



The School District of Osceola County, Florida Specific Review of Avant Garde Academy of Osceola, and Avant Garde Academy K-8 of Osceola



April 20, 2018

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Transmittal Letter



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April 20, 2018

Dr. Debra P. Pace
Superintendent
The School District of Osceola County, Florida
Kissimmee, FL 34744

Pursuant to the approved Consultant Services Agreement dated April 3, 2018, we hereby submit our report on specific areas of concern regarding Avant Garde Academy of Osceola (“OBT”) and Avant Garde Academy K-8 of Osceola (“K8”) (together, the “Schools”) as identified by the Sponsor, the School District of Osceola County (“District”). This review focused on specific areas of concern related to financial condition and compliance with Florida Statutes 218 and 1002 as they relate to deteriorating financial condition and financial emergency.

To address and test these areas, we held a kickoff meeting on March 13, 2018 with the Superintendent, Chief Business & Finance Officer, and the Executive Director of the Charter Schools and Educational Choices department. We met with representatives of the Schools on April 6, 2018 including the Management Company, iSchools, LLC and the accounting services provider McCrady & Associates. We conducted onsite fieldwork and reviewed documentation provided to us by the District and/or the Schools.

Results

We found conditions of financial emergency and deteriorating financial condition as outlined below and detailed within this report:

- Per Florida Statute 218.503(1), determination of financial emergency occurs when any one of the listed conditions occurs, including (1)(b) “Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.” We noted that OBT incurred five (5) unpaid invoices greater than 90 days old for three (3) vendors totaling \$26,716.
- Per Florida Statute 1002.345(1)(a)(3), “deteriorating financial condition means a circumstance that significantly impairs the ability of a charter school to generate enough revenues to meet its expenditures without causing the occurrence of a condition of financial emergency as described in FS 218.503(1).” We noted indications that the Schools are in a deteriorating financial condition including low/deficit fund balances, negative cash balances, increasing accounts payables balances, and an intercompany due to/from account.

Observations – Deteriorating Financial Condition	OBT	K8
Low/Deficit Fund Balances	✓	✓
Negative Cash Balances	✓	✓
Increasing Accounts Payable Balances	✓	-
Intercompany Due To/From Account	✓	✓

Transmittal Letter - continued

Results - continued

In addition to the conclusions related to financial emergency and deteriorating financial condition, we outlined other notable Observations during our procedures including the budget process, non-compliance with District agreements, board governance, and related parties.

Observations - Other	OBT	K8
Budget Process & Approval	✓	✓
Non-compliance with District Agreements – Due To/From Account	✓	✓
Non-compliance with District Agreements – Monthly Financial Reports	✓	✓
Board Governance – Monitoring of Financial Information	✓	✓
Board Governance – Oversight of Key Service Providers	✓	✓
Related Parties	✓	✓

We would like to thank all those who assisted in this specific review of the Avant Garde Academy of Osceola and Avant Garde Academy K-8 of Osceola.

Respectfully,

RSM US LLP

Internal Auditors

Background

Avant Garde Academy Incorporated, who also conducts business as Avant Garde Academy of Osceola (“Avant Garde”), is a not-for-profit corporation organized under the laws of the State of Florida. The organization operates two schools in Osceola County under Charter Agreements with the District - Avant Garde Academy of Osceola (“OBT”) and Avant Garde Academy K-8 of Osceola (“K8”) (together, the “Schools”). The Schools have a governing board that consists of the following:

Board Chair:	Julie Valent
Executive Director:	Frank Bolanos
Treasurer:	Antonio Cruz
Board Member:	Luis De Varona
Board Member:	Agustin Lopez
Board Member:	Erika Gonzalez

OBT - The OBT School entered into a management agreement for the period July 1, 2013 to June 30, 2025 with iSchools, LLC (“iSchools”). Pursuant to the terms of the agreement, iSchools is responsible for the management, operation, administration, accounting, and Educational Program at the School. During fiscal year 2016-17 management fees paid pursuant to the agreement were \$533,183.

K8 - The K8 School entered into an agreement for the period June 8, 2015 to June 30, 2030 with LBS Services, Inc. Pursuant to the terms of the agreement, LBS Services Inc. is responsible for the management, operation, administration, accounting, and Educational Program at the School. During fiscal year 2016-17 management fees paid pursuant to the agreement were \$247,557. It should be noted we had no interaction with LBS Services Inc. during the audit. The requested supporting documentation for both schools was provided by iSchools.

District General Counsel Review

On January 29, 2018, a whistleblower met with the District to discuss a number of concerns regarding the Schools located in Osceola County. Some of the concerns expressed include the following:

- Lead Money received by the Schools was not distributed to teachers
- Over reporting of FTE counts in FY 2016-17
- Over reporting of FTE counts in FY 2017-18
- Budget was not accessible to appropriate personnel

In February 2018, an investigation was conducted by the Osceola County Public Schools Professional Standards and Human Resources department regarding allegations that both Schools failed to distribute funds to eligible classroom teachers from the Florida Teachers Classroom Supply Assistance Program (“FTCSAP” or “Lead Money”), as required by Florida Statute F.S.S. 1012.71. The investigation found that the Managing Member, Melissa March of iSchools failed to release funds to classroom teachers under her management for both OBT and K8 schools.

A subsequent review of the Schools was performed by the District’s General Counsel. The review concluded with a memorandum dated March 6, 2018 describing eight (8) separate issues regarding the FTCSAP funds, principal turnover, lack of board oversight, and financial condition occurring at the schools. As a result of the issues noted in the review, the General Counsel recommended to the District’s Superintendent to perform an immediate financial audit of the Schools financial processes and records.

Fact Sheets

Avant Garde Academy of Osceola (OBT)

2880 N. Orange Blossom Trail
Kissimmee, FL 34744

Charter Contract Date:

Original Date: March 5, 2013
Expiration Date: June 30, 2018

Membership:

Fiscal Year	Student Membership				
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
School's FTE Forecast	300	437	535.74	658.93	737.61
School's Final FTE	182.98	513.04	635.24	706.12	TBD
Head Count for Year	186	486	612	680	TBD

Financial Data:

	Unaudited November 2017	Unaudited December 2017	Unaudited January 2018	Unaudited February 2018
Cash and Equivalents	\$(48,930)	\$11,131	\$6,898	\$88,775
Net Position	\$(100,473)	\$42,169	\$(22,869)	\$(84,865)

Charter School Grade per Florida Department of Education:

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
School Grade	C	D	C	D	TBD

Governing Board:

Board Chair: Julie Valent
Executive Director: Frank Bolanos

School Administration:

Interim Principal: Chanell Paynter
Assistant Principal: John Suarez

Fact Sheets - continued

Avant Garde Academy K8 of Osceola

3540 Pleasant Hill Road
Kissimmee, FL 34726

Charter Contract Date:

Original Date: February 18, 2014
Expiration Date: June 30, 2019

Membership:

Fiscal Year	2015-2016	2016-2017	2017-2018
School's FTE Forecast	186	363.9	360.18
School's Final FTE	363.35	337.18	TBD
Head Count for Year	364	309	TBD

Financial Data:

	Unaudited November 2017	Unaudited December 2017	Unaudited January 2018	Unaudited February 2018
Cash and Equivalents	\$8,853	\$(8,133)	\$(16,821)	\$16,705
Net Position	\$(114,999)	\$(196,270)	\$(164,665)	\$(209,088)

Charter School Grade per Florida Department of Education:

Fiscal Year	2015-2016	2016-2017	2017-2018
School Grade	F	C	TBD

Governing Board:

Board Chair: Julie Valent
Executive Director: Frank Bolanos

School Administration:

Principal: Chanell Paynter

Observations

1. Florida Statute 218.503(1) - Determination of Financial Emergency

Per Florida Statute 218.503(1), determination of financial emergency occurs when any one of the listed conditions occurs, including (1)(b) "Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds."

Osceola County Sheriff Office's Invoices

During our discussions with key District employees, there was concern that OBT had outstanding invoices for services provided by the Osceola County Sheriff's Office. We contacted the Sheriff's Office directly and requested their Accounts Receivable Aging report as of April 13, 2018. Upon receipt of the report, we noted the following outstanding invoices and calculated the number of days past due. All three invoices are greater than 90 days unpaid, and therefore are noncompliant with Statute.

Invoice No.	Due Date	Amount	Past Due
356995	9/29/2017	\$3,920	196
357010	10/13/2017	\$6,160	182
357176	12/01/2017	\$4,200	133
		<u>\$14,280</u>	

We obtained the OBT Accounts Payable Aging Report as of April 12, 2018 from iSchools and reviewed for the three Sheriff invoices noted above. As shown below, the invoices were entered into the accounting system several months after the invoice date, and the due dates do not align with the Sheriff's due dates.

Invoice No.	Created	Due Date	Amount	Created By
356995	4/12/2018	5/02/2018	\$3,920	M. March
357010	3/19/2018	null	\$6,160	M. March
357176	3/19/2018	null	\$4,200	M. March
			<u>\$14,280</u>	

Certiport Invoice

We obtained email communication between the District and an OBT vendor Certiport. The vendor indicated that as of February 6, 2018 an invoice dated August 28, 2017 in the amount of \$7,325 was outstanding, and that it had been difficult to get assistance from anyone at the school. We inspected the OBT Accounts Payable ledger and available bank statements and were unable to identify that a liability had been recorded or that payment had been made. The invoice in question is greater than 90 days unpaid, and therefore is noncompliant with Statute.

Valencia College Invoice

We obtained email communication between the iSchools Managing Member, Melissa March and Valencia College on March 1, 2018 regarding a past due balance. Valencia indicated that several attempts had been made to resolve an outstanding balance with the OBT School. Per Valencia, the original invoice was sent on November 29, 2017 in the amount of \$5,111. We inspected the OBT Accounts Payable ledger and available bank statements and were unable to identify that a liability had been recorded or that payment had been made. The invoice in question is greater than 90 days unpaid, and therefore is noncompliant with Statute.

Observations - continued

2. Florida Statute 1002.345(1)(a) - Deteriorating Financial Condition

Per Florida Statute 1002.345(1)(a)(3), “deteriorating financial condition means a circumstance that significantly impairs the ability of a charter school to generate enough revenues to meet its expenditures without causing the occurrence of a condition of financial emergency as described in FS 218.503(1).” During our procedures, we noted strong indications that the Schools are in a deteriorating financial condition, as detailed below.

Low/Deficit Fund Balances

We reviewed the February 2018 monthly financial reports and most current budget amendment dated March 9, 2018 to understand what the Schools expect their financial position to be by the end of FY 2017-18, and how any change in fund balance from February 2018 to June 2018 is expected to occur. We made inquiries to the Schools’ management company iSchools as appropriate. Below is a summary of key data:

	OBT	K8
1. Fund Balance per February 2018 monthly financial reports	\$(84,865)	\$(209,088)
2. Year End Fund Balance per School Budget Amendment dated March 9, 2018	\$10,604	\$(101,788)
3. Schools’ Projected Increase in Fund Balance from February 2018 to June 2018	\$95,469	\$107,300

We were unable to obtain a complete understanding for the Schools’ plans to improve upon the deficit positions realized in February 2018 to achieve the budgeted Year End Fund Balance shown above. The School’s management company iSchools stated that the School experiences reduced expenses after the end of the school year and would therefore realize these savings in the amounts of #3 above. However, our understanding is that the budget is accounting for any reduction in expenses and thus no further reduction will be realized. See Observation #3 for further discussion on concerns with the School’s budgeting process.

Negative Cash Balances

We reviewed the monthly financial reporting packages for each school from July 2017 through February 2018. As shown in our Fact Sheets within this report, for K8, we noted the cash and equivalents balance was negative in December 2017 and January 2018 in the amount of \$(8,133) and \$(16,821), respectively. For OBT, we noted the cash and equivalents balance was negative in the amount of \$(48,930) in November 2017.

The Schools’ net cash positions, which represent the available cash to pay expenses currently due, as of February 2018 are shown below:

Net Cash Position per Feb 2018 Monthly Financial Reports		
	OBT	K8
Cash and Equivalents - February	\$88,775	\$16,705
Less: Accounts Payable - February	\$296,941	\$51,509
Less: Accrued Expenses - February	\$47,572	\$68,206
Net Cash Position - February	\$(255,738)	\$(103,010)

Observations - continued

2. Florida Statute 1002.345(1)(a) - Deteriorating Financial Condition - continued

Accounts Payable Balance

We analyzed the accounts payable balance for each School during the period July 2017 through February 2018. We noted that the K8 balance appears somewhat consistent; however, the OBT balance appears inconsistent, as September and October 2017 have no payables recorded, and there is a trending increase from November 2017 through February 2018.

Reporting Period	OBT – Unaudited AP Balance	K8 – Unaudited AP Balance
July 2017	\$75,310	\$88,582
August 2017	\$28,488	\$53,920
September 2017	-	\$56,901
October 2017	-	\$48,326
November 2017	\$78,738	\$61,208
December 2017	\$115,684	\$91,775
January 2018	\$182,488	\$32,960
February 2018	\$296,941	\$51,509

Intercompany Accounts – Due To/From

We reviewed the Schools' audited financial statements for the year ending June 30, 2017 and noted an intercompany account for amounts owed to OBT by K8. Through inquiry of iSchools and the Schools' bookkeepers, McCrady & Associates, the intercompany amount consisted primarily of August 2016 payroll expenses that OBT paid on behalf of K8. iSchools and McCrady & Associates stated that the Schools were changing service providers at the time, and payroll had not been properly separated between the two schools by the new provider. As a result, all payroll payments were deducted from the OBT bank account and a Due To/From was recorded in both Schools' general ledgers. Upon review of the K8 general ledger, we noted the receivable consists of various expenditures including payroll, transportation, and utility services.

We reviewed the OBT and K8 general ledger activity for the related accounts, but were unable to reconcile the activity between the Schools. To date the Schools have stated that there is no formal written agreement or understood repayment terms regarding the due to/from account. Per the documentation provided to us, the Schools do not have the available cash to satisfy the balance owed in the due to/from accounts.

Observations - continued

3. Budget Process and Approval

Original Budget

We were unable to determine a clear history and audit trail of the Schools' budget and related amendments. During review of the Schools' board meeting minutes, we did not see evidence in the minutes that an original budget had been approved. We requested a copy of the original budget for FY 2017-18. The Schools' management company, iSchools provided a budget dated May 2017 but were unable to determine if it was the original Board-approved budget for FY 2017-18.

Board Approvals and Frequency of Amendments

We noted mention of four (4) budget amendment approvals in our review of the board meeting minutes. Meeting dates where the minutes indicate a budget amendment was approved are: Special Meeting August 28, 2017, Regular Meeting October 6, 2017, Special Meeting October 21, 2017, and Regular Meeting March 9, 2018. We were provided three (3) amended budgets in Excel format that were titled with an amendment date; we were not provided supporting documentation for the August 28, 2017 meeting. We were unable to conclude if these were Board approved, as we were unable to validate that the files we were provided were attached to the Board agenda for approval.

The following tables summarize the amended budgets information provided to us for each School:

Avant Garde Academy of Osceola (OBT) FY 2017-18 Budget Amendments			
Amendment Date	YTD Revenue	YTD Expenditures	Net Income*
10/6/2017	\$ 4,908,787.25	\$ 4,829,223.13	\$ 79,564.12
10/21/2017	\$ 4,988,818.78	\$ 4,645,797.96	\$ 343,020.82
3/9/2018	\$ 4,701,620.94	\$ 4,691,016.95	\$ 10,603.99

Avant Garde Academy K8 of Osceola (K8) FY 2017-18 Budget Amendments			
Amendment Date	YTD Revenue	YTD Expenditures	Net Income (Loss)
*not dated	\$ 3,119,103.37	\$ 3,094,598.64	\$ 24,504.73
10/6/2017	\$ 3,049,291.06	\$ 2,857,767.96	\$ 191,523.10
10/21/2017	\$ 2,525,743.00	\$ 2,455,614.56	\$ 70,128.44
3/9/2018	\$ 2,188,152.23	\$ 2,289,940.31	\$ (101,788.08)

The frequency of budget adjustments is higher than general industry trends of charter schools, as typically a charter school will have one to two amendments per year. Frequent budget amendments and large swings in budgeted net income are indicative of significant changes to the entity's operating environment, instability, uncertainty, and/or a lack of consistency in financial monitoring.

Observations - continued

4. Non-compliance with District Agreements

Intercompany Accounts – Due To/From

The Schools' charter agreements with the District require the following, *"For financial reporting, the School shall adopt the governmental accounting model as adopted by the Governmental Accounting Standards Board, and shall utilize the standard state codification of accounts as contained in the Financial Program Cost Accounting Reporting for Florida Schools"* ("Red Book"). According to Red Book Chapter 8, *"internal funds shall not be used to cash checks to accommodate individuals, **make any kind of loans**, pay any form of compensation directly to employees or extend credit."* As noted in Observation #2, the Schools have reported a Due To/From account balance since July 2016.

As the repayment terms have not been formalized in writing for the due to/from account, and as the account has been in existence since July 2016, and as the nature of the balance owed is attributed to one school paying the expenses of another school, the transactions resemble a type of loan. A loan is a violation of the Florida Department of Education Financial and Program Cost Accounting and Report for Florida Schools ("Red Book") and a violation of the charter agreement with the District.

Monthly Financial Reports

The Schools' charter agreements with the District require the following, *"The School will provide monthly financial reports in the format as prescribed by the School Board, to be delivered to the School Board no later than the twentieth (20th) day of the following month."* The monthly financial statement reports are currently submitted for both Schools together to the District via email. We examined available monthly financial statement reports submitted by both Schools and noted that six (6) out of (8) monthly financial reports were submitted after the 20th of the subsequent month. Also, it was noted via communication between the District and the schools' bookkeepers, that K8's monthly financial statements reports from November 2017 and January 2018 were adjusted and re-submitted to the District due to accounting and mathematical errors. Please refer to the following table summarizing the reporting periods, submission dates, and compliance determination.

Month	Submission Date	Results
July 31, 2017	October 23, 2017	Late
August 31, 2017	October 23, 2017	Late
September 30, 2017	October 23, 2017	Late
October 31, 2017	November 21, 2017	Late
November 30, 2017	January 30, 2018	Late
December 31, 2017	January 30, 2018	Late
January 31, 2018	February 20, 2018	On Time
February 28, 2018	March 20, 2018	On Time

Additionally, the charter agreements require each monthly report to include a column for the original budget as approved by the School. It was noted that zero (0) of the eight (8) monthly financial statement report submissions included a column for the original budgeted amounts as required by each school charter agreement. See Observation #3 for further discussion on concerns with the School's budgeting process.

Observations - continued

5. Board Governance

Board Monitoring of Financial Information

We noted a lack of transparency within the governing board minutes regarding what information, reports, etc. are provided to the Board for their review during their meetings. The minutes included an agenda item titled “*Approval of Revised School Budgets.*” We requested copies of the School budgets that were provided to the Board for approval; however, we were unable to decipher a clear audit trail of amendments and their approvals as noted in Observation #3. Therefore we were unable to determine that the Board is properly reviewing and monitoring financial activity. Financial transparency is critical to providing the governing board with the information needed to make operational decisions, and to provide proper oversight.

Board Oversight of Key Service Providers - iSchools

We performed research on the management company used by Avant Garde using publicly available records. As a result of this research, we obtained an audit report of Eagle Arts Academy Charter School (“EAA”) located in the School District of Palm Beach County, Florida dated September 30, 2016. We noted that EAA had also entered into a management agreement with iSchools effective June 12, 2014 through May 18, 2015. Consistent with the iSchools agreement with OBT, iSchools was responsible for management, operation, accounting, and the educational program of EAA. The report produced the following findings:

1. Over-Reporting of Student FTE Count
2. Internal Control Weaknesses
 - a. Expenditures with No or Inadequate Documentation
 - b. Checks Missing and Issued Out-of-Sequence
 - c. Expenditures Not Recorded in the School’s Accounting System
 - d. Improper safeguarding of blank check stock
3. Related Party Transactions – On behalf of EAA, iSchools purchased \$467,164 through a vendor named *The School Store, Inc.* (“School Store”). It was determined that this vendor was a related party. Melissa March served as a Managing Member and Director of iSchools and the School Store, respectively.
4. The EAA Board minutes for June 30, 2015 indicated that EAA’s management attempted to rebuild a full year’s accounts receivable and payable records. Ultimately, the EAA Board voted to place iSchools in material default of the Management Agreement.

It is unclear if the Avant Garde governing board was aware of these findings at the time that iSchools was engaged to perform management company services.

6. Related Parties

The School Store, Inc.

We noted several outgoing wire transfers in the K8 bank statement activity to a vendor named The School Store, Inc. Four separate wire transactions occurred from July 2017 through January 2018 for a total amount of \$18,340. We performed a search on The School Store Inc. using the Florida Department of State database, and noted Melissa March was listed as the registered agent for The School Store, Inc. and thus this vendor is a related party. Transactions under this related party relationship were not reported or disclosed in the School’s audited financial statements for prior year, FY 2016-17. GAAP requires disclosure of related party transactions if the transaction is material to the entity.

Appendix – Background and Statutes

What is a Charter School?

Charter Schools are independently governed by Florida Statute and free standing public schools which offer parents and students another choice in public education outside the “traditional” school district system. Founded by educators, parents, community groups or private organizations, each charter school is governed by its own school board and operates under a performance contract with its sponsor, the School District of Osceola County (the District). As its sponsor, the District, through the Office of School Choice, monitors each charter school for compliance with all local, state and federal regulations and mandates.

Relationship with the District

As sponsor, the District should monitor and review the charter school in its progress towards the goals established in the charter as well as the financial condition of the charter school.

Charter Schools are reported as discretely presented component units in accordance with GASB14. The Charter Schools report FTE data to the District, which ultimately is reported to the Department of Education (“DOE”). Per the contract with the District, the charter schools provide monthly financial statements to the District including a balance sheet, and a statement of revenues and expenditures and changes in fund balances. The financial statements should be prepared in accordance with Generally Accepted Accounting Principles and in a format to include a detail of all revenue and expenditure activities relating to its operations.

The District receives all funds from the DOE and ‘passes’ them through to the Charter School. The District withholds five percent of those funds as a fee for the support they provide. The support includes contract management services, FTE and data reporting, exceptional student education administration, services related to federal school lunch program eligibility, test administration, processing of teacher certificate data, and information services in accordance with Florida Statute 1002.33(20)(a).

District’s Duties as the Charter School Sponsor

The following excerpt from F.S.1002.33(5)(b)(1) describes the District’s duties as the Sponsor of a charter school:

- a) The sponsor shall monitor and review the charter school in its progress toward the goals established in the charter.
- b) The sponsor shall monitor the revenues and expenditures of the charter school and perform the duties provided in s. 1002.345.

These duties are shown in the Financial Condition Statutory Requirements section below.

The following describes the notification requirements and corrective actions for the identified financial conditions:

Appendix – Background and Statutes - continued

District’s Duties as the Charter School Sponsor - continued

Conditions	Notification Requirements	Corrective Action
1. Failure to provide an audit required by s. 218.39, F.S.	The existence of one or more of these conditions constitutes a state of financial emergency.	Corrective Action Plan – for deteriorating or emergency condition.
2. Failure to comply with reporting requirements pursuant to s. 1002.33(9), F.S.	If a charter school fails to provide for an audit required by s. 218.39, F.S., or fails to comply with reporting requirements pursuant to s. 1002.33 (9), F.S., A sponsor shall notify the governing board within 7 business days after conditions 1	
3. Failure to pay loans or debt service when due as a result of lack of funds	and/or 2 occurs.	
4. Failure to pay uncontested claims to creditors within 90 days as a result of lack of funds	In an audit that reveals that one of the conditions in s. 218.503(1) has occurred or will occur if action is not taken to assist the charter school or charter technical career center, the auditor shall notify the governing board of the charter school or charter technical career center, the sponsor, and the Commissioner of Education within business 7 days after the finding is made.	
5. Failure to transfer taxes, social security or retirements/benefits for employees		
6. Failure for one pay period to pay wages, salaries or retirement benefits to employees	If one of the conditions in s. 218.503(1) has occurred or will occur if action is not taken to assist the charter school, the sponsor shall notify the governing board within 7 business days after the condition occurs.	

Appendix – Background and Statutes - continued

Financial Condition Statutory Requirements

Effective July 1, 2009, Senate Bill 278 amended ss. 218.503 and 1002.33, and creates s. 1002.345, related to a charter school's financial conditions which include the following:

Conditions	Statute Excerpts
1. Failure to provide for an audit required by s. 218.39, F.S.	<p>If a charter school or charter technical career center has not been notified by the first day of the fiscal year that a financial audit for that fiscal year will be performed by the Auditor General, the charter school or charter technical career center shall have an annual financial audit completed within 9 months after the end of its fiscal year by an independent CPA retained by it and paid from its public funds (s. 218.39(1)(e) and (f)).</p> <p>If the charter school fails to provide the audit, the school will be subject to expedited review by the sponsor (s. 1002.345(1)(a)1)</p>
2. Failure to comply with reporting requirements pursuant to s. 1002.33(9), F.S.	<p>Charter schools shall provide annual financial report and program cost report information in the state-required formats for inclusion in district reporting. A charter school shall provide a monthly financial statement to the sponsor in a form prescribed by the DOE (s. 1002.33(9)(g)).</p> <p>The governing board shall report its progress annually to its sponsor. The DOE developed accountability report shall include a financial status component which must include revenues and expenditures at a level of detail that allows for analysis of the ability to meet financial obligations and timely repayment of debt (s. 1002.33(9)(k)).</p> <p>If the charter school fails to comply with the reporting requirements, the school will be subject to expedited review by the sponsor (s. 1002.345(1)(a)2).</p>
3. Charter school is experiencing a deteriorating financial condition	<p>A deteriorating financial condition, identified through an annual audit or a monthly financial statement, means a circumstance that significantly impairs the ability of a charter school or a charter technical career center to generate enough revenues to meet its expenditures without causing the occurrence of a condition described in s. 218.503(1). (s. 1002.345(1)(a)3).</p> <p>The charter school is subject to expedited review by the sponsor if a deteriorating financial condition is identified (s. 1002.345(1)(a)3).</p>

Appendix – Background and Statutes - continued

Financial Condition Statutory Requirements - continued

Conditions	Statute Excerpts
4. Failure to pay loans or debt service when due as a result of lack of funds	<p>Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds s. 218.503(1)(a).</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>
5. Failure to pay uncontested claims to creditors within 90 days due to lack of funds	<p>Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds s. 218.503(1)(b).</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>
6. Failure to transfer taxes, social security or retirements/benefits for employees due to lack of funds	<p>Failure to transfer at the appropriate time, due to lack of funds:</p> <ul style="list-style-type: none"> • Taxes withheld on the income of employees; or • Employer and employee contributions for: Federal social security; or • Any pension, retirement, or benefit plan of an employee. <p>s. 218.503(1)(c)</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>
7. Failure for one pay period to pay wages, salaries or retirement benefits to employees due to lack of funds	<p>Failure for one pay period to pay, due to lack of funds:</p> <ul style="list-style-type: none"> • Wages and salaries owed to employees, or • Retirement benefits owed to former employees. <p>s. 218.503(1)(d)</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>

Appendix – Background and Statutes - continued

Financial Condition Statutory Requirements – continued


The following represents the recommended steps for creating a corrective action plan:

1. A sponsor shall notify the governing board within 7 business days after one or more of the conditions resulting in the establishment of a corrective action plan occur.
2. The governing board and the sponsor shall develop a corrective action plan and file the plan with the Commissioner of Education within 30 business days after notification is received.
3. If the governing board and the sponsor are unable to agree on a corrective action plan, the Commissioner of Education shall determine the components of the plan.
4. The governing board shall implement the final plan.
5. The governing board shall include the corrective action plan and the status of the implementation in the annual progress report to the sponsor.
6. If the governing board fails to implement the corrective action plan within 1 year after one or more of the conditions resulting in the establishment of a plan occur, the State Board of Education shall prescribe any steps necessary for the charter school or charter technical career center to comply with state requirements.
7. The chair of the governing board shall annually appear before the State Board of Education and report on the implementation of the State Board of Education's requirements referenced above (6).

Finally, if the charter school is found to be in a state of financial emergency the following steps should be performed:

1. The charter school shall develop and submit a financial recovery plan to the Commissioner of Education for review and approval within 30 days of being notified that the charter school is in a state of financial emergency and a financial recovery plan is needed.
2. The charter school shall file the approved financial recovery plan with the Commissioner.
3. The governing board shall monitor the financial recovery plan in order to ensure compliance.
4. The governing board shall include the financial recovery plan and the status of its implementation in the annual progress report to the sponsor.

The sponsor may decide not to renew or may terminate a charter if the charter school fails to correct the deficiencies noted in the corrective action plan within 1 year after being notified of the deficiencies or exhibits one or more financial emergency conditions for 2 consecutive years.



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