

# Colorado Charter Schools Conference

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School Leaders: What you need to know about the School Audit

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## School Leaders: What you need to know about the School Audit

- ▶ Do you know how the School's current auditor was selected?
- ▶ Have you met the School's auditor?
- ▶ Has the auditor provided a "management letter" that includes the results of their audit procedures?
- ▶ If asked, would you know if the School's financial condition is good?

## School Leaders: What you need to know about the School Audit

- ▶ Do you know how the School's current auditor was selected?
  - 1) The Board should select the auditor. The staff being audited should not have the sole decision-making authority.
  - 2) The auditor could be selected through a Request for Proposal process.
  - 3) Obtain references from other charter schools.
  - 4) The auditor should be independent of School, its governing board and management personnel.
  - 5) The principal factor in selecting the auditor should be quality work. Price should not be the sole criterion for selecting an auditor.

## School Leaders: What you need to know about the School Audit

- ▶ Have you met the School's auditor?
  - 1) The auditing standards require the School's auditors to report to the governing board, in writing or in person.
  - 2) The governing board should meet with the auditors periodically. If no issues are reported as a result of the audit, this meeting would not necessarily have to take place every year.

## School Leaders: What you need to know about the School Audit

- ▶ Has the auditor provided a “management letter” that includes the results of their audit procedures?
  - 1) All auditors are required to follow the auditing standards established by the American Institute of CPAs. These standards require the auditor to issue a letter to management and the governing board that contains specific results of the audit.
  - 2) In addition to the specifics required by the auditing standards, the auditor should describe any deficiencies in internal control, noncompliance, or other matters identified during the audit process.
  - 3) Management should address any recommendations in the letter. The governing board should take responsibility for addressing these matters.

## School Leaders: What you need to know about the School Audit

- ▶ If asked, would you know if the School's financial condition is good?
- 1) Annual audits are required by State statutes. The auditor's role is to issue an audit opinion. The opinion should be unmodified, which means that the financial statements are fairly stated in all material respects.
- 2) The audit is not designed to detect fraud, should it exist. If anything unusual is detected, the auditors will follow up. However, the School should have internal controls in place to detect fraud.
- 3) The auditors will review and evaluate internal controls for some accounting processes. If the internal controls are effective, audit testing can be reduced. However, the auditors do not issue an opinion on internal controls.

## School Leaders: What you need to know about the School Audit

- ▶ If asked, would you know if the School's financial condition is good?
- 4) Financial statements reported using governmental accounting standards (GAAP) can be difficult to interpret. If some of the standards are difficult for management to explain, ask the auditors to explain them.
- 5) Auditors can often be a good resource for governing boards and management to interpret financial trends, explain new accounting standards, or assist with other financial questions. However, the governing board should be confident that management has a good grasp of any financial issues.
- 6) If the audit results are inconsistent with management's analysis of the results, it would be a good practice to have a joint discussion with all parties to reconcile the differences.

# School Leaders: What you need to know about the School Audit

## ► Best Practices

Many charter schools in Colorado have failed because of financial problems. Governing boards and management should develop best practices that would allow for such problems to be detected and corrected, such as the following:

- 1) Strong budgeting practices that do not allow for spending in excess of resources on an ongoing basis.
- 2) Written policies for purchasing and other financial procedures.
- 3) Consistent communication of financial results to the governing board.
- 4) Competent financial personnel.



# School Leaders: What you need to know about the School Audit

## ► Best Practices

- 5) Establish and monitor internal controls whereby one person does not have access to all financial processes without the oversight of a second person.
- 6) Education, especially for new governing board members.
- 7) Consider establishing a Finance and Audit Committee. This committee could take some of the burden off of the full governing board regarding financial issues, and could include outside members with financial expertise.

XYZ CHARTER SCHOOL  
**STATEMENT OF NET POSITION**  
 June 30, 2015

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and Investments	\$ 1,916,960	\$ -	\$ 1,916,960
Restricted Cash and Investments	82,134	763,742	845,876
Accounts Receivable	39,194	-	39,194
Prepaid Expenses	10,192	98,431	108,623
Capital Assets, Net of Accumulated Depreciation	13,435	5,378,915	5,392,350
<b>TOTAL ASSETS</b>	<b>2,061,915</b>	<b>6,241,088</b>	<b>8,303,003</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss on Debt Refunding, Net of Accumulated Amortization	-	1,056,920	1,056,920
Pensions, Net of Accumulated Amortization	392,671	-	392,671
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>392,671</b>	<b>1,056,920</b>	<b>1,449,591</b>
<b>LIABILITIES</b>			
Accounts Payable	141,270	-	141,270
Accrued Liabilities	57,052	-	57,052
Accrued Salaries and Benefits	183,086	-	183,086
Unearned Revenues	10,367	-	10,367
Accrued Interest Payable	-	102,673	102,673
Noncurrent Liabilities			
Due Within One Year	-	220,000	220,000
Due in More Than One Year	-	7,506,536	7,506,536
Net Pension Liability	7,418,937	-	7,418,937
<b>TOTAL LIABILITIES</b>	<b>7,810,712</b>	<b>7,829,209</b>	<b>15,639,921</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	28,930	-	28,930
<b>NET POSITION</b>			
Net Investment in Capital Assets	13,435	(1,192,270)	(1,178,835)
Restricted for Debt Service	-	661,069	661,069
Restricted for Building Repairs	82,134	-	82,134
Restricted for Special Education	92,000	-	92,000
Restricted for Emergencies	145,000	-	145,000
Unrestricted	(5,717,625)	-	(5,717,625)
<b>TOTAL NET POSITION</b>	<b>\$ (5,385,056)</b>	<b>\$ (531,201)</b>	<b>\$ (5,916,257)</b>

The accompanying notes are an integral part of the financial statements.

XYZ CHARTER SCHOOL  
**STATEMENT OF ACTIVITIES**  
 Year Ended June 30, 2015

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
Instruction	\$ 2,831,552	\$ 13,623	\$ 212,406	\$ (2,605,523)	\$ -	\$ (2,605,523)
Supporting Services	1,507,492	-	7,595	(1,499,897)	-	(1,499,897)
<b>Total Governmental Activities</b>	<b>4,339,044</b>	<b>13,623</b>	<b>220,001</b>	<b>(4,105,420)</b>	<b>-</b>	<b>(4,105,420)</b>
<b>Business-Type Activities</b>						
Education Center	624,574	-	-	-	(624,574)	(624,574)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 4,963,618</b>	<b>\$ 13,623</b>	<b>\$ 220,001</b>	<b>(4,105,420)</b>	<b>(624,574)</b>	<b>(4,729,994)</b>
<b>GENERAL REVENUES</b>						
Per Pupil Revenue				4,496,407	-	4,496,407
District Mill Levy				23,314	-	23,314
Capital Construction				112,427	-	112,427
Grants and Contributions Not Restricted to Specific Programs				11,973	-	11,973
Investment Income				1,872	962	2,834
Miscellaneous				4,889	-	4,889
<b>TRANSFERS</b>				<b>(378,306)</b>	<b>578,306</b>	<b>-</b>
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>				<b>4,072,576</b>	<b>579,268</b>	<b>4,651,844</b>
<b>CHANGE IN NET POSITION</b>				<b>(32,844)</b>	<b>(45,306)</b>	<b>(78,150)</b>
<b>NET POSITION, Beginning</b>				<b>(5,352,212)</b>	<b>(485,895)</b>	<b>(5,838,107)</b>
<b>NET POSITION, Ending</b>				<b>\$ (5,385,056)</b>	<b>\$ (531,201)</b>	<b>\$ (5,916,257)</b>

The accompanying notes are an integral part of the financial statements.

XYZ CHARTER SCHOOL

**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
June 30, 2015

	<u>GENERAL</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,916,960
Restricted Cash and Investments	82,134
Accounts Receivable	39,194
Prepaid Expenditures	<u>10,192</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,048,480</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 141,270
Accrued Liabilities	57,052
Accrued Salaries and Benefits	183,086
Unearned Revenues	<u>10,367</u>
<b>TOTAL LIABILITIES</b>	<b><u>391,775</u></b>
<b>FUND BALANCE</b>	
Nonspendable Prepaid Expenditures	10,192
Restricted for Building Repairs	82,134
Restricted for Special Education	92,000
Restricted for Emergencies	145,000
Unrestricted, Unassigned	<u>1,327,379</u>
<b>TOTAL FUND BALANCE</b>	<b><u>1,656,705</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>2,048,480</u></b>
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,656,705
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	13,435
Long-term liabilities and related items, including net pension liability (\$7,418,937), deferred outflows of resources \$392,671, and deferred inflows of resources (\$28,930), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(7,055,196)</u>
<b>Total Net Position of Governmental Activities</b>	<b>\$ <u>(5,385,056)</u></b>

The accompanying notes are an integral part of the financial statements.

XYZ CHARTER SCHOOL

**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
Year Ended June 30, 2015

	<u>GENERAL</u>
<b>REVENUES</b>	
Local Sources	\$ 4,552,078
State Sources	262,406
Federal Sources	<u>70,022</u>
<b>TOTAL REVENUES</b>	<b><u>4,884,506</u></b>
<b>EXPENDITURES</b>	
Instruction	2,649,212
Supporting Services	1,444,473
Building Lease	<u>578,306</u>
<b>TOTAL EXPENDITURES</b>	<b><u>4,671,991</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>212,515</b>
<b>FUND BALANCE, Beginning</b>	<b><u>1,444,190</u></b>
<b>FUND BALANCE, Ending</b>	<b>\$ <u>1,656,705</u></b>
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ 212,515
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents depreciation expense in the current year.	(2,239)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in the net pension liability (\$398,142), pension-related deferred outflows of resources \$183,952, and pension-related deferred inflows of resources (\$28,930) in the current year.	<u>(243,120)</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>(32,844)</u></b>

The accompanying notes are an integral part of the financial statements.