



AUDITED FINANCIAL STATEMENTS

Recognized Best Practices

Regulatory Framework

The State School Aid Act ([MCL 388.1618](#)) requires a charter public school to have an annual financial statement audit. The Revised School Code ([MCL 380.503](#)) requires that all charter contracts include requirements and procedures for authorized schools to complete a financial audit that shall be conducted at least annually by a certified public accountant in accordance with generally accepted governmental auditing principles.

If a school expends more than \$750,000 in federal funds, the school is required to undergo a Single Audit.

MCCSA Guiding Principles and Standards and Authorizer Assurances

MCCSA has adopted Principles and Standards (Standards) that guide authorizers as they develop strong authorizing practices. Focusing on performance and accountability ensures that student success remains paramount to authorizing decisions. MCCSA Standards include Overseeing and Evaluating a Charter Public School which states “Excellence in authorizing means understanding the responsibility of establishing a comprehensive system that monitors and evaluates school performance and compliance. This system should provide the necessary information to oversee, evaluate and periodically report the performance of the charter public school...” The Standards explain that a comprehensive oversight system includes monitoring and evaluating fiscal performance.

Specifically, MCCSA believes it is critical to include a review of a charter public school’s compliance with legal requirements and certain best practices. Consequently, MCCSA has approved Authorizer Assurances (Assurances) that require “all charter contracts include requirements and procedures for schools to complete a financial audit which shall be conducted at least annually by a certified public accountant in accordance with generally accepted governmental auditing principles.” The Assurances also require that an “authorizer requires an independent CPA responsible for completing the school’s annual financial audit.”

What is an audit and why is it important?

The benefit of an audit is that it provides assurance that management has presented a “true and fair” view of a charter public school’s financial performance. Management is responsible for preparing the financial statements in accordance with the generally accepted accounting principles. The independent auditor opines as to whether the financial statements are fairly presented. This provides the board and other stakeholders, such as authorizers, the confidence that they can rely on their financial statements

to make decisions. When it comes to fraud, auditors may not detect material fraud, but they are responsible for obtaining reasonable assurance that the financial statements are not materially misstated as a result of fraud. The State School Aid Act requires state aid to be withheld by the State if an audit is not submitted as required.

Auditor Engagement

The auditor should be an independent, objective, qualified individual that is hired by the board. Management can help with the identification of the auditor, but the board must make the final decision.

The auditor should be experienced with Michigan school accounting requirements. The audit engagement letter should include the audit objective, audit procedures, management responsibilities, fees, and engagement administration including timeline for completion and auditor presentation of the audit at a board meeting.

Audited Financial Statements and Audit Findings

The audited financial statements of a charter public school will include the independent auditor's report, management's discussion and analysis, the basic financial statements, a report on internal control over financial reporting, compliance and other matters, a management letter, as well as required supplemental information. A separate communication from the auditor to the board, the AU 260 letter (The Auditor's Communication with Those Charged with Governance), will also be included in the audit package.

A Single Audit is required if the Academy expends \$750,000 or more in federal awards. If required, this audit will be issued under separate cover and will include additional statements and schedules.

The auditor's report will include an opinion as to whether the financial statements are presented fairly. A clean opinion is called an unmodified opinion. A modified opinion is issued if the auditor disagrees with management and does not believe the financial statements are presented fairly.

The auditor will also provide a letter with additional information that includes significant audit findings, if any. Audit findings vary in seriousness. They include:

- Material weakness - a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the school's financial statements will not be prevented or detected on a timely basis.
- Significant deficiency - a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the school's financial reporting.
- Comments and recommendations – comments or recommendations are less severe than a significant deficiency and/or something the auditor wants to point out.

Best Practices for Using Audited Financial Statements

Audited financial statements with an unmodified opinion provide the board and other stakeholders, such as authorizers, the confidence that they can rely on their financial statements to make decisions. Authorizers and board members should consider the following when monitoring and evaluating financial performance:

- Ensure board members have a proper understanding of the board’s role and responsibilities regarding the financial performance of the school.
- Require the charter public school to engage an independent auditor to conduct an annual audit of the financial statements.
- Read the audit report and financial statements for a general understanding.
- Review the audit report to ensure the opinion is not modified and there is no ongoing concern footnote that expresses the auditor’s concern about the future of the charter public school.
- Review the audit letter that includes the additional information to determine if there are any material weaknesses. If material weaknesses exist, determine if the board has addressed the issues. The board should determine if there are any findings, not just material weaknesses, and address each appropriately.
- Review the financial statements to ensure the charter public school does not end the year in a deficit.
- Consider evaluating the fiscal performance of the charter public school through analyzing standard key performance indicators including, but not limited to:
 - Current Ratio: Can the school pay their short-term obligations?
 - Change in Fund Balance: Is the school living within its means?
 - Cash Days on Hand: Does the school have the cash available to pay bills?
 - Enrollment Stability: Is the school’s main revenue source stable?

Reflective Questions

How can the audited financial statements be used to evaluate and monitor the charter public school’s financial performance?

Does our organization have the proper systems and processes in place to effectively monitor the financial health of the schools it oversees?

When should an authorizer and/or board be concerned about a charter public school’s financial performance?

Resources

[Audited Financial Statements Review Process](#)
[Audited Financial Statement Review Template](#)