendix C:**

## **Sample Financial Policies**

# **Appendix D:**

## **Sample Financial Procedures**



**Appendix E:**  
**Sample Audit Preparation List**