



Department of Education
Frank T. Brogan,
Commissioner

TECHNICAL ASSISTANCE NOTE

No. 99-09

Contact: David Morris

*Bureau of School Business Services
Office of Funding and Financial Reporting*

Charter School Fiscal Information - Update

(850) 488-5142
SC 278-5142

DATE: October 1, 1998
TO: District Finance Officers
FROM: David Morris, Administrator
SUBJECT: Charter School Fiscal Information

Update of Previous TAN Memorandum

Technical Assistance Note (TAN) No. 97-17, dated June 9, 1997, provided a summary of fiscal information from the Charter School Law (s. 228.056(11)). The purpose of this memorandum is to supply additional information and update portions of TAN 97-17. Starting with the heading **Stewardship of Public Funds**, the full text of TAN 97-17 is presented herein with updated information in boxes and bold type.

Charter School Law

Enclosed is the text of the charter school law with 1998 changes highlighted by underlining or strike through text. Paragraph (13) specifies the revenue to be earned by the charter school, the requirement for timely payment, the interest cost for late payment, and the administrative fee. While paragraph (13) is the focus of finance officer interest, the entire law must be read to evaluate proposals and administer contracts.

Pages 10 and 11 provide the text of PECO funding provisions for charter schools.

Revenue Estimation Worksheet

Also enclosed is a worksheet that should be helpful in estimating charter school revenues and in revising revenues with each calculation of the FEFP. As a service to districts and charter schools, this office will complete this information from the latest available FEFP calculation.

Stewardship of Public Funds

Charter School monies realized from state, local, and federal tax sources are public funds for which the charter school and the sponsoring district are responsible. While the charter school has exemption from statutes specified in Section 228.056(11), Florida Statutes, and related rules governing regular public schools, it is a public (as opposed to private) school and will be held responsible for prudent use of these public funds. This stewardship should be a prime consideration in determining continuance of the charter. The charter school law provides for stewardship to be reported on through public audit reports and through assigning the sponsoring school district an oversight role to review revenues and expenditures (Section 228.056(4)(h), F.S.). Also, the 1997 Legislature amended paragraph (9)(d) to require that the charter school's annual accountability report be verified by the district and forwarded to

the Commissioner of Education at the same time as other school accountability reports. This report is to include:

1. Charter school's progress towards achieving goals outlined in its charter.
2. The information required in the annual school report pursuant to Section 229.592, F.S.
3. Financial records of the charter school, including revenues and expenditures.
4. Salary and benefit levels of charter school employees.

Program Cost Report

The expenditure report required by the charter school law will constitute the 1996-97 Program Cost Report for the five initial charter schools. DOE will be proposing a method for including charter schools in the program cost reporting process for the 40 schools to be operated in 1997-98.

Update:

DPBM memorandum 98-84 specified that charter school cost reports would be in the same format as the program cost report for district schools. However, the charter school report was not to be included in the district's Program Cost Report. Instead the charter school cost report was to be submitted as an exhibit to the district's Annual Financial Report. A diskette with the appropriate format was distributed to districts. Districts were to complete this Excel spreadsheet and return the diskette to DOE while including the printed copy with its annual financial report. This process will also be used for 1998-99 reporting; however, the form will be modified to capture any SIT or PECO expenditures by charter schools.

Financial Records

To facilitate the financial reporting process, it is suggested that charter schools adopt the governmental accounting model and follow the fund and account structure provided in the Red Book. While charter school accounts may be "cross-walked" to the Red Book structure, use of Red Book accounts would save the effort needed to cross-walk.

Update: See update for the following section relative to appropriate accounting model.

Governmental Funds Model

In addition to receipt of public state and local FEFP funds and state categorical dollars, charter schools may also receive other monies for which there is a need for separate accounting. Examples are: Federal categorical projects, Federal school food service revenues and associated collections from students and staff, donations dedicated to specific purposes, and monies derived from collections (not fees or tuition) for school pictures, club dues, PTO fund raisers, and other school internal account activity. These needs, as well as the need for comparability of data, strongly suggest the advantages of adopting governmental fund accounting by the charter school. The following fund structure is suggested:

- General Fund - all unrestricted monies
- Special Revenue Funds
 - Federal projects
 - Food Service
- Trust Funds
 - Specified Donations (money and other property)
 - School Internal Accounts

Update:

Section 228.056, F. S., as amended by 1998 legislation, requires a charter school to legally organize as a nonprofit organization or to be operated by an existing nonprofit organization. If the nonprofit entity is created for the purpose of operating a charter school, generally accepted accounting principles require that the financial activities of the school be accounted for using the governmental accounting model. A nonprofit entity created for the purpose of operating a charter school is a government as defined in the AICPA Audit and Accounting Guide, Not-For-Profit Organizations.

However, a charter school may be operated by a nonprofit organization that existed prior to the creation of the charter school and maintains its records using the nonprofit accounting model. In this instance, the charter school operates as part of another organization and therefore, may use the parent organization's model.

Financial Statement Presentation

A charter school must be organized as a nonprofit corporation. Although this requirement results in an entity that is legally separate from the sponsoring school board, the charter school appears to meet governmental accounting standards criteria for inclusion as a component unit in the district school board's comprehensive annual financial report which would display the financial position and operating activity of the charter school in a discrete format within the school board's combined financial statements. This would be accomplished through the use of a separate column in the district school board's combined balance sheet and combined statement of revenues, expenditures, and changes in fund balances. (See Annual Financial Report format for the FY ended June 30, 1996.)

Districts should work with charter schools to ensure that accounting data are compatible for financial statement or analysis purposes. This can be accomplished by the adoption of the Red Book chart of accounts by the charter school or by a documented crosswalk of accounts.

Update:

The section above relative to financial statement presentation was intended to apply to those legally separate nonprofit organizations established for the purpose of operating a charter school. If a charter school is operated by a pre-existing nonprofit organization (or municipality), its activities are part of another organization with various other functions and activities and would not be reported as a component unit of the district school board for financial statement purposes. However, the charter school's annual program cost report prepared for transmittal to the Department of Education must use the same format and structure as the cost report provided by other Florida public schools. As stated above, this can be accomplished by the adoption of the Red Book chart of accounts by the charter school or by a documented crosswalk of accounts.

Independent Audit

Charter schools must have an annual financial audit as stated in Section 228.056(8)(g). The Office of the Auditor General has indicated that their audit of the district will extend to charter schools of the district for 1996-97. However, charter schools should be prepared to bear the cost of engaging an independent accounting firm to perform this service should the Auditor General decide to rely on private auditors' reports in the future.

The auditors will expect documentation to support expenditure amounts that are entered in the books of account and reflected in the financial statements. Such documentation will take the form of original invoices, payroll information, bank statements, and receipts. While the charter school is not required to abide by restrictions placed on school board purchasing (bids and quotations), auditors may request documentation that a purchase was, under the circumstance, made at the best price available. Employee compensation will be expected to be reasonably related to local market conditions for the various employee classifications.

Update:

The Auditor General selected a sampling of charter schools for audit in 1997-98 and may continue this practice in the future. Therefore, charter schools should budget to contract for an audit as required by law.

District Payments to Charter Schools

Disbursements to a charter school for its share of funding should be recorded by the school board in the following manner:

- I. Unrestricted funds
 - A. Charge payment to Function 5000, Instruction, Object 310, Professional and Technical Services.
- II. Restricted funds
 - A. Transportation funds - charge payment to Function 7800, Pupil Transportation Services, Object 310, Professional and Technical Services.
 - B. Food Services funds - charge payment to Function 7600, Food Services, Object 310, Professional and Technical Services.
 - C. Other Categorical funds - charge to the various function and object codes as appropriate for the categorical purposes.
 - D. Federal Projects - The school district is the subrecipient of Federal aid passed through the DOE and is responsible for oversight and accounting. The DOE Comptroller is requesting expenditure reports filed in the same manner that districts are accustomed to submitting in order to discharge DOE's accounting and reporting responsibilities and for Federal audit purposes. Accordingly, it will be necessary for the district to charge expenditures to the various function and object codes as appropriate on its books. This could be done by providing services and materials to charter schools or by providing the money to the charter school and requiring documentation of expenditures in the same manner as if the district spent the money.

The 1997 Legislature amended the Charter School law to specify payment procedures:

1. The school board may distribute funds to a charter school for up to three months based on the projected FTE membership of the charter school. Thereafter, the membership surveys are to be used in adjusting the funds distributed monthly to the remainder of the fiscal year.

2. Payment shall be issued no later than ten working days after the district school board receives a distribution of state or federal funds. If a warrant is not issued within thirty working days of receipt by the school board, interest at a rate of one percent per month calculated on the unpaid balance is due.

Update:

The 1998 Legislature made School Infrastructure Thrift awards available to charter schools. As the funds are received by the school district, they should be recorded in the Capital Project Fund (390) using the revenue account number 3393. The portion of the award to be distributed to the charter school should be transferred to the General Fund for disbursement. The payment should be recorded as function 5000, object 390. PECO grants for charter schools should be recorded in the same fashion except that revenue account 3394 should be used.

Charter School Payments to District

It is anticipated that there will be a need for comparative data for charter schools and regular public schools. The 1997 Legislature amended the law to state that goods and services made available to charter schools shall be provided at a rate no greater than the district's actual cost (see following exemptions for conversion schools). A district may agree to provide pupil transportation services and withhold money that would otherwise be due to the charter school. While this may be appropriate management of the cash flow, an end-of-the-fiscal-year book adjustment for the charter school should reflect revenue and expenditures for this service. This should also be done for food service. District receipts for services should be abated against the appropriate district expenditure accounts.

Use of District Property - Surplus, Marked for Disposal, or Unused

Such property may be provided for a charter school's use on the same basis as it is made available to other public schools in the district. Such property may not be sold or disposed of by the charter school without written permission. (1997 change)

Use of Facility by Conversion School

No rental or leasing fee may be charged a conversion school for use of the existing school and its normal property inventory. The charter school shall agree to reasonable maintenance. (1997 change)

Nonprofit Organization Status

Charter schools are required to be organized as nonprofit organizations. Application for incorporation as a nonprofit organization within Florida is made through the Florida Department of State. The legal requirements to achieve and maintain a nonprofit status are available in the governing statutes found in Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. Additionally, reference to the Internal Revenue Code may be made to ascertain the federal filing requirements with the Internal Revenue Service.

Responsibility for Debts

District school boards are prohibited from assuming any debts of a charter school. In the case of termination or nonrenewal of the charter, the governing body of the charter school is expressly responsible for the debts.

Reversion of Property/Funds/Property Records

In the event a charter is not renewed or is terminated, ownership of property purchased with public funds reverts to the school district. Additionally, upon dissolution of the school, any unencumbered funds will revert to the school district.

In order to determine ownership of property purchased with public funds, charter schools must establish a definition of property and maintain accountability for such capitalized items. Charter schools are not governed by statute or Auditor General's rule on this subject, but still must provide for property accountability. This is accomplished by establishing capitalization policies to distinguish capital items from consumable items, and establishing and maintaining a control account for property with subsidiary records for each item.

Update:

Also see paragraph (3), page 11 of the enclosed law with 1998 changes relative to reversion of equipment, funds, and property.

Full-Time Equivalent (FTE) Student Reporting

Funding is generated by reports of FTE students through the school district, as prescribed by law and rules of the State Board of Education. Records must be kept to establish the charter school's entitlement. These records must be preserved for subsequent audit by the Auditor General's Office.

Charter school FTE is to be included in the district's FTE projection. If approval of a charter school's application is after the FTE projection deadlines, the district school board is held harmless for FTE students not included in the projection because of such approval. (1997 change)

School Numbers

FTE and costs should be reported on separate school numbers for each charter school.

DM/vb

cc: Superintendents

Enclosures: Charter School Law (Section 228.056, F.S., as amended)
Revenue Estimate Worksheet



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TECHNICAL ASSISTANCE NOTE

No. 2000-05

*Bureau of School Business Services
Office of Funding and Financial Reporting*

Charter School Fiscal Information

Contact: Deborah Bruggink

(850) 488-5142
SC: 278-5142

DATE: August 13, 1999
TO: District Finance Officers
FROM: David Morris, Administrator
SUBJECT: Charter School Fiscal Information

The purpose of this memorandum is to bring together financial management information for charter schools. Legislative changes from the 1999 session are highlighted in a box under the appropriate subject heading.

Supplemental Academic Instruction (SAI) Categorical

This new categorical is primarily a restructuring in that funding for summer school, dropout prevention, and other methods of improving student achievement are combined to grant districts flexibility in programming.

Update:

Eligible supplemental instruction includes but is not limited to: modified curriculum, reading instruction, after school instruction, tutoring, mentoring, class size reduction, extended school year, and intensive skills development in summer school. If a district is contracting with new or existing charter schools which are providing any eligible SAI services, the charter schools are entitled to receive at least their UFTE share of the SAI funding.

In some cases, however, charter schools may be entitled to a greater amount of the SAI funding than the minimal base UFTE share. These instances arise primarily when the charter school has been approved by the school board to target and to serve a student population which requires, either by law or by contract, a higher level of SAI services. The most common examples are charter schools which have been contracted to provide dropout prevention services to a predominantly at-risk student population, or charter schools which are serving students with disabilities who require extended school year services.

The weighted funding previously included in the cost factor for dropout prevention and summer school was moved to the SAI categorical. A hold harmless provision was included in the appropriations proviso of the FEFP and SAI to provide a minimum funding for charter schools at the same per FTE student funding as 1998-99. These provisions evidence legislative intent that the new funding structure should not reduce the level of funding for charter schools. Increases

should be based on the level of funding provided to similar programs of the district **from FEFP and SAI.**

Students receiving services identified in the district's SAI plan are to be identified with a "flag" that will accompany their records when the student data base is submitted in Survey 5.

Hold Harmless - FEFP and SAI Funding

As noted in the preceding section, there was a concern that restructuring funding with the SAI categorical could have unintended negative consequences on the funding of charter schools (and Department of Juvenile Justice (DJJ) programs). To address this concern, the Legislature provided a new hold harmless provision.

Update:

The General Appropriations Act hold harmless provision states, "From the funds appropriated in Specific Appropriation 109 (FEFP) and Specific Appropriation 110A (SAI), each school district with juvenile justice educational programs (DJJ) and students in charter schools shall provide in 1999-2000 an amount of funds per FTE student that is no less than the amount provided for students in these programs in 1998-99."

Since the student population of a school changes in number and in FEFP program cost factors from year-to-year, it is necessary to compute minimum funding by program cost factor. Use of weighted FTE as explained here will recognize this variation in student population. This hold harmless provision relates to the combined funding provided by FEFP and SAI. To determine the 1998-99 funding from FEFP, divide the total of FEFP Base Funding (Section 1 of DOE revenue estimating worksheet for charter schools) and Other FEFP (Section 3 of the worksheet) by weighted FTE (shown in Section 1(d) of the worksheet) to determine FEFP funding per weighted FTE of 1998-99. Funding for 1999-2000 from FEFP and SAI must at least equal the amount per weighted FTE in 1998-99.

Hold Harmless - FTE Projection

In Section 228.056 (4)(a), F.S., districts continue to be held harmless for FTE students which are not included in the FTE projection due to approval of charter school applications after the FTE projection date. This hold harmless applies to the cap on Group 2 students.

Revenue Estimation Worksheet

Enclosed is a worksheet that should be helpful in estimating charter school revenues and in revising revenues with each calculation of the FEFP. As a service to districts and charter schools, this office will complete this information from the latest available FEFP calculation.

Update:

The revenue worksheet reflects 1999 changes in program weights, FEFP programs, BSA, DCD and state categoricals.

District Payments to Charter Schools

Disbursements to a charter school for its share of funding should be recorded by the school board in the following manner:

- I. Unrestricted funds
 - A. Charge payment to Function 5000, Instruction, Object 310, Professional and Technical Services.
- II. Restricted funds
 - A. Transportation funds - charge payment to Function 7800, Pupil Transportation Services, Object 310, Professional and Technical Services.
 - B. Food Service funds - charge payment to Function 7600, Food Services, Object 310, Professional and Technical Services.
 - C. Other Categorical funds - charge payment to the various function and object codes as appropriate for categorical purposes.
 - D. Federal Projects - The school district is the subrecipient of Federal aid passed through the DOE and is responsible for oversight accounting. The DOE Comptroller is requesting expenditure reports filed in the same manner that districts are accustomed to submitting in order to discharge DOE's accounting and reporting responsibilities and for Federal audit purposes. Accordingly, it will be necessary for the district to charge expenditures to the various function and object codes as appropriate on its books. This could be done by providing services and materials to charter schools or by providing the money to the charter schools and requiring documentation of the expenditures in the same manner as if the district spent the money.
 - E. Capital Outlay funds - PECO and School Infrastructure Thrift (SIT) awards available to charter schools should be recorded in the appropriate capital outlay funds. The portion of the award to be distributed to the charter school should be transferred to the General Fund for disbursement. The payments from the General Fund should be recorded as Function 5000, object 390, Other Purchased Services.

Update:

The 1999 Legislature amended the enclosed Section 228.056 (13)(d), F.S., on page 9, by citing Federal law that requires all charter schools to receive all federal funding for which the charter school is eligible, **including Title I funding**, not later than 5 months after the charter school opens and within 5 months after any subsequent expansion of student enrollment. One effect of this change in Federal and State statute is that charter schools are required to receive any Title I funding for which they may be otherwise eligible immediately in their first year of operation, rather than the traditional delay requiring one year of prior operation and FTE data. This change in Federal statute took effect in April, 1999.

Also, districts should take note of and follow closely the existing disbursement requirements in statute for charter school allocations. Section 228.056 (13)(f), F.S., states that "payment shall be issued no later than 10 working days after the district school board receives distribution of state and federal funds." Several districts have experienced significant delays in processing charter school allocations and subsequently have been required, pursuant to statute, to pay significant interest penalties to the charter school. It should be noted that this section of law requires timely and efficient processing of "paperwork required to access special state and federal funding for which the charter school may be eligible."

Charter School Law

Enclosed is the text of the changes to the charter school law highlighted by underlining or strike through text. Section 228.056 (13), F.S., specifies the revenue to be earned by the charter school, the requirement for timely payment, the interest cost for a late payment, and administrative limits. While Section 228.056 (13), F.S., may be the focus of interest to finance officers, the entire law must be read to evaluate charter school proposals and administer charter school contracts. The changes in Charter School Capital Outlay Funding are covered in Section 228.0561, F.S., on pages 11 and 12 of the enclosed charter school legislation.

Stewardship of Public Funds

Charter school moneys realized from state, local and federal tax sources are public funds for which the charter school and the sponsoring district are responsible. While the charter school has exemption from statutes specified in Section 228.056 (11), F.S., and related rules governing regular public schools, it is a public (as opposed to private) school and will be held responsible for the prudent use of these public funds.

The importance of the stewardship responsibility is reflected in several changes in the operation of the charter in 1999 and is covered in Section 228.056 (9), F.S., on the enclosed page 5.

Update:

The first change recommends that those individuals hired or retained to perform the financial and administrative management of the charter school should be hired or retained based on a reasonable demonstration of professional competence. The second change expands the initial terms of a charter from the 3, 4 or 5 years to either 15 years (charter schools operated by a municipality or a public entity) or 10 years (charter schools operated by a private, not-for-profit corporation) to facilitate charter schools obtaining long term construction money. All long term charter school contracts remain subject to annual renewal and may be terminated for good cause by the local school board. The third change allows charter schools after operating a minimum of three years and demonstrating exemplary academic and fiscal management to become eligible for a 15 year charter renewal.

The charter school law continues to require evidence of stewardship responsibility by requiring charter schools to obtain annual audits and by assigning the sponsoring school districts an oversight role to review the charter schools' revenues and expenditures.

Program Cost Report

Districts are still required to report charter school program cost expenditures in the same format as the program cost report for district schools. The program cost report software was recently updated to facilitate the districts reporting the program costs of charter schools.

Update:

The Technical Assistance Note (TAN) No. 99-19, dated July 1, 1999, contained the instructions to obtain the software changes to report charter school expenditures through the Program Cost Report in 1998-99. The updated pages for the User's Guide were also attached to the TAN No. 99-19. The Form 6 panel was amended to include a reconciling category for charter schools that would contain the amount the district distributed to charter schools. A Form 7 panel was also added to allow districts to input each charter school's expenses.

Financial Records

Because charter schools are subject to annual audits, as outlined in Section 228.056 (8), F.S., the charter schools should be instructed to maintain documentation to support expenditures that are entered in the books of account and reflected in the financial statements. Such documentation will take the form of original invoices, payroll information, bank statements, and receipts. While charter schools are not required to abide by restrictions placed on district purchasing requirements for bids and quotations, good business practices recommend that the charter schools document that they obtained the best price available for goods and services under the circumstances. Employee compensation will also be expected to reasonably relate to local market conditions for various employee classifications.

It is suggested that charter schools adopt the governmental accounting model and follow the fund and account structure provided in the Red Book. While charter schools may use another accounting model, as explained in the next section, the financial information will need to be cross-walked to the Red Book structure. The use of the Red Book accounts would save the effort needed to cross-walk and should be encouraged.

Governmental Funds Model

The legal entity of a charter school is outlined in Section 228.056 (7), F.S., and states that a charter school shall be organized as, or be operated by, a nonprofit organization. As updated in TAN No. 99-09, dated October 1, 1998, if the nonprofit entity was created for the purpose of operating a charter school, generally accepted accounting principles require that the financial activities of the school be accounted for using the governmental accounting model. A nonprofit entity created for the purpose of operating a charter school is a government as defined by the AICPA Audit and Accounting Guide, Not-For-Profit Organizations.

A charter school may, however, be operated by a nonprofit organization that existed prior to the creation of the charter school and maintains its records using the nonprofit accounting model. In this instance, the charter school operates as part of another organization and therefore, may use the parent organization's model.

The need for providing comparative information between charter schools and district schools demonstrate the advantages of adopting governmental fund accounting by the charter schools. Charter schools receive public state and local FEFP funds, state categorical funds, and state capital outlay funds that require separate accounting. Additional funds that the charter school could receive include Federal categorical, Federal school food service, collections for school pictures, club dues, PTO fund-raisers, and other school activity funds. The following fund structure is suggested:

General Fund - all financial resources except those required to be accounted for in another fund

Special Revenue Funds

Federal projects

Food Service

Trust Funds

Specified Donations (money and other property)

School Internal Accounts

Update:

Debt Service Funds - to be used by charter schools for the accumulation of resources to pay principal and interest (See enclosed Chapter 99-374, Section 6 on page 10)

Capital Projects Funds - to be used by charter schools for funds appropriated for capital outlay purposes (See enclosed Section 228.0561 (2) (a)-(d), F.S., on page 11)

Financial Statement Presentation

As outlined in the TAN Note No. 99-09, dated October 1, 1998, the charter schools that are to be included in the district's financial statements as a discretely presented component unit are the charter schools that are legally separate nonprofit organizations established for the specific purpose of operating as charter schools. The district school board's comprehensive financial report would display the financial position and operating activity of the charter school in a discrete format within the school board's combined financial statements. This would be accomplished by using a separate column in the district school board's combined balance sheet and combined statement of revenues, expenditures, and changes in fund balances.

If the charter school is operated by a pre-existing nonprofit organization or a municipality, its activities are part of another organization with other functions and activities and the charter school would not be reported as a component unit of the district school board for financial statement purposes.

All charter schools' annual program cost reports prepared for transmittal to the Department of Education must use the same format and structure as the cost reports provided by other Florida public schools. The districts are encouraged to work with the charter schools to ensure that the accounting data are compatible for financial statement and analysis purposes. Districts should encourage the adoption of the Red Book chart of accounts by the charter schools or by a documented cross-walk of accounts.

Independent Audit

There is no change in the requirement outlined in Section 228.056 (8), F.S., that charter schools obtain an annual audit. However, the 1999 Legislature added requirements governing auditor selection, completion of audit, response, and corrective actions.

Update:

Effective July 1, 1999, each charter school shall have an annual financial audit completed within 12 months after the end of its fiscal year by an independent certified public accountant retained by and paid for from funds of the charter school. The charter schools must establish an auditor selection committee and select an independent certified public accountant based on criteria set forth in statute. Charter schools must comply with all provisions related to the submission of their audit report to the Auditor General including the response/rebuttal and corrective actions. (Section 11.45 (3)(a), F.S.)

Charter School Payments to District

If a district obtains goods and services for a charter school, the district can charge the charter school no more than the district's actual cost.

The district may agree to provide food service and/or pupil transportation services to a charter school and withhold the amount of money that is otherwise due to the charter school. While this is an acceptable cash flow strategy, an end of the year fiscal book adjustment for the charter school should be made to reflect the revenue and the expenditures for the services. District receipts for services should be abated against the appropriate district expenditure accounts.

Use of District Property - Surplus, Marked for Disposal, or Unused

Districts are still required in Section 228.056 (13)(g), F.S., to make available to charter schools any facilities or property that are surplus, marked for disposal, or otherwise unused in the same manner offered to other schools in the district. Such facilities or property may not be sold or disposed of by the charter school without written permission.

Use of Facility by Conversion School

Section 228.056 (13)(g), F.S., still contains the provision that a district can not charge a conversion charter school a rental or a leasing fee for the school or its property inventory. The charter school's organizers are still required to provide for reasonable maintenance to the conversion school in order to maintain the school in the same manner as the district.

Nonprofit Organization Status

Charter schools are required to be organized as a nonprofit organization. Application for incorporation as a nonprofit organization within Florida is made through the Florida Department of State. The legal requirements to achieve and maintain a nonprofit status are available in the governing statutes found in Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. Additionally, reference to the Internal Revenue Code may be made to ascertain the federal filing requirements with the Internal Revenue Service.

Responsibility for Debts

Section 228.056 (10)(f), F.S., states that with the exception of debts previously detailed and identified in writing, district school boards are prohibited from assuming any debts of a charter school. In the case of termination or nonrenewal of the charter, the governing body of the charter school is expressly responsible for debts.

Arrangements to Borrow or Secure Funds

The 1999 Legislature adopted language to indemnify the state and school district for certain financing arrangements made by the charter school.

Update:

Chapter 99-374 Section 6 on the enclosed page 10, states any arrangement to borrow or secure funds for a charter school from a source other than the state or the school district shall indemnify the state and school district from any and all liability. Any loans, bonds, or other financial agreements are not obligations of the state or the school district but are obligations of the charter school authority and are payable solely from the sources of funds pledged by such agreement. The credit or taxing power of the state or the school district shall not be pledged and no debts shall be payable out of any moneys except those of the legal entity with a valid charter approved by the school district.

Reversion of Property/Funds/Property Records

In accordance with Section 228.0561 (3), F.S., in the event a charter is not renewed or is terminated, ownership of property purchased with public funds reverts to the school district. Additionally, upon dissolution of the school, any unencumbered funds will revert to the school district.

Since charter schools are not governed by statute or the Auditor General's rule which address property and equipment, a good business practice to be established by a charter school would include adopting a capitalization policy to distinguish capital items from consumable items, and to establish and maintain control accounts for property with supporting subsidiary records with detailed property items.

Update:

The 1999 Legislature made several changes to Section 228.0561, F.S., Charter School Capital Outlay Funding (see enclosed pages 11 and 12). Several of the major changes include the following:

- 1) The previous language in Section 228.0561 (1), F.S., which had required a "lien" against charter school facilities was specifically removed and replaced with "reversion of funds and property" language. The Department of Education has the oversight responsibility to ensure that the school district and the charter school enter into an appropriate written agreement which is consistent with this section of law prior to the release of capital outlay funds to the school district on behalf of the charter school.

- 2) It should be noted that this existing reversion language states that “the reversion of such equipment, property, and furnishings shall focus on recoverable assets, but not on intangible or irrevocable costs such as rental or leasing fees, normal maintenance, and limited renovations.” These are normal costs of providing school facilities.
- 3) Section 228.0561 (2), F.S., which required school districts’ approval of capital outlay items or expenditures was specifically deleted. Charter schools are allowed to use capital outlay funds for “any lawful capital outlay expenditure that is directly related to the functioning of the charter school.”

Full-Time Equivalent (FTE) Student Reporting

Funding is generated by reports of FTE students through the school district, as prescribed by law and rules of the State Board of Education. Records must be kept to establish the charter school’s entitlement. These records must be preserved for subsequent audit by the Office of the Auditor General.

Charter school FTE is to be included in the district’s FTE projection. If approval of a charter school’s application is after the FTE projection deadlines, the district school board is held harmless for FTE students not included in the projection because of such approval.

School Numbers

FTE and costs should be reported on a separate school number for each charter school.

DM:dmb

Enclosures: Charter School Law (Section 228.056 and 228.0561, F.S., as amended)
Chapter 99-374 Laws of Florida page 10
Revenue Estimate Worksheet

cc: Superintendents



TECHNICAL ASSISTANCE NOTE

No. 2001-15

*Bureau of School Business Services
Office of Funding and Financial Reporting*

Contact: Linda Champion

Charter Schools

(850) 488-5142
SC: 278-5142

DATE: November 2, 2000
TO: District Finance Officers
FROM: David Morris, Administrator
SUBJECT: Charter Schools

In order to provide comparable charter school and public school fiscal data, Section 228.056(8), F.S., was amended by the 2000 Legislature to require charter schools to maintain their financial records in accordance with the "Red Book" account structure. Additionally, an Annual Financial Report and Program Cost Report using state-required formats must be provided for each charter school.

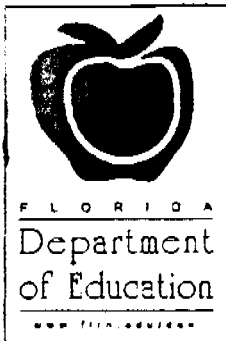
For those charter schools that are organized as a separate nonprofit organization, the requirement for submission of an Annual Financial Report is satisfied by the inclusion of the charter school as a discretely presented component unit in the financial statements of the sponsoring school district. For charter schools that are operated by a municipality or a parent nonprofit organization, submission of a separate annual financial report using state-required formats must be provided. Each charter school, regardless of the legal structure, must submit (through the sponsoring district) a Program Cost Report. Program Cost Reporting software was modified in previous years to accommodate the transmission of this data.

This correspondence is intended as an update to Technical Assistance Note 2000-05 issued August 13, 1999, regarding charter school fiscal information. Please find attached the amended subsection, Section 228.056(8)(i), F.S., for your review. Also attached is DPS Memorandum 00-134, dated July 10, 2000, which describes all changes in charter school law enacted by the 2000 session.

Attachments

DM:lc

cc: Superintendents



Florida Department of Education

Betty Coxe
Deputy Commissioner for
Educational Programs

CONTACT PERSON:

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SUNCOM: 277-1023

July 10, 2000

DPS: 00-134

MEMORANDUM

TO: District Superintendents

FROM: Betty Coxe *BC*

SUBJECT: Changes to Charter School Legislation for 2000-2001 School Year as a result of enacting House Bill 2087

Changes in a variety of areas were made this year to legislation affecting charter schools. Although some of the changes are more technical in nature, several will have a substantial impact. A technical assistance paper is being prepared which will offer greater detail on the major issues; it will be sent to the districts and schools in July. In the interim, the purpose of this memorandum is to provide a brief summary of the legislative changes enacted in House Bill 2087 that affect charter schools for the 2000-2001 school year. The bill was signed June 15, 2000, and these changes took effect July 1, 2000.

Facilities and Finance Changes:

- A new section of statute is created to allow for any facility, or portion of a facility, being used to house a charter school to be exempted from ad valorem taxes. Owners of leased properties must disclose the full amount of this benefit and pass it on to the charter school either annually or monthly. Charter school governing boards are added to the list of entities for which property taxes are cancelled for the full year in which title to the property was acquired. These changes offer the same property tax relief to charter school sites as other public school sites in the district.
- Upon non-renewal or dissolution of a charter school, public funds and all property and improvements, furnishings, and equipment purchased with public

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funds shall automatically revert to full ownership by the district school board. However, these are now first subject to complete satisfaction of any lawful liens or encumbrances. This includes conversion developmental research schools (DRS).

- In addition to facilities for charter schools being exempted from ad valorem taxes, after January 1, 2001, these facilities *must* comply with the Florida Building Code and the Florida Fire Prevention Code.
- Charter schools, but not converted public schools or those in facilities provided by the sponsor at little or no charges, are eligible for a funding allocation at one-fifteenth, not one-thirtieth, of the cost-per-student station. These funds may be prorated if a sufficient annual allocation is not available. The funds are released to the district *on behalf of the eligible charter school*; language allowing the district to choose whether to share these funds with the charter school has been removed. The amount of capital outlay FTE membership by grade level will be calculated by averaging the results of the second and third enrollment surveys. Sixty percent of the funds are to be distributed after the second enrollment survey and the balance after the third enrollment survey. Allowable capital outlay expenditures for charter schools are listed in s. 228.0561(2), F.S.

Technical Changes:

- To eliminate confusion in section 228.056, F.S., the term "application" has been substituted for "proposal" and the term "charter" has been substituted for "contract" throughout the statute.
- Parents are now included among those who may request conversion charter status.
- Where not specifically stated otherwise, all days noted in the statute are to be "calendar" days.
- The application date has been changed from November 15 to *October 1* for schools applying to local school boards to be opened at the beginning of the next school year *or at a time agreed to by the applicant and the school board*.
- The charter's application must be approved or denied by the school board within 60 calendar days *unless both parties mutually agree to a different specific date*. If a district school board *fails to act on the application*, an applicant may appeal to the State Board of Education.
- Appeals following denial of an application or failure to act on an application may occur no later than 30 calendar days after the decision *or failure to act*.
- Charters may be modified upon the recommendation of the sponsor or the charter school governing board, if both parties agree to the modifications.
- Grounds for charter non-renewal are those found in section 228.056(10)(a), F.S., namely: failure to meet the requirements for student performance stated in the charter; failure to meet generally accepted standards of fiscal management; violation of law; or other good cause. These must be documented.
- Language was added to clarify that charter schools are exempt from the Florida School Code except for those statutes that specifically apply to charter schools. Statutes that bear on the funding of charter schools or health and safety issues are still not subject to exemption or waivers.

- All members of the governing boards of charter schools now have an obligation to be fingerprinted, not just those who were board members at the time of the approval of the application.
- Just as charter schools were reviewed by the Legislature this year, the operation of charter schools shall be reviewed in 2005.

Conversion Charter Schools/Developmental Research Schools Changes:

- Conversion charter schools are encouraged by explicitly exempting conversion charters from the statutory cap on the number of charter schools in a district. Additionally, either the district school board or a charter school applicant may request the State Board of Education to authorize an increase in the number of charters.
- Unlawful reprisal against a district school board employee involved in an application to establish a charter school is specifically prohibited. Unlawful reprisal is defined in the statute and a process is described for filing complaints and determining relief.
- To encourage conversion charter schools, a pilot program is established. Ten schools will be selected through a competitive process by the charter school pilot program statewide selection panel. Subject to an appropriation for the 2001-2002 school year, each of the schools could receive significant financial resources to plan and develop the conversion charter school.
- Eligible students for charter schools now include enrollment preferences for children of members of the governing board. Developmental research schools (DRS) which convert to charter status shall be open to any student eligible to attend the DRS or who resides in the district where the school is located.
- A conversion DRS charter school may charge the student activity and service fees allowable under the DRS statute; all other charter schools are limited to those fees normally charged by other public schools. Any fees charged in public schools must relate to items that are not needed for the students' accomplishment of courses, for example, extra-curricular activities.
- Fifteen-year charters are authorized for conversion DRS schools.
- Alternative arrangements for students and teachers opting out of the conversion charter status of an existing school must still be made according to school board policy or collective bargaining agreements. This provision does not apply to teachers in a conversion DRS except as authorized by the employment policies of the State University that grants the charter.
- Developmental Research Schools (DRS) converting to charter status must be affiliated with the college of education within the state university that issued the charter, but the state university sponsor does not have to be the university of closest geographic proximity.
- Funding for DRS, including those with charter status, is still as noted in s. 228.053, F.S. This year, a conversion DRS is specifically eligible to receive charter school capital outlay funding if it meets the eligibility requirements. If a conversion DRS does receive charter capital outlay, it can receive DRS capital outlay only to the extent that charter capital outlay funds are not enough to fund the school at the one-fifteenth per student station level.

Dispute Resolution Changes:

- If there are disputes regarding the charter that cannot be handled by mediation, the dispute may be appealed to an administrative law judge appointed by the Division of Administrative Hearings. New this year is the provision that the prevailing party's reasonable attorney's fees and costs, in addition to the costs of the administrative hearing, are to be paid by the losing party.

Reporting Changes:

- Within 15 calendar days after receipt of a charter school application, a district school board or other sponsor *must* report to DOE the name of the applicant entity, the proposed charter school location, and its projected FTE.
- Within 10 calendar days of its actions on a charter application, the sponsor *must* report the action to DOE and must include the final projected FTE for any approved charter schools.
- Charter schools are to maintain all financial records which constitute their accounting system in accordance with the accounts and codes prescribed in "Financial and Program Cost Accounting and Reporting for Florida Schools" and must provide their annual financial report and program cost report information in the required format. Charters operated by municipalities or those with parent companies that are nonprofit organizations may use a different accounting system, but *must* reformat the information for the reporting noted above.

Charter Technical Centers Changes:

- Governance of charter technical career centers that are established by the conversion of a public technical center formerly governed by a district school board remains with the board of directors unless the board agrees to a change in governance or its charter is revoked. Conversion charter technical career centers are not affected by a change in the governance of public technical centers or of programs within other centers that are or have been governed by school boards. Any charter center or program in such a center transferred to a community college before the effective date of this act is not affected by this provision.

Later this summer, you will be receiving more information about the substantial changes to funding and to the incentives for conversion charter schools. Please continue to use the services of the Florida Charter School Resource Center, the Office of Public School Choice and Charter Schools, and any of the other charter contacts listed on the DOE web page [www.firn.edu/doe/bin00038/techassist.htm] as you make the needed local adjustments for these changes.

cc: District Charter School Contacts
Charter School Operators

Section 228.056 Charter schools.--

(8) REQUIREMENTS.--

(i) In order to provide financial information that is comparable to that reported for other public schools, charter schools are to maintain all financial records which constitute their accounting system in accordance with the accounts and codes prescribed in the most recent issuance of the publication titled "Financial and Program Cost Accounting and Reporting for Florida Schools." Charter schools are to provide annual financial report and program cost report information in the state-required formats for inclusion in district reporting in compliance with s. 236.02(1). Charter schools which are operated by a municipality or are a component unit of a parent nonprofit organization may use the accounting system of the municipality or the parent, but must reformat this information for reporting according to this paragraph.