



# FINANCIAL OVERSIGHT

## Recognized Best Practices

### Regulatory Framework

[MCL 380.502](#) states “An authorizing body shall oversee... each public school academy operating under a contract issued by the authorizing body. The authorizing body is responsible for overseeing compliance by the board of directors with the contract and all applicable law.”

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. See the Audited Financial Statements of Charter Public Schools best practice guide for more information.

Michigan legislators enacted the [Uniform Budgeting and Accounting Act \(UBAA\)](#), which was amended by [Public Act 493 in 2000](#), making specific sections, specifically the budget-related sections, applicable to charter public schools. See the Budgeting for Charter Public Schools best practice guide for more information.

### MCCSA Guiding Principles and Standards

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.

### What is the role of the authorizer with financial oversight?

As stewards of public funds, it is the responsibility of the charter public school governing board to ensure that all funds are used in the best interest of the school and the students they serve. The lack of financial health can impact a school quicker than any other deficiency. Charter public schools have the autonomy to manage their finances consistent with state and federal

law, but authorizers must be able to determine if a charter public school is financially healthy or at risk of becoming financially unhealthy. The authorizer should have clear expectations outlined in the charter contract and/or a financial framework for charter public schools that reflect financial health. They must also have the processes and procedures along with the expertise to assess the charter public school’s financial health throughout the year. The financial health of each charter public school should be reported through the annual oversight process and made available to the school and public on an annual basis.

**What is a financial framework and why is it important?**

A financial framework is a tool that is designed to measure financial viability through assessing performance indicators and the ability to manage and oversee the charter public school’s finances at a point in time based upon the audited financial statements. The financial indicators included in a financial framework allow the authorizer to identify potential concerns. A financial framework is intended as a starting point for authorizers to evaluate a charter public school’s financial viability. An authorizer should review the charter public school’s financial information to understand why the indicator was not met before making any high stakes decisions. A financial framework can be used to tier or bucket schools to help the authorizer differentiate oversight and efficiently use resources where they are needed most.

A financial framework is not designed to evaluate a charter public school’s spending decisions and therefore does not include measures of how a school spends its money. Such measures would infringe on school autonomy. However, if a charter public school is financially healthy but not delivering a program consistent with its mission and key design elements or if the school is achieving poor outcomes for students, then the authorizer should ask appropriate questions about how the school invests its resources through the evaluation of the organizational and/or academic framework.

The National Association of Charter School Authorizers (NACSA) has developed a model financial framework, which can be found below. As NACSA points out, “given financial frameworks are not a one-size fits all, the authorizer should consider its context and environment when settling on which indicators to use for its framework.” However, they do recommend that the financial framework have a combination of near-term and long-term indicators.

Based upon research completed by the National Charter Schools Institute, commonly used indicators include:

Key Performance Indicators	Purpose
Current Ratio	measures whether a school can pay their short-term obligations
Change in Total Margin Ratio	measures whether a school is operating within its means (i.e., not spending more than revenue coming in)
Days Cash on Hand	measures the number of days a school can operate without an influx of additional cash

Enrollment Stability	measures whether enrollment (i.e., main revenue source) for the school is stable over time
Current Year Enrollment Variance	measures whether a school's current year enrollment (i.e., main revenue source) is stable
Debt to Asset Ratio	measures whether a school owns more assets than it owes in liabilities
Debt Service Coverage Ratio	measures whether a school can cover its debt obligations
Debt Default	determines if a school has defaulted on loan covenants or is delinquent with debt payments
Financial Controls	Determines if the school's financial audit demonstrates that the school meets basic expectations of financial oversight

## Is having a financial framework enough?

A financial framework is only one part of a comprehensive financial oversight system. Because a financial framework is analyzed based upon one point in time (end of the fiscal year), an authorizer should develop standard oversight procedures that occur throughout the school year to help ensure an authorizer is informed about the current state of a charter public school's financial health.

Examples of standard oversight procedures that help the authorizer understand the current financial health of the charter public schools they authorize might include, but not be limited to, the following:

	Warning Indicator	Question to be answered?
Quarterly Financial Statements	Quality of Quarterly Financial Statements	Are the quarterly financial statements complete?
Original Budget	Unrestricted State Aid Revenue Stability	Is the current year budgeted state aid revenue stable compared to last year's?
Original Budget	Projected General Fund Fund Balance Ratio	Is the school operating within its means?
Original and Amended Budgets	Deficit – budget	Is the school ending the year in a deficit?
4 <sup>th</sup> Quarter Financial Statements	Current Ratio; Total Change in Fund Balance Ratio; Days Cash on Hand; Enrollment Stability; Current Year Enrollment Stability	Is the school meeting the key performance indicators?

4 <sup>th</sup> Quarter Financial Statements	Deficit – 4 <sup>th</sup> QFS	Is the school projected to end the year with a deficit?
4 <sup>th</sup> Quarter Financial Statements/ Board meeting minutes	ESP and/or lease forgiveness	Can the school pay its large contracts?
Original Budget	State Aid Revenue Variance	Is budgeted state aid revenue overstated (based on enrollment) compared to actual enrollment?
Board Meeting Minutes	Financial Related Discussions	Are there any financial related items included in the board meeting minutes that need to be considered?

## Best Practices for Financial Oversight

Given the technical nature of financial measures, an authorizer must have the capacity to understand the measures, gather the necessary information, accurately make calculations, and analyze performance results. Most importantly, authorizers will need the capacity to complete follow-up analysis of charter public schools that do not meet standards to determine whether a charter public school is truly at financial risk. If an authorizer does not have the staff necessary to perform these duties, the authorizer may need to hire a consultant.

### Reflective Questions

How does your organization set out financial health expectations in the charter contract?

How has your organization established a financial oversight system that provides an assessment of financial health annually but also includes standard oversight procedures throughout the year?

How does your organization fulfill your authorizing responsibility to determine a charter public school's financial health and know how to support a charter public school that is deemed financially unhealthy?

### Resources

[NACSA Financial Framework](#)

[Financial Best Practice Handbook](#)

[Fiscal Oversight Narrative – Example 1](#)

[Fiscal Oversight Narrative – Example 2](#)

[Fiscal Oversight Model](#)

[Solvency Report](#)

[Quarterly Financial Statement Review](#)