



Financial Reporting

*For Charter Schools Authorized by
the Indiana Charter School Board*

Revised July 2020

For more information, please visit the
Indiana Charter School Board website:
<http://www.in.gov/icsb>.

Financial Reporting Requirements

The purpose of this document is to provide guidance for the accounting, internal control, financial reporting, and audit obligations of charter schools authorized by the Indiana Charter School Board (“ICSB”), including reports required by the Indiana Department of Education (“IDOE”) and the State Board of Accounts (“SBOA”). A list of all reporting requirements, including due dates, may be found in [ICSB’s Reporting Requirements](#). Many of the documents referenced in this guide may be found on [SBOA’s Charter School](#) webpage, including information about “Internal Control Standards,” “State Examiner Directives,” “Audit Guidelines,” the “Charter School Manual,” and links to SBOA’s “Charter School Bulletin.” Links to the financial reporting templates referenced throughout this document may be found here: <https://www.in.gov/icsb/2369.htm>.

As part of financial accountability, charter schools are responsible for compliance with SBOA policies and procedures. ICSB strongly encourages schools to familiarize themselves with the standards, directives, guidelines, manuals, and bulletins posted on SBOA’s Charter School webpage.

For questions, please contact the ICSB by calling 317-232-7584 or emailing indianacharterschoolboard@icsb.in.gov.

Financial Reporting Required by ICSB & SBOA

Introduction

In accepting the responsibility of administering the financial affairs of a school, an organizer must recognize not only its responsibilities toward the educational needs of the student population of the school, but also the organizer's relationship with and responsibilities toward the taxpayers of Indiana. Among other things, faithful performance of this duty requires accurate accounting and reporting of all financial transactions and the establishment of sound internal controls and procedures for effective and efficient operation of all schools.

ICSB’s financial oversight is focused upon several interrelated concepts: effective financial monitoring by the organizer’s Board of Directors (the “Governing Board”), realistic and ongoing budgeting and forecasting, maintenance of appropriate internal controls and procedures, timely and accurate financial reporting, effective budget management, and the maintenance of adequate financial resources to ensure stable operations.

Initial Statement

Section 10.4 of ICSB’s Charter Agreement ([Section 6.4](#) of the Revised Charter Agreement¹) requires

¹ Applicable to schools opening in, or renewed for, the 2017-18 school year.

each charter school authorized by the ICSB to maintain appropriate governance and managerial procedures and financial controls throughout the charter term. During the year in which a school receives its charter and prior to opening, each school must provide an “Initial Statement” to ICSB addressing whether the school has implemented such controls. The Initial Statement provides an assurance that the school has the policies and procedures in place to operate in a fiscally sound manner and to guard against the misuse of public funds.

The Initial Statement must address whether the organizer and the charter school have adequate controls relating to:

- Preparing financial statements in accordance with generally accepted accounting principles (“GAAP”), and also with the requirements for charter schools established by SBOA;
- Payroll procedures;
- Accounting for contributions and grants;
- Procedures for the creation and review of quarterly and annual financial statements, which procedures shall specifically identify the individual who will be responsible for preparing and reviewing such financial statements and ensure that such statements contain valid and reliable data;
- Appropriate internal financial controls and procedures;
- Safeguarding of assets including cash and equipment;
- Ensuring that the purchasing process results in the acquisition of necessary goods and services at the best price; and
- Following appropriate guidance relating to a code of ethics, budget development and administration, and cash management and investments.

The Initial Statement must be reviewed and ratified by the Governing Board and provided to ICSB no later than July 1 of the calendar year in which the school intends to begin serving students (except when July 1 falls on a Saturday or Sunday, in which case the report is due on the immediately following Monday).

Independent Accountant’s Report

Section 10.4 of ICSB’s Charter Agreement (Section 6.4 of the Revised Charter Agreement) also requires each school to retain an independent certified public accountant or independent certified public accounting firm (independent accountant) licensed in Indiana to perform an agreed-upon procedures engagement (the “Independent Accountant’s Report”) in accordance with attestation standards established by the American Institute of Certified Public Accountants. The purpose of the engagement is to assist ICSB in evaluating the Initial Statement. The engagement must commence within forty-five (45) days after the date on which the school has received and disbursed more than \$50,000 in State funding.). Pursuant to SBOA’s Audit Guidelines for Charter Schools, the procedures to be performed by the independent accountant include the following:

- Obtain a copy of the accounting procedures manual of the school to ascertain whether it includes adequate accounting procedures for the preparation of the school's financial statements on an accrual basis of accounting in conformity with generally accepted accounting principles for not-for-profit organizations, and also a modified cash and accrual basis of accounting in accordance with requirements for charter schools as established by SBOA;
- Read the school's accounting manual to ascertain whether it includes adequate payroll procedures for the school and whether the school will hire an outside vendor to process the payroll;
- Read the school's accounting manual to ascertain whether it includes adequate procedures for accounting for contributions and grants;
- Read the available trial balance and documentation supporting cash receipts, cash disbursements and payroll expenses to observe the implementation status of the accounting procedures;
- Identify and interview the person(s) responsible for financial management of the school regarding the existence of procedures for the creation and review of quarterly financial reports by school leadership/management and the school's governing board; and
- Interview the person(s) responsible for financial management of the school regarding the existence of appropriate internal financial controls and procedures, including procedures related to ensuring that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported.

The Independent Accountant's Report must be provided to the Governing Board no later than forty-five days (45) after the conclusion of the engagement, with a copy submitted simultaneously to ICSB. In the event that the Independent Accountant's Report reveals that any management and financial controls are not in place, the school must remedy such deficiencies no later than forty-five (45) days from the date the Independent Accountant's Report was received by the Governing Board and shall provide to ICSB within that forty-five (45) day period a statement certifying that all deficiencies identified in the Independent Accountants' Report have been corrected, and identifying the steps undertaken to correct the identified deficiencies. ICSB may require additional evidence to verify the correction of all such deficiencies.

Waiver of Agreed Upon Procedures Engagement

ICSB may waive the requirement that a school obtain an Independent Accountant's Report if:

- The school has an independent audit conducted covering the period of its planning year(s); or

- The school is using procedures that were previously reviewed for an existing ICSB-authorized school, such as a new school affiliated with an Education Service Provider that has previously operated a school in Indiana.

A waiver of the requirement to produce an Independent Accountants' Report does not relieve the school of the obligation to have adequately documented financial management controls in place.

Annual Budget

Section 10.8 of ICSB's Charter Agreement (Section 10.1 of the Revised Charter Agreement) requires each school to prepare and submit a copy of a Governing Board-approved annual budget on an accrual basis method of accounting using SBOA's Chart of Accounts for each fiscal year by no later than June 30 of the immediately preceding fiscal year. For more information about SBOA's Chart of Accounts for charter schools, please refer to the "Charter Schools Manual" available on [SBOA's Charter School webpage](#) (see the box below). However, it generally mirrors the Form 9 Chart of Accounts. Please refer to the latest Form 9 Chart of Accounts for current Revenue and Expenditure codes. Contact ICSB staff with regard to any balance sheet or income statement revenue or expense line item for which a specific account does not now exist.

Schools must use ICSB's [Annual and Quarterly Report](#) template for this purpose.

While each school has the autonomy and responsibility to decide its own spending priorities, a school's annual budget should be balanced and reflect the school's educational program, facility, staffing, and operational needs. ICSB's review of annual budgets is generally limited to timeliness, accuracy and reasonableness of budgets, cash flow projections, and the accompanying assumptions. Failure to prepare or submit a Governing Board-approved annual budget by the July 30 due date is a technical violation of the terms of the Charter Agreement, as well as a possible indicator of emerging or significant management deficiencies. For the purpose of providing guidance to school operators, a sample budget preparation and approval timeline may be found attached hereto as [Exhibit B](#).

ICSB anticipates that a school's actual spending will differ to some degree from the approved budget. *A school is expected to make adjustments to its budget during a school year when material variances in actual revenues and expenditures compared to budget revenues and expenditures become known, or spending priorities or needs change.* One example of a material variance would be a change in actual versus projected ADM as it impacts tuition support. All material adjustments to the budget must be approved by the school's Governing Board and be reflected in the applicable quarterly financial report submitted to ICSB.

A budget accounts for both the timing of revenues and expenses, and the impact of accounts receivable and accounts payable at the beginning and end of the year. Anticipating the impact of

receivable, payables, and the timing of cash in and out is very important for schools that have limited financial reserves. Consequently, mathematical accuracy is a minimal budget submission requirement. The issue of budget reasonableness is more complex. ICSB's analysis of the reasonableness of budget submissions will be focused at the school level and is intended to identify possibly significant erroneous or unreasonable assumptions that may put the school's financial health in peril. ICSB analysis will focus on the following areas and on the historical consistency of the school's financial trends:

- Enrollment is reviewed for consistency with enrollment projections in the approved charter and for reasonable growth from current year enrollment;
- Types and amounts of revenues are reviewed for historical consistency and other verifiable information, such as state and federal per pupil funding levels; and
- Expenses are reviewed using a vertical analysis that focuses on salaries and employee benefits, and non-personnel costs such as occupancy, insurance, professional services, curricular materials and capital expenses. Schools are primarily reviewed in the context of their own historical performance and how actual results compare to budgeted results. Reviews are also conducted within the context of budgeted expenses for other schools of comparable size and student populations served.

Quarterly Reports of Unaudited Income and Expenses

Pursuant to Section 10.5 of ICSB's Charter Agreement (Section 10.1 of the Revised Charter Agreement), charter schools are required to submit Quarterly Reports of Unaudited Income and Expenses prepared on a modified cash and accrual basis of accounting in accordance with the requirements for charter schools established by SBOA. Again, schools must use ICSB's Annual and Quarterly Report template for this purpose. The template is aligned with SBOA requirements for charter schools and is intended to facilitate a school's internal financial management and Governing Board oversight needs. Due dates for each quarterly report are as follows:

Reporting Period	Quarter	Due Date
April 1 - June 30	Q4 (for Previous Fiscal Year)	August 15
July 1 - September 30	Q1	November 15
October 1 - December 31	Q2	February 15
January 1 - March 31	Q3	May 15

ICSB staff reviews quarterly financial reports with particular attention to the following:

- Actual versus budgeted revenues;
- Actual expenses compared to budgeted expenditures on a line item and overall basis;
- Significant line item budget vs. actual variances;
- Trends pertaining to receipt and disbursement of cash and to the incurrence of accounts receivable and accounts payable; and

- Changes and fluctuations in net assets and unrestricted cash.

In instances where schools have established a history of strong financial performance and financial viability (two or more years), as determined by consistently meeting the standards set forth in Section II of ICSB's Accountability System, ICSB may waive the requirement that such schools must submit Quarterly Reports of Unaudited Income and Expenses.

Annual Audits

Pursuant to Section 10.6 of ICSB's Charter Agreement (Section 6.5 of the Revised Charter Agreement) and Indiana Code § 20-24-8-5(1), charter schools are required to conduct an annual financial and compliance audit and, if applicable, a Federal Single Audit within six (6) months after the end of each Fiscal Year during the term of the Charter. All audits must comply with SBOA guidelines for charter schools. See SBOA's "Guidelines for Audits of Charter Schools Performed by Private Examiners" available on [SBOA's Charter Schools webpage](#).

Annual Financial Statements

Charter schools are required to engage an independent auditor to conduct an annual financial statement audit prepared on an accrual basis in accordance with Generally Accepted Accounting Principles ("GAAP") using the SBOA Chart of Accounts. Each school must submit an annual independently audited financial statement report to SBOA no later than December 31, and to ICSB by no later than January 15, for the fiscal year ending the previous June 30. Any extension to this deadline must be granted in advance in writing by the Executive Director. Specific details about the required contents of the audit report may be found in ICSB's Model Audit RFP located here: <https://www.in.gov/icsb/2369.htm>. ICSB strongly encourages schools to use the model audit RFP to ensure compliance with ICSB and SBOA audit requirements. Organizers will be held responsible for ensuring that their audits are in compliance.

The annual financial statement audit report must be on an accrual basis and consistent with GAAP for nonprofit corporations as well as the SBOA's Guidelines for charter schools. ICSB review of the report specifically focuses on the following:

- The date the report is received (and whether it is submitted to the ICSB on or before the January 15 deadline.) The timeliness of audit report submission can be an important indicator of the school's accounting system and capacity, as well as internal controls over financial reporting. Repeated failure to meet the reporting deadline can result in probation, or, in extreme cases, revocation of a charter.
- The type of independent auditor opinion (unqualified, qualified or adverse) accompanying the financial statements. Any opinion other than unqualified is a red flag that will be investigated and followed up on immediately by ICSB and/or SBOA.

- The contents of a management letter, the number and types of auditor's findings and "management's responses", auditor's notes, and the disclosure of reportable conditions, material weaknesses, material noncompliance, or ongoing concerns. In instances where the audit contains significant findings and recommendations for corrective action, such recommendations are duly noted by ICSB and schools are monitored for prompt corrective action and follow up.
- Data and information from income statements, balance sheets, and statements of cash flow that are used to analyze the financial condition of the school per Section II of ICSB's Accountability System.
- Disclosure of related party transactions, if applicable, for adequacy and appropriateness of the transactions disclosed.

An organizer operating more than one charter school must submit a consolidated audit in accordance with SBOA guidelines. The audit must include revenue and expenses for each school operated by the organizer.

Recurring audit findings, deficiencies, poor results on annual ratio and trend analyses performed in accordance with Section II of ICSB's Accountability System, or a school's failure to establish and maintain a restricted account held in escrow for dissolution in the amount of \$30,000 by December of the school's fourth year of operation, as required by Section 3.7 of ICSB's Charter Agreement (Section 6.9 of the Revised Charter Agreement), may result in a determination of non-compliance with the Charter. Schools can be found in compliance with the escrow account requirement if they are adhering to the schedule laid out by the ICSB of \$10,000 per year deposited in this reserve account starting in December of the second year of operation.

Federal Single Audits

The latest OMB Circulars referenced in this section may be found on [OMB's Circular webpage](#).

The scope of the annual audit must include federal programs for schools who exceed the Federal Single Audit threshold of \$750,000 of federal funds expenditures in a fiscal year. Please refer to the most recent **OMB Uniform Guidance Compliance Supplement** (Audits of States, Local Governments, and Non-Profit Organizations) for additional information. Charter schools that exceed the Federal Single Audit requirement threshold must file a Single Audit report (containing corrective action plans to address auditor findings, if applicable) along with its financial statement audit report to SBOA no later than December 31, and to ICSB no later than January 15, for the fiscal year ending the previous June 30.

Schools that exceed the Federal Single Audit threshold are responsible for:

- Identifying, in its chart of accounts, all federal awards received and expended and the federal programs under which the awards were received;
- Maintaining internal controls over federal programs' disbursements that provide reasonable assurance that the school is managing and expending federal awards in accordance with applicable laws, regulations, and the provisions of contracts or grant agreements;
- Complying with laws, regulations, and the provisions of contracts or grant agreements pertaining to each federal program for which the school has received funds;
- Preparing appropriate annual audited financial statements, including a schedule of expenditures of federal awards;
- Ensuring that independent audits are properly performed and submitted before or on their due date; and
- Following up and taking corrective action on audit findings, to include preparation of a summary schedule of prior audit findings and recurring audit findings, and presentation of a corrective action plan for all new and recurring findings.

Charter schools receiving any federal funds are required to follow federal cost principle, accounting, and reporting requirements regardless of whether they meet the Federal Single Audit threshold.

ICSB's review of Federal Single Audit reports is concentrated on the following areas:

- Timeliness of report submission (i.e., whether reports are submitted to ICSB on or prior to the prescribed deadline, January 15);
- Completeness and accuracy of reports (i.e., whether they document all federal awards received by a school);
- Significance and/or recurrence of auditor findings or questioned costs; and
- Adequacy of corrective action plans, if applicable.

IDOE Financial Reporting

In addition to the financial reports described above, IDOE requires charter schools to submit certain other financial reports at various times during each fiscal year. IDOE reporting requirements and deadlines are described below.

Biannual Financial Report

The State of Indiana operates on a July 1 - June 30 fiscal year. Charter schools are required to submit a [Biannual Financial Report](#) (commonly referred to as "Form 9") to IDOE within thirty (30) days after the close of two prescribed reporting periods. Generally speaking, Biannual Financial Reports are due at the end of July (for the previous January – June reporting period) and at the end

of January (for the previous July – December reporting period). However, each year IDOE will notify school operators of the exact submission dates for these Reports.

Bi-annual Financial Reports must be prepared using the cash basis of accounting.

In some instances, a school may have no financial activity for a particular reporting period. For example, newly approved charter schools may not engage in financial transactions between January and June insofar as they have just been chartered. In addition, as reporting is on a cash basis, schools report only revenues that have been received and expenses for which disbursements have been made. *Accrued revenues and expenses should not be reported.* Each charter school is required to submit a Biannual Financial Report for each reporting period regardless of whether the school has engaged in any financial activity during the period. In instances where no financial activity has occurred, a school should simply note on the report that no financial activity has occurred and submit it to IDOE.

For more information about Biannual Financial Report requirements and timeframes, please sign up for IDOE's School Finance Moodle notifications. If you have questions, please contact IDOE Office of School Finance at Form9@doe.in.gov or at 317-232-0840.

ICSB's Annual and Quarterly Reporting template contains a "cross walk" between an accrual presentation of income and expenses and a cash presentation. Use of this "cross walk" should facilitate a school's preparation of the Biannual Financial Report required by IDOE.

Federal Grant and Loan Reports

If a charter school is the recipient of a federal Public Charter School Program grant, annual grant activity reports must be submitted to IDOE. Specific report due dates are established by IDOE and set forth in the grant agreement between IDOE and grant recipients. For more information, please contact IDOE's Charter School Specialists at 317-233-0786. More information on the grant and specific contact information is also available on [IDOE's Charter School webpage](#).

Exhibit A
Sample format for Independent Accountant's Report

[On CPA or audit firm letterhead]

To [ABC Charter School Board]:

We have performed the procedures identified below, which were agreed to by the management of the ABC charter school (the “School”) and the Indiana Charter School Board solely to assist the specified parties in evaluating the school’s assertion to the Indiana Charter School Board that it has adequate financial controls in place for transactions relating to the following:

1. Preparing financial statements on an accrual basis in accordance with generally accepted accounting principles and also on a modified cash and accrual basis as required for charter schools under requirements established by the Indiana State Board of Accounts (the “SBOA”);
2. Payroll procedures;
3. Accounting for contributions and grants;
4. Procedures for the creation and review of quarterly financial statements, which procedures shall specifically identify the individual who will be responsible for preparing such financial statements and the manner by which reviews shall be conducted by school leadership / management and the governing board; and
5. Appropriate internal financial controls and procedures.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the related findings are as follows:

Procedure #1: We obtained a copy of the financial practices of the School and read it to ascertain whether it includes accounting procedures for the preparation of the school’s financial statements on an accrual basis in conformity with generally accepted accounting principles for not-for-profit organizations, and also a modified cash and accrual basis of accounting in accordance with requirements for charter schools as established by SBOA.

We observed that....

Procedure #2: We read the financial practices to ascertain whether they include payroll procedures for the school and whether the school has hired an outside vendor to process the payroll.

We observed that ...

Procedure #3: We read the financial practices to ascertain whether they include sufficient procedures for accounting for contributions and grants.

We observed that...

Procedure #4: We read the available trial balance and documentation supporting cash receipts, cash disbursements and payroll expenses on a sample basis to observe the status of the school's implementation of accounting procedures.

We observed that...

Procedure #5: We identified and interviewed the person(s) responsible for financial management of the school regarding the existence of procedures for the creation of quarterly financial reports and review by management and the school's governing board.

The person(s) responsible for financial management of the school is/are _____. An interview with this individual / these individuals noted that procedures exist (do not exist) for _____. Sample quarterly financial reports provided to the governing board were (or were not) adequate...

Procedure #6: We interviewed the person(s) responsible for financial management of the school regarding the existence of appropriate internal financial controls and procedures, including procedures related to ensuring that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported.

The individual(s) (specify titles) interviewed represented that ...

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on the design of the financial controls of the School. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for use of the ABC charter school and the Indiana Charter School Board, and is not intended to be and should not be used by anyone other than the specified parties.

CPA Signature and Date

Exhibit B
Sample Budget Timeline

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Board establishes budget priorities and guidelines												■
Monitor current year budget vs. actual to inform next year's budget	ON	GO	IN	G								
Develop preliminary revenue and expenditure forecasts for next year's budget												■
Update forecasts (based on current year activity)	ON	GO	IN	G								
Obtain input from key stakeholders												
Develop draft budget for discussion with board and management		■										
Revise and update draft budget based on discussions			■	■								
Submit proposed budget to Board for discussion and approval					■							
Board adopts Initial Budget for submission to ICSB						■						
Review previous year unaudited financial results and monitor current year budget vs. actual							■	■	■			

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Receive final enrollment count for current year funding												
Revise Initial Budget based on enrollment count and for other applicable factors												
Submit Revised Budget to Board for discussion and approval												
Board adopts Revised Budget for submission to ICSB												