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Charter Schools Boards Live A Double Life: What You Should Know About Financial Oversight of Your School

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California charter school board members live a double life when carrying out school financial oversight. As leaders of public schools operated by nonprofit corporations, they take on the fiduciary duty of financial oversight common to all nonprofit corporate directors. Yet, they are also public officials expected to master the ever-changing budgeting, cash flow and reporting cycles prescribed only for charter schools. Unlike most governmental organizations, they manage a business that must be strictly service-oriented to compete and succeed, but with limited (and primarily public) financing sources and attendant strings attached.

As a result, charter school board must oversee compliance with complex fiscal management rules. Many charter school board members are experienced and savvy business people with experience in finance or education, but they are likely unaware of the charter-school-specific laws, standards and exceptions. This article provides charter school boards with "The Basics" for ensuring a charter school's financial management is sound.

All charter school board members as corporate directors have the overarching duty of *financial oversight*. First, this means it is the board's job to ensure that the school's money is being used legitimately—that is, only to accomplish the corporation's "charitable purposes" as described in the corporation's Articles of Incorporation (and perhaps explained to the IRS when obtaining its tax-exemption) in a way that is sustainable. As public officials, board members need to watch for expenditures that are in no way related to the public education mission of the charter school, which might be considered an improper use of public funds.

Can corporate funds be used to establish a pre-school program? Pay bonuses to employees? Donate to a political campaign or the local chamber of commerce? Provide free computers to families of students? Whether these are appropriate will depend on the circumstances. As board members you should ask questions to ensure management has considered potential nonprofit and public law limitations.

Second, nonprofit corporations, including charter schools, are partially subject to the California Nonprofit Public Integrity Act. Board members who have served on other nonprofit boards may be unaware schools are exempt from most of this law. However, it does require the charter school's board (or a compensation committee) to *review and approve the CEO's (or President's) compensation* to ensure it is just and reasonable. This requirement also applies to the charter school's *treasurer (or CFO)*. The board must set compensation upon initial hiring, and any time the CEO's or treasurer's term of employment is renewed or modified in a way that doesn't also apply to substantially all employees. Charter school boards often delegate hiring, firing and employee compensation to managers, which is fine so long as the board retains final control over the CEO's and treasurer's compensation.

Third, a key responsibility of the board is approval of the organization's *annual budget*. A charter school's annual budget is the blueprint for the school year, and is thus the single most important financial document for the board to scrutinize. The budget sets spending priorities and goals. It allows the board to reasonably gauge expenses, understand revenue sources, and how cash flow will be managed. A charter school board is required to approve the school's annual budget (preliminary budget due to its authorizer by July 1). The board should, at a minimum, review the school's mandatory quarterly financial reports, due December 15, March 15 and September 15. In addition, deviations from the budget should be regularly reported and explained to the board.

The budget should allocate adequate *reserves*—as payments from the state can be erratic. A prudent percentage may be specified in a school's charter—often 3-5% of the school's total budget—similar to the target for school district. Charter schools with larger reserves have weathered the recent downturn and state funding deferrals better than those with minimal cash cushions.

The board is responsible for ensuring that *annual audits* are conducted by an independent auditor. This is true for any nonprofit corporation, but is especially important for charter organizations. As part of the process, the auditor should have a chance to speak privately to board leadership without management presence, so that areas of potential concern can be identified for special attention. The audit serves to validate the school's reported finances and its internal financial controls. The charter school board must approve the audit agreement in the spring of each year, and must approve the audit itself prior to the school's submission to oversight agencies.

Finally, the board should discuss with its auditor and management, the adoption and implementation of fiscal control policies and procedures that ensure that, for example, the same person cannot prepare and sign checks, make deposits or approve other financial transactions of any substance. You don't want to discover, as one school did, that their events coordinator had used the corporate credit card to buy herself $300,000 in expensive watches—only when the bill came in. Checks and balances are crucial.

By paying attention to these basic matters and asking questions whenever you are unsure, you will learn a lot and protect the school you love and yourself--both in your role as a fiduciary and a public official.

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