

**FINANCIAL MANAGEMENT FOR  
GEORGIA LOCAL UNITS  
OF ADMINISTRATION**

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**INTRODUCTION**

Charter schools are authorized in the Official Code of Georgia Annotated, Title 20, Chapter 2, Article 31, beginning with §20-2-2060. This Article is referred to as the Charter Schools Act of 1998. The legislative intent is to increase student achievement through academic and organizational innovation by encouraging local school systems to utilize the flexibility of a performance-based contract called a charter.

Article 31A defines state charter schools as a complement to the local public-school system structure. State charter schools serve outside of a local public school’s organization and can serve students statewide regardless of educational districts. O.C.G.A. §20-2-2080 establishes the State Charter Schools Commission under the authority of the State Board of Education whose primary focus is the development and support of state charter schools in order to better meet the growing and diverse needs of students in this state and to further ensure that state charter schools of the highest academic quality are approved and supported throughout the state in an efficient manner.

Additionally, O.C.G.A. §20-2-2063 authorizes the State Board of Education to enter into a charter agreement with a local board of education, thus creating a charter system.

This Chapter will discuss reporting requirements for state charter schools and local charter schools. The charter systems requirements and flexibility will be discussed along with Strategic Waiver flexibility contracts with local boards of education in FMGLUA **Chapter IV-1**.

The charter contract for both start-up and conversion charter schools includes certain required financial information regarding revenues to be provided and financial reporting that is required. It is of utmost importance for school business and finance personnel to have knowledge of the financial components of charter contracts.

## **A. DEFINITIONS**

**Charter** - a performance-based contract between the charter authorizer(s) and a Georgia nonprofit charter school governing board (nonprofit governing board). By entering into a charter, a nonprofit governing board and the charter authorizer(s) shall be deemed to have agreed to be bound by all the provisions of the Charter Schools Act, O.C.G.A. § 20-2-2060 et. seq., and all State Board of Education rules and guidelines implementing the Charter Schools Act as if such terms were set forth in the charter. A charter for a local charter school, if approved, shall be a three-party agreement between a Georgia nonprofit charter school governing board, a local board of education, and the State Board of Education. A charter for a Charter System, if approved, shall be a two-party agreement between a local board of education and the State Board of Education.

**Charter school** - a public school that is operating under the terms of a charter.

- a. **State charter school** – a school authorized by the State Charter Schools Commission pursuant to this article whose creation is authorized as a special school pursuant to Article VIII, Section V, Paragraph VII of the Constitution. A state charter school shall be a public school.
- b. **Local charter school** – is a start-up charter school or a conversion charter school that is operating under the terms of a charter between a Georgia nonprofit charter school governing board, the local board(s), and the State Board of Education.
  - i. **Conversion charter school** - a charter school that existed as a local school prior to becoming a charter school.
  - ii. **Start-up charter school** – a charter school that did not exist as a local school prior to becoming a charter school.

**Charter attendance zone** - the geographical area(s) indicated within a local charter from which students may attend the local charter school. It may include all or any portion of the local school system in which the charter school is located and may include all or any other portion of other local school systems if the charter school is jointly authorized pursuant to O.C.G.A. § 20-2-2063(c) or approved by the board(s) of education of those other school systems. State charter schools have attendance zones that are comprised of an entire district, a partial district, or multiple districts, with some state charter schools operating a statewide attendance zone.

**Charter petitioner** - a local school, local board of education, private individual, private organization, or state or local public entity that submits or initiates a petition for a charter, except that a charter petitioner for a local charter school shall be a party other than the local board of education. The term "charter petitioner" does not include home study programs or schools, sectarian schools, religious schools, private for profit schools, private educational

institutions not established, operated, or governed by the State of Georgia, or existing private schools. In the case of a charter school, the charter petitioner does not become a party to the charter contract unless the petitioner is a Georgia nonprofit corporation.

**Fiscal agent** – the public entity responsible for receiving and dispersing funds to a local charter school and for the financial oversight of charter schools that it authorizes.

**Local board of education** - a county or independent board of education exercising control and management of a local school system pursuant to Article VIII, Section V, Paragraph II of the Georgia Constitution.

**Local revenue** - local taxes budgeted for school purposes in excess of the local five mill share, combined with any applicable equalization grant and budgeted revenues from any of the following: investment earnings, unrestricted donations, and the sale of surplus property; but exclusive of revenue from bonds issued for capital projects, revenue to pay debt service on such bonds and local option sales tax for capital projects. Nothing in this paragraph shall be construed to prevent a local board from including a local charter school in projects specified in the ballot language of a local option sales tax or bond referendum.

**Petition** - a proposal to establish a charter school.

**Special school** - a school whose creation is authorized pursuant to Article VIII, Section V, Paragraph VII of the Constitution.

**State Board of Education (SBOE)** – the constitutional authority that defines education policy for the public K-12 local education agencies in Georgia.

**State Charter Schools Commission** – a state-level authorizing independent charter school authorizing entity, established pursuant to Article 31A of the Georgia School Code. The State Charter Schools Commission has the power to approve or deny petitions for state charter schools and renew, nonrenew, or terminate state charter school contracts in accordance with Georgia Law.

## **B. ACCOUNTABILITY AND AUTHORIZER ROLE**

All charter schools in Georgia are held responsible for meeting the academic performance goals set forth in the charter contract between the school and its authorizer(s). The grant of a charter to the governing board of an individual charter school is a delegation of authority from the authorizer to that governing board to oversee the management of the affairs of the charter school, consistent with relevant state and federal law and regulation.

The charter school approval process begins with the submission of a charter school petition. The petition is an application for the legal right to operate a charter school, which is then evaluated by the applicable authorizer to determine whether the proposed charter school complies with all applicable laws, rules, regulations, policies and procedures, whether it is a viable school, and whether it is in the public interest. Once the State Board of Education

grants or affirms a charter contract, it becomes the document allowing the operation of the school and sets forth the conditions under which it may operate and the terms for which the school is held accountable.

### **C, STATE CHARTER SCHOOLS**

State charter schools are charter schools created as a special school under state law operating under the terms of a charter between the charter holder and the State Charter Schools Commission. State chartered schools shall act as their own Local Education Agency for accountability purposes.

State charter schools are schools that operate as an LEA. The state charter schools must follow the same reporting and accountability guidelines established for LEAs. As such, state charter schools must adhere to all aspects of this manual that are applicable to LEAs. Adherence to this manual is required by the charter contract between the state charter school and the State Charter Schools Commission. Additionally, as this manual represents generally accepted standards of fiscal management for LEAs, noncompliance with this manual may result in the termination of a state charter school contract by the State Charter Schools Commission.

Moreover, state charter schools are responsible for reporting the annual financial and budgetary reports in accordance with State Board Rule 160-5-2-.21 and must follow the State LUA Chart of Accounts.

Additionally, state charter schools are generally funded in the same manner as traditional LEAs, using the QBE funding formula as appropriated each year by the State of Georgia. The QBE formula for state charter schools also includes a Charter Supplement. This supplement is to partially offset the lack of local funding of state charter schools.

In addition to financial reporting, the State Charter Schools Commission annually conducts performance evaluations to measure each state charter school's progress in the areas of academic achievement, operational compliance, and fiscal management.

### **D. LOCAL START UP CHARTER SCHOOLS**

A Local Charter School is a start-up charter school or a conversion charter school that is operating under the terms of a charter between a Georgia nonprofit charter school governing board, its local board(s) of education, and the State Board of Education.

Local charter schools are considered a school within the local school district and are reported to the US Department of Education's National Center for Education Statistics as part of the parent school district.

Local charter schools are eligible for federal, state, and local funds pursuant to O.C.G.A. §20-2-02068.1 and §20-2-2090, as appropriate. For the purpose of local charter schools, the Department shall determine the allotment of state funds and federal funds for the LEA in which the charter school is physically located, pursuant to O.C.G.A. §20-2-2068.1, or to

the local board(s) stipulated as the fiscal agent in the charter. The local board and the State Board of Education shall treat a local charter school no less favorably than other local schools located within the applicable local system unless otherwise provided by law, including with respect to the provision of funds for instruction, school administration, transportation, food services and where feasible, building programs. Funds for transportation and food service shall be provided in accordance with Local Units of Administration (LUA) Manual. A local charter school may request the Department to order mediation if it believes the local board is treating the charter school less favorably than other local schools.

#### **E. COLLEGE AND CAREER ACADEMIES**

A College and Career Academy is a specialized school governed by a governing board, established as a charter school or pursuant to a contract for a strategic waivers school system or charter system, which formalizes a partnership that demonstrates a collaboration between business, industry, and community stakeholders to advance work force development between one or more local boards of education, a private individual, a private organization, or a state or local public entity in cooperation with one or more postsecondary institutions.

Colleges and Career Academies can be either a school or a program. If an Academy is a school, the academy follows the same guidelines as a local charter school as related to the financial reporting of the activity. If the Academy is a program, it may be overseen by its own governing board and may be operated by the management chosen by its own governing board or the school district, although its financial activity is maintained on the school district's general ledger and its students attending the academy are recorded on the FTE segment counts for the school in which the student is enrolled (since a program does not report FTEs or earn separate funding). Whether it is a school or a program, the CCA is funded as described in the contract that created it, whether as a charter school or as a program within a charter system or strategic waivers school system.

If a 501(c)(3) federal non-profit Foundation is created in support of an Academy that is operating as a program, that Foundation is considered a component unit of the school district. Therefore, GASB Statement Number 39 should be followed to determine if the component unit should be reported as a blended or discretely presented component unit of the school district. The Foundation will be required to convert the financial reporting activity to GASB-based GAAP.

An Academy that is operating as a program is not a separate school. Therefore, the program is required to follow the same guidelines as the school district when reimbursing employees for travel expenditures and other reporting requirements such as the Open Georgia Transparency in Government Act (TIGA) reporting.

#### **F. RESPONSIBILITIES OF LOCAL CHARTER SCHOOL AUTHORIZERS**

Under Georgia law, local boards are responsible for the management and control of all local charter schools. The Authorizing Authority requirements are set forth in State Board Rule 160-4-9-.06. Excerpts from the Rule are detailed below:

(a) RESPONSIBILITIES OF LOCAL BOARDS OF EDUCATION. Local boards of education (“local boards”) shall provide control and management of local charter schools and charter systems, pursuant to O.C.G.A. § 20-2-2065(b)(2) and State Board of Education Rule 160-4-9-.06.

1. This control and management shall include the following responsibilities (associated with fiscal management) for local charter schools:

(i) Pre-Charter award or charter renewal:

(I) Review and act on local charter school petitions;

(ii) Post-Charter award or charter renewal:

(I) Monitor a new local charter school’s pre-operational period for timely implementation of ready-to-open benchmarks related to facilities, school personnel, enrollment procedures, curriculum and instruction, operations and fiscal management, and governance. In the event the charter school governing board does not meet the ready-to-open benchmarks, the local board may postpone the school’s opening by up to one year. An assurance to the Georgia Department of Education of a new school having achieved ready-to-open status is required before the new school may open.

(III) Ensure that local charter schools are fiscally sound and operating in accordance with Generally Accepted Government Auditing Standards, including annually reviewing budgets and reviewing working papers as needed;

(IV) Ensure that charter schools comply with Governmental Accounting Standards Board (GASB) Statements and Interpretations, which constitute Generally Accepted Accounting Principles (GAAP) for financial reporting.

(V) Ensure that local charter schools submit required financial information in accordance with the policies and deadlines established by the local school system for inclusion in the system’s annual Financial Review Report (DE046) to the Georgia Department of Education;

**(Please refer to State Board Rule 160-4-9-.06 for the complete rule regarding the responsibility of the charter authorizers.)**

All local charter schools shall submit required information to their local school board. The local board has fiduciary responsibilities as described in OCGA 20-2- 2065(b)(2) and will report local charter school financial data to the SBOE along with the normal submissions currently required. State charter schools shall submit this information directly to the SBOE. In addition to the submission to the SBOE, state charter schools and local charter schools shall submit required information to the GaDOE District Flexibility and Charter Schools Division in accordance with the rules and regulations established in the law and State Board Rule. See Section C for discussion of state charter schools reporting requirements. See local start up charter schools reporting in Section J for financial reporting requirements for local charter schools.

## **G. CHARTER PETITION REQUIREMENTS**

All charter school petitions must meet the petition requirements set forth in State Board Rule 160-4-9.05, Charter Schools Petition Process, for the particular type of charter school proposed. In addition, the charter school petition shall contain information sufficient to demonstrate fiscal feasibility and the existence of required financial controls. All charter school rules can be accessed at <http://www.gadoe.org/External-Affairs-and-Policy/Charter-Schools/Pages/Rules-and-Regulations.aspx> and charter applications for each type of charter school can be accessed at <http://www.gadoe.org/External-Affairs-and-Policy/Charter-Schools/Pages/Rules-and-Regulations.aspx>. Additionally, the State Charter Commission maintains specific application requirements for state charter schools, which can be accessed at <http://scsc.georgia.gov/petition-application>.

The charter applications contain information allowing authorizers to determine the financial viability of the proposed charter school and should be reviewed by local district financial staff when a charter school petition is being considered for approval. Special attention should be paid to the budgets submitted with the charter school petition and the amount of revenues shown, since approval of the charter school petition by a local board of education is approval of the revenue amounts committed by the local district – and those amounts will be incorporated into the charter school contract.

## **H. APPLICATION PROCESS**

All proposed charter school petitioners shall prepare enrollment and financial projections as provided by the District Flexibility and Charter Schools Division of GaDOE or the State Charter Schools Commission.

## **I. TERMINATIONS**

Local Charter Schools – upon termination of the charter for a local charter school, all assets of the terminated charter school purchased using state or federal grant funds, and all unencumbered state or federal grant funds awarded by the State Board of Education, shall revert to the local district and shall not be used by the school or its nonprofit governing board to satisfy liabilities. This excludes assets purchased with funds derived from the federal Charter Schools Program grant, which shall be redistributed to eligible Georgia charter schools including state charter schools authorized by the State Charter Schools Commission and charter schools authorized by local boards of education and the State Board of Education.

State Charter Schools – upon termination of the charter for a state charter school, all assets of the terminated charter school remaining after liabilities have been satisfied shall revert to the State Charter Schools Commission, which will make a determination on redistributing the funds to other state charter schools or return the funds to the state treasury. This excludes assets purchased with or unencumbered funds derived from state or federal grants awarded by the State Board of Education, which shall revert to the Department and shall not be used by the school or its nonprofit governing board to satisfy liabilities.

## **J. FISCAL RESPONSIBILITIES AND REPORTING REQUIREMENTS FOR CHARTER SCHOOLS**

All charter schools are required to develop policies and procedures to ensure fiscal responsibility with a system of proper internal controls. These policies and procedures must be finalized in written form and must be approved by the governing board of the school. A basic structure of the system of internal controls shall be submitted to their charter authorizer(s) as part of the charter school's initial charter application or charter renewal petition, local charter schools shall submit this information to their authorizing school board since that board has fiduciary responsibilities as described in OCGA 20-2- 2065(b) (2) and will report local charter school financial data to the SBOE along with the normal submissions currently required. State chartered schools shall submit this information to the State Charter Schools Commission, as well as to the SBOE. In addition to the submission to the SBOE, Commission Charter Schools shall submit information to the Commission in accordance with the rules and regulations established by the Commission.

### **1. ESTABLISH AN ACCOUNTING SYSTEM**

All charter schools must establish an accounting system. Given the time frames for cash disbursement by the LEA and/or the SBOE, charter schools should establish a modified accrual-based accounting system. Modified accrual accounting recognizes revenue when it is available and measurable. Modified accrual accounting recognizes expenditures during the period in which the liability is incurred.

### **2. BOOKKEEPING**

The primary components of any accounting bookkeeping system are the chart of accounts, the general ledger, and a series of journals/sub-journals that are used to track the details regarding specific types of transactions. The chart of accounts is a numbered list of each item that the accounting system tracks. A typical chart of accounts will be comprised of several main categories – such as *Assets*, *Liabilities*, *Equity*, *Revenues* and *Expenses* – each with multiple, numbered sub-accounts that capture specific financial operating details. Schools are required to use the same numbering system as used by the Georgia Department of Education. Additional information can be found on the Department's website at <http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/default.aspx>.

### **3. ESTABLISH INTERNAL FINANCIAL CONTROLS**

All charter schools are required to establish internal financial controls approved by the school's governing board. Internal controls are the processes and procedures organizations put in place to minimize the likelihood of financial mistakes, such as improperly recording the money that is received and disbursed, and theft. These controls must be transparent and clear so that an authorizer representative can review them as necessary. Illustrative examples of financial controls include:

- ✓ *Segregation of Duties*: No single individual should have control over two or more phases of a transaction.
- ✓ *Authorization and Processing of Disbursements*: Policies must be established to determine who in the school can authorize payments and under what terms and amounts.

### **4. ESTABLISH A PAYROLL SYSTEM**

All charter schools are required to establish a payroll system to ensure timely payment of personnel obligations. Deciding the criteria by which employees will be paid is one of the first steps when developing a school budget. Charter schools can use the state salary schedule if they so choose, but since that use of the schedule is waived by their charter contract, they are free to design their own compensation criteria.

Appropriate steps should be taken in advance to set up the payroll process. A payroll system will have to be established and maintained regardless of the compensation scheme chosen. Though a small number of charter schools have chosen to contract this service out to an employment provider, it is the duty of the governing board of the school to ensure that all payroll obligations, including payments for retirement and all taxes, are met and that all such payments are made in a timely manner.

### **5. ALLOTMENT OF FUNDS**

For new start-up charter schools, a conservative projection of base FTEs (full time equivalent student count) must be made prior to the start of the fiscal year (July 1). This estimate should include the number of students planning to attend the charter school that presently attend traditional public schools. In addition, this estimate should include an approximation of the number of students that will be newly enrolled in public education (i.e., students who were formerly enrolled in private schools or were homeschooled).

For new state charter schools, a projection of FTEs must be completed prior to the start of the fiscal year (July 1) only for the initial year of operation. The projection will be adjusted

with the first FTE count in October after the start of the school year and the state appropriation funding amended for actual enrollment. In addition to the projected FTEs mentioned above, the charter school will report FTEs in the normal reporting cycle starting with the count in October of the initial year. Any initial funding is subject to appropriation. If no initial QBE allotment is granted, then the funding for these schools will be part of the normal QBE Mid-Term adjustment process and funded through the Supplemental Appropriation.

For the method of calculating an approximation of local revenue for the state charter schools, GaDOE and the State Charter Schools Commission will follow the Charter Schools Commission Act. As required by law, the SCSC will calculate the approximate local revenue to which each state charter school is entitled, and the amount will be funded as appropriated. All grants are subject to SBOE approval and appropriation by the General Assembly.

A local charter school may request the State Board of Education to order mediation if it believes the local board is treating the charter school less favorably than other local schools. Funding for approved charter schools will be determined by following the QBE formula through the prescribed data collections of FTE and Certified/Classified Personnel Information (CPI). This process cannot be waived or altered by the charter, except where permissible.

## **6. DATA REPORTING**

In order for charter schools to receive an accurate and appropriate amount of state and local monies, it is essential that they follow all data reporting guidelines. Local charter schools should report through the local authorizing school district in ensuring that all data collections guidelines are followed. The state charter schools should follow data collection guidelines established by the Georgia Department of Education. At a minimum, state charter schools must transmit FTE (Full-Time Equivalent) Student information and Classified and Certified Personnel Information (CPI) data for all three collection cycles. Additional information, including transmission dates can be found on the Department's website at <http://www.gadoe.org/Technology-Services/Data-Collections/Pages/Data-Collections-and-Reporting.aspx>.

In order to access important information, all charter school administrators should set up a MyGaDOE account. MyGaDOE is an online interface designed to improve your interaction with the applications and services that the Department provides. It can assist charter school administrators in several procedures.

- Consolidate access to applications
- Provide quick access to a variety of new and existing services
- Provide news and tips
- Provide a way for Department staff to communicate with you through messages
- Provide quick access to documentation, online help, and training materials

MyGaDOE portal accounts can be created at the following link:  
<https://portal.doe.k12.ga.us/login.aspx?ssosrc=pro>. State charter schools are required to obtain a MyGaDOE portal account no later than July 1 of the first year of operations.

All state charter schools must have a Student Information System (SIS) system in place in order to record and transmit essential data to the Department. This SIS must be compatible with the State Longitudinal Data System as required by the state charter school's charter contract. The local charter schools are required to work with the local board of education in order to correctly transmit student and employee information.

## **7. STATE AND FEDERAL GRANTS**

The Georgia Department of Education has a variety of different state and federal grant programs for which a charter school may be eligible. The eligibility process is different for each grant and may be different depending on the type of charter school. Start up and conversion charters are considered part of the local school system under the authority of the local board of education that approved their charter – or as specified in the charter contract of the local charter school was jointly authorized or approved by more than one local board of education. As such, all grant applications should be approved by the local school district. State charter schools should submit an application directly to the Georgia Department of Education. All rules, regulations, and procedures of each individual grant program must be followed.

A charter does not make a charter school automatically eligible for competitive grants. All requirements for such grants must be met in order to be eligible for those grants. Similarly, all grant program requirements must be met for a school to receive formula grants.

## **8. TRANSPORTATION FUNDS**

Under Georgia law, the local board and the state board are required to treat local start-up charter schools no less favorably than other local schools with respect to the provision of funds for transportation. State charter schools are eligible for transportation funding through the state charter school supplemental grant. The transportation funding is only allotted to those state charter schools that provide transportation services. In determining the amount of funds to which a local charter school is entitled under this requirement, the local school board shall take into account the number of students enrolled in the start-up local charter school and the proportionate share of funds such student earns.

For the purpose of calculating the transportation funding required to be paid to start-up charter schools, local boards shall develop a ratio that takes into account total district spending on transportation and then determine the proportionate share to which any start-up charter school is entitled. Notwithstanding the requirement to provide transportation funding, local boards and start up charter schools may enter into a separate agreement that allows the district to provide transportation services in lieu of the proportionate cash payment otherwise required.

## 9. FOOD SERVICE FUNDS

Under Georgia law, the local board and the state board are required to treat local start-up charter schools no less favorably than other local schools with respect to the provision of funds for food service. All charter schools will be eligible to participate in the National School Breakfast and Lunch Program to the same extent as any other public school.

## K. FINANCIAL REPORTING

All charter schools in Georgia must be accountable financially as well as academically. The school is accountable to a variety of stakeholders: to its parents, to its authorizer, to the state, to the federal government, and to the general public. From a financial standpoint, that accountability is communicated through different types of financial reports. School management needs to have financial information in order to make decisions, both for current expenditures and for future budget planning. Additionally, regulatory agencies, such as the local school district or the state authorizer require financial reports to monitor past financial activity at the school level. As these are two very different needs, financial reporting is usually categorized into both **internal reporting** and **external reporting**.

### **INTERNAL REPORTING**

Internal reporting provides a standardized method of providing financial information to the school administrators and the governing board. Internal reporting should be easily understood and provide accurate and timely financial data. These reports may vary in format, but the following are all acceptable methods of internal reporting.

- Balance Sheets
- Statement of Income and Expenditures vs. Budget
- Income Statement/Profit and Loss Statement/Statement of Revenues and Expenditures
- Statement of Cash Flows

For those reports to be reliable, an appropriate set of controls must be in place. The business office should establish procedures that properly carry out governance board policies. As noted, the procedures established should ensure proper controls by adhering to the concept of segregation of duties. This means that no one person should ever be able to carry out a financial transaction from beginning to end.

### **EXTERNAL REPORTING**

Just as important as being able to produce required financial information for a charter school's governing board, a charter school's management must provide specific information to the Georgia Department of Education and its authorizer(s) in addition to external financial statement users. Two general requirements are discussed below, with directions to resources that can provide more details.

## State Charter Schools - Annual Charter Financial and Budget Reports to the Georgia Department of Education

The annual financial and budget reports are required components of financial reporting for State Charter Schools. The Georgia LUA Chart of Accounts is the prescribed format for reporting financial data. This format provides for the classification of revenues, expenditures, and expenses into certain specific categories. State charter schools are required to report financial information in this format each year. A review chart of account codes and the procedures for printing the State's Chart of Accounts can be found on the Georgia Department of Education's website at <http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/default.aspx>.

State charter schools shall submit annual budget and financial information in accordance with the requirements of this handbook. Enforcement of any expenditure controls associated with the reporting of this financial and budget data is subject to waivers granted through the charter approval process by the relevant authorizer.

### Local Charter Schools – Financial Reporting to their Local School Districts

Reporting for local charter schools that are authorized by a local school district or school districts is complicated in some cases. Many local charter schools maintain the financial records in a separate accounting software system than the authorizing school district. Additionally, local charter schools operate with autonomy in local school governance decisions. However, in Georgia, local charter schools are considered to be a local school of an authorizing school district, just like any other school in that district, for state and federal reporting purposes.

O.C.G.A. §20-2-2062 defines charter schools as a public school that is operating under the terms of a charter.

GAAP reporting requirements for public schools in Georgia are set by the Governmental Accounting Standards Board (GASB). The Implementation Guide for GASB Statement 34 indicates the following:

*“Under the ED, entities following the AICPA Not-for-Profit model based on Statement 29 would have been required to apply the criteria for using enterprise funds to determine their appropriate accounting under the new model. However, most would not meet the criteria for using enterprise funds and would be required to create governmental fund and modified accrual information in order to provide the required fund-based statements. For this reason, the Board agreed that these governmental not-for-profits should be "grandfathered" by stating in this standard (see paragraph 147) that they may be reported like business-type activities. **Not-for-profits that currently use the governmental model or that are created after the date of this Statement would be required to apply this Statement "as is."** (June 1999, effective for smaller entities for periods beginning after June 30, 2003.)”*

Further guidance indicates that charter schools meeting the definition of a government

entity are required to follow GASB GAAP. Even if a charter school does not meet the definition of a government, it may still be a component unit of a state or local government, including a local school district. Component units are required to be discretely reported or blended with the funds of the primary government. (PPC Guide, Section 1703.69)

The GASB Statement 39 discusses the definitions of component units and the reporting requirements. GaDOE has determined that local charter schools meet the definition of a component unit of a school district due to the fiscal dependency of the local charter on the school district and the services of the charter are for the primary benefit of the school district.

Each local charter school has a separate contract with their charter school authorizer, and the determination on whether the local charter school is a component unit as it relates to financial reporting for CAFR or Audit purposes should be made on an individual basis for each. For financial reporting to the Georgia Department of Education, all local charter schools are considered component units of the school district and all financial activity should be included in the annual financial reports submitted to GaDOE.

The local charter school fiscal year-end financial balances must be reported by the school district to the Department of Education in conjunction with the overall activity of the local school district.

Local school districts are required to report the fiscal year end balances to the Department of Education no later than September 30<sup>th</sup> after the FYE June 30<sup>th</sup>. The financial analysis report must be presented in a prescribed format using the adopted LUA Chart of Accounts. Account codes must include fund, function/revenue source, program, expenditure object, and facility/school code. Local charter schools must therefore provide the financial information required by their districts, in the form prescribed by their districts, in accordance with the deadlines established by their district.

Local Start-up Charter Schools shall submit annual budget and financial information to their local board(s) of education. This information shall be submitted in such a way that the local school board can and shall include it in their budget and financial reporting in accordance with this handbook. Although expenditure controls were waived in the charter contract, the requirement to report financial and budget data is not waived.

#### **Fund 599**

To specifically identify local charter school activity in a school district's annual financial analysis report, Fund 599 was created in the LUA State Chart of Accounts. The description of Fund 599 is a "special revenue fund for recording the activity of start up local charter schools so that they are included in the financial analysis report of the authorizing school district."

Fund 599 is to be reported by all school districts with local charter schools. The activity is to be recorded at fiscal year-end, using the authorized LUA Chart of Accounts published by GaDOE. The activity must be reported using fund, function/revenue source, program, expenditure object code, and school code.

The school codes must agree with the local charter school codes that are used to report FTE counts by the school district. For example, a local charter school may be housed in a building with a facility code of 1050, but the school code is reported as 2010. The FTEs should be reported to 2010; therefore, the operational expenditure activities for the local charter school should be reported in Fund 599 to school code 2010.

Example:

| Year | Fund | Fiscal year | Program | Function | Object | Sub-Object | Facility/<br>School | Building | Additional<br>Code |
|------|------|-------------|---------|----------|--------|------------|---------------------|----------|--------------------|
| 17   | 599  | 1           | 1011    | 1000     | 110    | 00         | 2010                | 0        | 000000             |

Fund 599 should only be used for the expenditures that are recorded directly by the local charter. Any expenditures that are incurred centrally by the school district, for example, professional development costs, should be reported in the appropriate fund using the correct school code.

Example:

| Year | Fund | Fiscal year | Program | Function | Object | Sub-Object | Facility/<br>School | Building | Additional<br>Code |
|------|------|-------------|---------|----------|--------|------------|---------------------|----------|--------------------|
| 17   | 100  | 1           | 1210    | 2210     | 595    | 00         | 2010                | 0        | 000000             |

Using the professional development example, if a school district incurs expenditures for providing training to the local charter school staff and the expenditure is paid with General Funds, the district will report that expenditure in Fund 100 to the applicable school code. Expenditures incurred and paid by the local authorizing school district do not need to be reported in Fund 599.

Fund 599 will only report those expenditures incurred by the local charter school and that are not already reported by the school district.

**Payments by the School District to the Local Charter School – Object Code 594**

The charter school contract approved by a local school board indicates the minimum amount of state and local revenue of the school district that is to be paid on a per-pupil basis to the local charter school in each year of that school’s operation. That payment schedule is agreed upon between the local authorizing school district and the local charter school. Payments made by the school district to the local charter school are required to be coded to object code 594.

The description of expenditure object code 594 on the LUA Chart of Accounts indicates the account is to record “payments made by the school district to the local charter schools for their portion of state and local funds.”

These payments are essentially an inter-agency transaction of the school district, in which funds are transferred from the centralized operations to the local charter school so that the funds may be budgeted and expended at the discretion of the local charter, based on their specific approved charter contract.

The expenditures charged to object code 594 should agree with the budget and payment plan approved for the local charter school. The payments would be posted to the general ledger as made by the school district as follows:

Example of Payment by Local Authorizing School District to Local Charter School:

|        | Fund | Program | Function | Object | Sub-Object | Facility/School |                  |
|--------|------|---------|----------|--------|------------|-----------------|------------------|
| Debit  | 100  | 9990    | 1000     | 594    | 0          | 2010            | <u>10,000.00</u> |
| Credit | 100  | N/A     | 0101     | N/A    | N/A        | N/A             | <u>10,000.00</u> |

The payment can be posted to the program code 9990, as the expenditures actually incurred with the funds will be reported by the local charter school in Fund 599 on the Annual Financial Analysis Report (DE046) submitted by the school district.

For example, it is not necessary to report how much of the payment by the local authorizing school district is allocated for kindergarten, and how much is allocated for third grade. The reasoning is that the local charter school will report the actual expenditures incurred, and for what purpose, in fund 599. If a local charter school is paid \$10,000 from the school district, the actual salaries, benefits, supplies, etc. that were expended with those funds will be reported in Fund 599.

Example of a Kindergarten Teacher Salary Expenditure for a Local Charter School:

|        | Fund | Program | Function | Object | Sub-Object | Facility/School |                 |
|--------|------|---------|----------|--------|------------|-----------------|-----------------|
| Debit  | 599  | 1011    | 1000     | 110    | 0          | 2010            | <u>6,000.00</u> |
| Credit | 599  | N/A     | 0422     | N/A    | N/A        | N/A             | <u>6,000.00</u> |

Example of a Media Center Supply Expenditure for a Local Charter School:

|        | Fund | Program | Function | Object | Sub-Object | Facility/School |                 |
|--------|------|---------|----------|--------|------------|-----------------|-----------------|
| Debit  | 599  | 1310    | 2220     | 610    | 0          | 2010            | <u>4,000.00</u> |
| Credit | 599  | N/A     | 0421     | N/A    | N/A        | N/A             | <u>4,000.00</u> |

**Revenue received by the Local Charter School from the School District – Revenue Source 5994**

The state QBE revenue and the local ad valorem property tax revenue will be reported by the local authorizing school district using the state prescribed revenue source and program codes. It is necessary to report the QBE state allocations based on the programs allotted in the General Fund by the local authorizing school district.

The revenue received by the local charter school is considered a transfer of payment from the local authorizing school district. Because the school district is appropriated state revenue grants, and the Georgia Constitution only authorizes local school systems to levy property taxes, the revenue is the revenue of the local authorizing school district and is required to be reported as such.

When recording the revenue received by the local charter school in Fund 599, the district must ensure that the revenue from state, local, and federal funding sources is not overstated on the annual financial report submitted to GaDOE.

The revenue received by the local charter school directly from the local authorizing school district should be reported in Fund 599 as “*Local Charter School Revenue Received From School District.*” Coding the revenue received from the local authorizing school district to an Other Financing Source on the Annual Financial Analysis Report will ensure that the state/local/federal revenue received by the school district is not overstated.

Any other revenue received by the local charter school should be reported in accordance with the LUA Chart of Accounts.

Example of Revenue Received From School District:

|        | Fund | Program | Source | Object | Sub-Object | Facility/<br>School |                  |
|--------|------|---------|--------|--------|------------|---------------------|------------------|
| Credit | 599  | 9990    | 5994   | 0      | 0          | N/A                 | <u>58,000.00</u> |

Example of a Revenue Received From Other Vendor/Organization:

|        | Fund | Program | Function | Object | Sub-Object | Facility/<br>School |                  |
|--------|------|---------|----------|--------|------------|---------------------|------------------|
| Credit | 599  | 1667    | 3995     | 0      | 0          | N/A                 | <u>46,000.00</u> |

**Local Charter School – Federal Programs**

Some local charters receive Title I funds and other federal program funds from the local authorizing school district. These funds will follow the same process as the state/local funds that are detailed in the section on Fund 599. Federal program activity is required to be reported separately, therefore, any expenditures recorded by the local school district in Fund 599 for federal programs must be reported with the Federal program code. For example, all Title I Funds for Academically Disadvantaged Students will be reported using the program code 1750. The payment to the local charter schools will be recorded by the school district in Fund 402 using object code 594. In Fund 599, the charter school will record the revenue received from the school district using revenue source code 5994.

If federal funds are expended at the school district for services provided to the charter school, the expenditures are recorded in the applicable federal fund using the same chart of account structure that is utilized for all expenditures centrally incurred for the schools within the district. Only those expenditures that are incurred directly by the local charter school are recorded in Fund 599. Those incurred by the school district are recorded in other funds using the local charter school’s school code.

**Local Charter School – School Food Service Activity**

In many cases, local charter schools maintain their own school food service program, separate from that program maintained by the local authorizing school board. Even if a local charter school maintains separate records for the National School Lunch Program and the Student Breakfast Program, the School Food Service activity of the local charter school must be recorded by the local authorizing school board. The

activity of the local charters should be recorded on the school district’s year-end financial statements using a unique fund in the 600 series for each school.

Inclusion of the local charter school’s school food service activity will result in a variance for the district when comparing the DE 46 to the DE 106 at fiscal year-end. To mitigate for this variance, all local charter school food service funds shall be mapped to Fund 659. Fund 659 has been identified in the LUA Chart of Accounts as Local Charter School Food Service Funds. If a school system has 20 local charter schools, all of the funds for those charter schools will be reported to GaDOE on the DE 46 within Fund 659. This will allow the programming to omit the local charter school activity when comparing the DE 46 to the DE 106.

**Example of School Food Service Expenditure Ledger for Local Charter School:**

| Fund | Program | Function | Object | Sub-Object | Facility/School | Amount    |
|------|---------|----------|--------|------------|-----------------|-----------|
| 659  | 9990    | 3100     | 184    | 0          | 2010            | 28,000.00 |
| 659  | 9990    | 3100     | 210    | 0          | 2010            | 7,584.00  |
| 659  | 9990    | 3100     | 220    | 0          | 2010            | 3,618.00  |
| 659  | 9990    | 3100     | 260    | 0          | 2010            | 1,333.00  |
| 659  | 9990    | 3100     | 410    | 0          | 2010            | 6,278.00  |
| 659  | 9990    | 3100     | 444    | 0          | 2010            | 1,286.00  |
| 659  | 9990    | 3100     | 610    | 0          | 2010            | 10,380.00 |
| 659  | 9990    | 3100     | 630    | 0          | 2010            | 46,912.00 |
| 659  | 9990    | 3100     | 635    | 0          | 2010            | 16,175.00 |
| 659  | 9990    | 3100     | 734    | 0          | 2010            | 5,700.00  |

**Reporting Local Charter School School Activity Funds**

School Activity Accounts are required to be reported with the District’s financial statements. This information is to be reported in total only and can be accomplished by a journal entry at year-end. Integration of the principal accounts into the School District’s financial accounting system is not required. All underlying worksheets and documentation pertaining to these accounts should be retained for audit. In no instance is the District *required* to book each school activity account transaction in the District level accounting records. (Accounting System).

## **Reporting Local Charter School Capital Assets and Long-Term Debt**

There may be cases in which the local charter school owns capital assets, such as buildings, buses, and school food service equipment, that meet the capitalization policy established by the local authorizing school district or the local charter school. If the local charter school does not maintain their own capitalization policy, they must follow the policy of the local authorizing school district. The local charter school should report any capital asset activity of the local charter school in Fund 859 – Local Charter School Capital Assets on the Annual Financial Analysis Report (DE 46) to the Georgia Department of Education. At a minimum, the cost of the assets, the accumulated depreciation, additions, depreciation expense, and deletions must be reported for assets that are owned exclusively by the local charter school. Any assets own by the local authorizing school district but utilized by the local charter school will continue to be reported in the local authorizing school district’s capital asset listing and follow the district’s capitalization policy. Any assets separately owned by a not-for-profit and not in the name of the entity doing business as the local charter school are not required to be reported on the DE 46.

Local charter schools are not authorized to issue general obligation bonds in Georgia, because local charter schools cannot levy taxes. If the school district has a SPLOST referendum passed by the voters that includes projects for the local charter school, that activity, including SPLOST revenue, projects, and related debt, will continue to be reported by the local authorizing school district.

If a local charter school has incurred other debt such as bonds issued by another entity on its behalf, capital leases, compensated absences, claims and judgements, or any other types of operating loans, the local charter is required to report that activity in Fund 959 – Local Charter School Long Term Debt Account. Any debt maintained separately by a not-for-profit and not in the name of the entity doing business as the local charter school is not required to be reported on the DE 46.

### **Annual Financial Audit (both state charter schools and local charter schools)**

The Charter Schools Act requires all start up charter schools, including state charter schools and local charter schools, to arrange for an annual independent audit by a Georgia licensed auditor. Charter schools must ensure that the Georgia licensed auditor is qualified to conduct an audit of an educational agency. Local charter schools are component units of the local authorizing school district and may be audited as a discretely presented or blended component unit of the school district. **Chapter VI-8** of this handbook discusses the role of the Georgia Department of Audits and Accounts in conducting the annual audit of local boards of education in the State of Georgia. The completed audit report is due to the Georgia Department of Education no later than November 1 of each year. If a charter school’s audit firm cannot complete the audit in time to submit it by November 1<sup>st</sup>, the school must submit unaudited financial statements (Statement of Net Position, Statement of Activities, and all Fund Financial Statements that have yet to be audited) by November 1, along with a letter from their auditor explaining why the deadline will not be met and when it will be completed – and then submit the Audit Report when it is completed.

Because charter schools are legislatively defined as public schools in the State of Georgia, the charter schools are required to maintain the accounting records in accordance with GAAP established by the Governmental Accounting Standards Board. The audit should then be performed using Generally Accepted Governmental Auditing Standards (GAGAS).

State auditors have the legislative authority to review the annual audit of charter schools.

#### **M. SUMMARY**

Pursuant to the Charter Schools Act and State Board Rules, charter schools must be granted all allowable waivers from their authorizers. However, financial reporting rules and regulations are not waivable. Furthermore, omission of a topic in this chapter does not suggest that such topic does not apply to charter schools.

Charter schools should use the remaining chapters of the Financial Management for Local Units of Administration handbook as a guide and reference.

Since the charter contract for local start-up charter schools contains important financial information, it is of utmost importance for school business and finance personnel to have knowledge of the financial requirements included in all charter contracts, as well as all State Board Rules regarding financial oversight and reporting.