

Financial Emergency Guidelines

Financial Emergency Definition

Section 218.503(1), Florida Statutes, provides that charter schools and district school boards shall be subject to review and oversight by the charter school sponsor or the Commissioner of Education when any one of the following conditions occurs:

- (a) 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 payments when due, as a result of a lack of funds.
- (b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
- (c) Failure to transfer at the appropriate time, due to lack of funds:
 - 1. Taxes withheld on the income of employees; or
 - 2. Employer and employee contributions for
 - a. Federal social security; or
 - b. Any pension, retirement, or benefit plan of an employee
- (d) Failure for one pay period to pay, due to lack of funds:
 - 1. Wages and salaries owed to employees; or
 - 2. Retirement benefits owed to former employees.
- (e) An unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets deficit, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, for which sufficient resources of the charter schools and district school boards, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, are not available to cover the deficit. Resources available to cover reported deficits include net assets that are not otherwise restricted by federal, state, or local laws, bond covenants, contractual agreements, or other legal constraints. Fixed or capital assets, the disposal of which would impair the ability of a charter school or district school board to carry out its functions, are not considered resources available to cover reported deficits.

Pursuant to Section 218.503(2), Florida Statutes, whenever it is determined by a district school board that one or more of the above conditions have occurred or will occur if action is not taken to assist the district school board, the district school board shall notify the Commissioner of Education and the Legislative Auditing Committee. Upon notification that one or more of the above conditions exist, the Commissioner of Education or his or her designee shall contact the district school board to determine what actions have been taken by the district school board to resolve the condition. The Commissioner of Education shall determine whether the district school board entity needs State assistance to resolve the condition. If State assistance is needed, the district school board is considered to be in a state of financial emergency. [Note: Currently, the law does not address what circumstances would result in a charter school being in a state of financial emergency or what entity is responsible for making this determination.]

Potential Financial Emergency Conditions - Reporting in Management Letter

In accordance with Sections 10.854(1)(e)2. and 10.804(1)(f)2., Rules of the Auditor General, management letters issued in conjunction with audits performed of charter schools and district

school boards, respectively, are required to include a statement as to whether or not the charter school or district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. [See also Sections 10.854(1)(e)7.b. and 10.804(1)(f)7.b., Rules of the Auditor General] If the charter school or district school board meets one or more of the conditions described in Section 218.503(1), Florida Statutes, the management letter should also indicate whether such condition resulted from a deteriorating financial condition.

Deficit Fund Balance/Net Assets - Criterion for Available Resources

One of the conditions specified in Section 218.503(1), Florida Statutes, is an unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets deficit, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, for which sufficient resources of the charter school or district school board, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, are not available to cover the deficit. Resources available to cover reported deficits include net assets that are not otherwise restricted by federal, state, or local laws, bond covenants, contractual agreements, or other legal constraints. Fixed or capital assets, the disposal of which would impair the ability of a charter school or district school board to carry out its functions, are not considered resources available to cover reported deficits.

When there has been a total unreserved fund balance/retained earnings deficit or unrestricted or total net assets deficit reported, and a determination has been made that a condition has not been met as described in Section 218.503(1), Florida Statutes, the management letter should identify the specific resources of the charter school or district school board that are available to cover the deficit. For example, if an entity has fixed or capital assets, the disposal of which would not impair the entity's ability to carry out its functions, the nature and amount of the resources should be disclosed in the management letter.

Financial Condition Assessment - Detecting Deteriorating Financial Conditions

Sections 10.855(10) and 10.805(6), Rules of the Auditor General, require that the scope of audits of charter schools and district school boards, respectively, include the use of financial condition assessment procedures to assist the auditor in the detection of deteriorating financial conditions pursuant to Section 218.39(5), Florida Statutes. The financial condition assessment should be done as of the fiscal year end; however, the auditor shall give consideration to subsequent events, through the date of the audit report, that could significantly impact the charter school or district school board's financial condition. The financial condition assessment procedures to be used are left to the discretion of the auditor. Auditors of charter schools and district school boards may want to look to the local government financial condition assessment procedures available on the Auditor General's web site for guidance. Although such procedures were developed specifically for local governmental entities (counties, municipalities, and special districts), much of the guidance provided by such procedures regarding financial condition assessment are also applicable to charter schools and district school boards. In addition, some of the financial indicators developed for local governmental entities may also be appropriate and practical to use for charter schools and district school boards.

Pursuant to Sections 10.854(1)(e)7. and 10.804(1)(f)7., Rules of the Auditor General, management letters for charter schools and district school boards, respectively, must include the

following information regarding the auditors application of financial condition assessment procedures pursuant to Sections 10.855(10) and 10.805(6), Rules of the Auditor General:

- A statement that the auditor applied financial condition assessment procedures pursuant to Sections 10.855(10) and 10.805(6), Rules of the Auditor General.
- If deteriorating financial conditions are noted, a statement that the charter school or district school board's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor has reported that the charter school or district school board has met one or more of the conditions specified in Section 218.503(1), Florida Statutes, this statement shall indicate whether such condition resulted from a deteriorating financial condition. Findings regarding deteriorating financial condition shall be prepared in accordance with Sections 10.865(3)(c) and 10.806(3)(c), Rules of the Auditor General.

Example 1 Standard Language for Entities that Meet the Condition Defined in Section 218.503(1)(e), Florida Statutes.

In connection with our audit, we determined that the [Entity] met the condition described in Section 218.503(1)(e), Florida Statutes. The [Entity] reported deficit unreserved fund balance of \$xx,xxx as of June 30, 200X. The condition met was (was not) a result of deteriorating financial conditions. [If applicable: Such deteriorating financial conditions are further discussed in Finding No. X of this report (or below, if needed).]

Example 2 Deficit Unreserved Fund Balance/Unrestricted Net Assets with Resources Available to Cover Deficit.

In connection with our audit, we determined that the [Entity] did not meet one or more of the conditions described in Section 218.503(1), Florida Statutes. Although the [Entity] reported deficit unrestricted net assets of \$xx,xxx as of June 30, 200X, the [Entity] had unrestricted capital assets available to cover the reported deficit and the disposal of such assets would not impair the [Entity]s ability to carry out its functions.