



The School District of Osceola County, Florida Specific Review of St. Cloud Preparatory Academy



April 28, 2019

Table of Contents

Transmittal Letter	1
Background, Objectives and Approach	3
Results of Testing	7
Appendix - Background and Statutes	13

Transmittal Letter



RSM US LLP

7351 Office Park Place
Melbourne, Florida 32940-8229
T 321 751 6200
F 321 751 1385

www.rsmus.com

April 28, 2019

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

Pursuant to the approved Consultant Services Agreement dated March 5, 2019, we hereby submit our report on specific areas of concern regarding St. Cloud Preparatory Academy, Inc. ("SCPA"), as identified by the Sponsor, the School District of Osceola County ("District"). This review focused on 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 15, 2019 with the SCPA Principal. We conducted onsite fieldwork, met with representatives of SCPA, and reviewed documentation provided to us by the District and SCPA.

Summary of Results

Financial Emergency

Per Florida Statute 218.503(1), determination of financial emergency occurs when any one of the Statute's listed conditions occurs. Our results indicate financial emergency conditions as outlined in the below table and detailed within this report:

Florida Statute Condition	Results of Testing
Florida Statute 218.503 (1)(b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.	Late Rent Payments & Past Due Amounts - We noted failure to pay rent payments for the School's campus within ninety (90) days that resulted in a substantial past due amount of \$845,520.
Florida Statute 218.503 (1)(b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.	Late Invoice Payments - We noted failure to pay three (3) vendors within ninety (90) days totaling \$9,077. We were unable to confirm timely payment of two (2) additional invoices within the ninety (90) day requirement totaling \$7,118.
Florida Statute 218.503 (1)(c) Failure to transfer taxes, social security or retirements/benefits for employees due to lack of funds.	Lapse in Humana Health Insurance Coverage - We noted past due amounts of up to \$40,157 resulting in a lapse in Humana health insurance coverage. This amount has been satisfied and coverage reinstated as of the date of this report.

Transmittal Letter - continued

Deteriorating Financial Condition

Our results indicate that the School is in a deteriorating financial condition as outlined in the below table and detailed within this report:

Florida Statute Condition	Results of Testing
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).	Budget Deficit – We noted the School is reporting a budget deficit as of February 2019. The actual year-to- date net income is trending to be approximately \$327,823 under budget.
	Negative Net Cash Position – We noted the School is reporting a consistent negative net cash position during the audit period. Net cash is negative (\$215,222) as of February 2019.
	Negative Net Position - We noted the School is reporting a consistently negative net position. The School has a negative net position at the end of FY 2017, FY 2018 and is currently reporting negative (\$158,413) as of February 2019.
	Lack of Effective Budgetary Controls - We noted the School is reporting large variances in budgeted net income vs actual net income, and a lack of effective budgetary controls.

In addition to the results related to financial emergency and deteriorating financial condition, we outlined other notable observations during our procedures including late and incomplete monthly financial reports and current litigation related to disputed amounts.

We would like to thank all those who assisted in this specific review of St. Cloud Preparatory Academy, Inc.

Respectfully,

RSM US LLP

Internal Auditors

Background, Objectives and Approach

Background

St. Cloud Preparatory Academy, Inc. (“SCPA”) is a not-for-profit corporation organized under the laws of the State of Florida. The organization operates one school (K-10) in Osceola County under a Charter Agreement with the District. The Charter Agreement expires in June 2020 with consideration for renewal.

In November 2015, the Board of SCPA terminated their management contract with Banyan OSC, LLC (“Banyan”). The District began a Corrective Action Plan (“CAP”) in December 18, 2015 with the School. The CAP was designed to address the nonpayment of payroll taxes and other financial issues incurred during the FY14-15 school year, to which the School attributes to errors caused by Banyan. The CAP outlined the below priority levels for payments to creditors:

- Level One: Payroll, payroll taxes, employee benefits, utilities, lease payments and other operating expenditures that directly affect the well-being of the students take precedence over all other debt obligations.
- Level Two: All short term bridge loans are a priority Level Two to acknowledge support that enabled the School to remain open after funding was suspended.
- Level Three: Operating expenditures with Key Vendors as set forth in Banyan Restructure Agreement.
- Level Four: All deferred debt owed to Osceola Charter Holdings (“OCH”) (landlord) and Banyan.

In addition, as part of the CAP, SCPA must provide evidence of payroll and payroll tax payment to the District for each pay period.

The CAP was revised on August 8, 2017 and December 18, 2018 to reflect SCPA’s litigation case with Banyan, as well as other financial issues. The financial recovery plan in the revised CAP outlines the following requirements:

- Payment of past due rent payments as of December 2018
- Payment of past due vendor payments by December 2018
- Provision of a balanced budget approved by the Board no later than December 31, 2018
- Compliance with all required district financial reporting deadlines
- Payment to Banyan until the litigation is resolved

Renewal of the School’s charter is subject to compliance with this corrective action plan; compliance with the Charter Contract; and State law.

Background, Objectives and Approach - continued

Background - continued

SCPA currently has seven (7) bank accounts with BB&T Bank. We noted the below functions and balances as of February 2019:

Bank Account Name	Bank Account Description	February 2019 Balance
Preschool / After Care	Used to deposit tuition payments/dues and pay expenses related to preschool and after care programs. The account is funded through dues.	\$27,438
State Funding	Used to deposit District and other State funding. Money is transferred out of this account to Operating Expenses and Payroll accounts to pay expenses, as applicable.	\$85,875
Operating Expenses	Used to pay operating expenses associated with SCPA	\$48,521
Payroll and Payroll Tax Expenses	Used to pay all payroll and payroll tax expenses, as well as the fee to Intuit for payroll processing. Both ACH payments and checks relating to payroll come from this account.	\$26,034
Ag Day	Ag Day is an agricultural club at SCPA. This account is used to deposit dues paid by members and to pay expenses associated with this club.	\$9,689
Donations	Used for donations. Per SCPA, this account was opened on July 7, 2018 with a balance of \$10, and SCPA has not received donations since 2016.	\$10
State Funding	This account was going to be used to deposit District and other State funding for the high school under a separate charter. However, the charter was amended prior to the high school opening, and the high school was combined with K-8. As such, the account is not used.	\$11

Background, Objectives and Approach - continued

St. Cloud Preparatory Academy

3101 Progress Lane
Saint Cloud, FL, 34769

Charter Contract Date:

Original Date: April 1, 2014
Amended Date: March 22, 2016
Original Expiration Date: June 30, 2019
Amended Expiration Date: June 30, 2020

Membership:

Fiscal Year	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
School's FTE Forecast	335.00	259.79	455.32	564.47	536.13
School's Final FTE	244.13	442.28	505.19	499.08	TBD

Financial Data Total Governmental Funds (Unaudited):

	July 18	Aug 18	Sept 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19
Cash and Equivalents	\$224,533	\$275,840	\$331,451	\$270,978	\$212,512	\$185,353	\$144,093	\$158,406
Fund Balance	\$160,910	\$79,176	\$(71,871)	\$(68,433)	\$(109,968)	\$(109,783)	\$(130,209)	\$(158,413)

Charter School Grade per Florida Department of Education:

Fiscal Year	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
School Grade	A	C	C	B	TBD

Governing Board:

Board Chair: John D'Amico
Board Secretary: Tammy Raz
Board Member(s): Michael Fisher
Kimberly Rodriguez

School Administration:

Principal: Michele Quinn
Assistant Principal: Jay Murphy
Business Manager: Maria Maldonado

Objectives and Approach

The objective of this review is to test the School's compliance with Florida Statutes 218 and 1002 as they relate to deteriorating financial condition and financial emergency. The scope of this review is from July 1, 2018 through February 28, 2019.

To address and test these areas, we performed the procedures below:

- Held a kickoff meeting on March 15, 2019 with the representatives of the School.
- Conducted onsite fieldwork and reviewed documentation provided including:
 - o School budget for fiscal year ("FY") 2018-19, including any amendments
 - o School membership for FY 2018-19
 - o School audited financial statements for the year ending June 30, 2018
 - o School monthly financial reporting to the District during FY 2018-19
 - o School bank statements and bank reconciliations for FY 2018-19
 - o School payroll reports for FY 2018-19
 - o School's governing board meeting minutes and meeting calendars for FY 2018-19
 - o School agreements including repayment schedules for any notes payable, bonds payable, rent agreements or other debt instruments
 - o Charter contracts between School and District
- Selected a sample of 20 expense transactions to test for appropriateness and timely payment.
- Tested all payroll and health insurance payments in the scope period for timely payment in compliance with State Statute.
- Tested debt payments for all obligations reported in the June 30, 2018 financial statements for timely payment in compliance with State Statute.

The observations noted in this report are based on our review of the documents, records, and information provided to us by the School and District.

Results of Testing

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."
- (1)(c) "Failure to transfer taxes, social security or retirements/benefits for employees due to lack of funds."

Late Rent Payments and Past Due Amounts

The School missed rent payments for the School's campus building. Per SCPA's rent agreement, monthly rent payments are due on the 1st of each month. Payments were missed in July, August, September, and October of 2018. The July rent payment was paid on October 26, 2018, which exceeded the 90-day statute definition of financial emergency.

The School and the landlord amended the lease agreement as of March 1, 2019 (*Amended and Restated Lease Agreement, First Amendment*) to address past due balances and other items. We obtained and inspected the amendment and noted the past due amount is \$845,520 (see below). This amount is net of the School's \$50,000 security deposit that was forfeited and applied to the outstanding rent in accordance with Paragraph 7. Paragraph 7 states the security deposit can be confiscated by the landlord if the tenant at any time fails to make a payment. The following table summarizes the amounts owed per the lease amendment as of March 1, 2019:

Fee Type	Amount Due as of March 1, 2019
Monthly Base Rent	\$737,672
Late Fees	\$89,559
Reimbursable to Landlord	\$16,050
Reserves & Replacements	\$2,239
Total Past Due	\$845,520

We noted \$30,000 was paid against this past due balance on March 18, 2019.

In addition, we verified that the School made their scheduled \$75,000 rent payments in March and April 2019.

Results of Testing – continued

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

Late Invoice Payments

To further test SCPA's compliance with Florida Statute 218.503 (1)(b) and 218.503 (1)(c), we judgmentally sampled ten (10) expenses from the general ledger and ten (10) check payments from the School's bank statements. The expenditures were selected to cover various vendors and amounts from July 1, 2018 to February 28, 2019. After consideration of the current CAP agreement and the history of nonpayment of payroll taxes, we also tested 100% of health insurance and life insurance payments for compliance (Humana, Superior Vision, and Mutual of Omaha).

We obtained the supporting documentation and tested that payment occurred within ninety (90) days of invoice date, in accordance with Statute. During our testing, we identified three (3) invoices that were not paid within ninety (90) days, which indicates financial emergency. Invoice details are listed below:

Vendor	Invoice Date	Amount	Date Paid	Days Past Due at Time of Payment
Colonial Life	6/13/18	\$8,661	9/20/18	99
Florida FFA Association Inc.	4/30/18	\$ 136	10/30/18	183
Superior Vision	6/1/18	\$ 280	9/19/18	110
		\$9,077		

Additionally, SCPA was unable to provide invoices for two (2) checks out of our sample of ten (10) checks (20% of sample) selected from the July 2018 bank statements. Therefore, we were unable to validate that these expenses were paid within ninety (90) days of the invoice date in accordance with 218.503(1)(b). If these payments were not made within ninety (90) days of invoice date due to lack of funds, these could also indicate a state of financial emergency.

Vendor	Check	Check Date	Amount
Unknown	2111	7/16/18	\$6,912
Unknown	1150	7/31/18	\$206
			\$7,118

Results of Testing – continued

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

Lapse in Humana Health Insurance Coverage

We obtained all of the monthly Humana invoices from July 2018 through February 2019 for payment evaluation. We inspected each invoice and payment where applicable to determine whether payments were made timely in compliance with Florida Statute 218.503(1)(c). We identified evidence of incomplete and late invoice payments. The table below summarizes our observations.

Invoice Month	Payment Activity for Invoice	Outstanding Balance
Jul-18	No Payment	\$40,157
Aug-18	Partial	\$25,734
Sep-18	Partial	\$2,698
Oct-18	Full	--
Nov-18	Full	--
Dec-18	Full	--
Jan-19	Full	--
Feb-19	Full	--

Additionally, we obtained a Notice of a Past-Due Premium letter addressed to SCPA from Humana on September 16, 2018. The letter listed a past due amount of \$25,734. On October 10, 2018, Humana sent a termination of coverage letter because the amount was still outstanding. As a result, the School's group coverage was terminated as of August 31, 2018. Shortly thereafter all open balances were paid on October 18, 2018 and service was reinstated. However, the partial payments and subsequent lapse in coverage due to the past due amount is a potential indication of a lack of funds and noncompliance with Florida Statute 218.503(1)(c) described above. Per the School, the lapse in service was due to miscommunication when a new business manager took over responsibilities from the previous manager.

Results of Testing – 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 indications that SCPA is in a deteriorating financial condition, as detailed below.

Budget Deficit

We reviewed the approved 2018-2019 budget and compared the projected net income, \$50,599, with the YTD actuals, negative \$277,244. As a result, the actual net income YTD is trending to be approximately \$327,823 under budget, as shown in the table below.

Monthly Net Income Analysis: Budget to Actuals									
	18-Jul	18-Aug	18-Sep	18-Oct	18-Nov	18-Dec	19-Jan	19-Feb	YTD Total
Forecasted Net Income per Annual Budget	\$6,290	\$6,285	\$6,294	\$6,315	\$6,349	\$6,368	\$6,343	\$6,375	\$50,599
Actual Net Income per Monthly Financial Reports (Unaudited)	\$16,562	(\$81,734)	(\$125,510)	\$3,438	(\$41,535)	\$185	(\$20,426)	(\$28,204)	(\$277,244)
Over/(Under)	\$10,272	(\$88,019)	(\$131,804)	(\$2,877)	(\$47,884)	(\$6,183)	(\$26,769)	(\$34,579)	(\$327,843)

We inquired with the Principal about plans to improve the financial condition of the School. She noted the Board amended the lease agreement with Charter School Capital as of March 1, 2019. The agreement states the amendment is provided as requested by the tenant due to lower than expected enrollment. A portion of the past due amounts are to be capitalized and amortized over the remaining lease term. The Principal also noted the School’s increase in marketing activities such as newspapers, community events, and social media to help increase enrollment.

Negative Net Cash Position

We reviewed the monthly financial reporting packages from July 2018 through February 2019 (unaudited). We calculated SCPA’s net cash position, which represents the available cash to pay expenses currently due, as of February 2019, and noted negative balances during the audit period. This is shown in the table below:

Net Cash Position per Monthly Financial Reports								
	July 18	Aug 18	Sept 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19
Cash and Equivalents	\$76,820	\$128,127	\$331,451	\$270,978	\$212,512	\$185,352	\$144,093	\$158,406
Less: Accounts Payable	\$112,138	\$236,403	\$402,709	\$372,311	\$394,313	\$414,266	\$427,170	\$499,943
Less: Accrued Expenses	\$38,733	\$47,508	\$57,424	\$23,910	\$(15,023)	\$(62,266)	\$(96,059)	\$(126,315)
Net Cash Position	\$(74,051)	\$(155,784)	\$(128,681)	\$(125,243)	\$(166,778)	\$(166,648)	\$(187,019)	\$(215,222)

We inquired but were unable to obtain an explanation for the negative accrued expenses beginning in November. Negative net cash position (as shown above) over an extended period is an indication of a deteriorating financial condition.

Results of Testing – continued

Negative Net Position

The School's net position (Assets less Liabilities) was negative (\$467,109) and negative (\$150,094) as of 6/30/18 and 6/30/2017, respectively, based on audited financial statements. According to the unaudited February 2019 balance sheet, the total net position was negative (\$158,413). We noted the February balance sheet does not include any past due amounts for rent payables (**see Observation #1**), so the actual negative net position as of February 2019 is likely larger than negative (\$158,413).

Net position serves as an indication of the School's financial position. Given that the position continues to trend negatively, it is a strong indicator of a deteriorating financial condition.

The Net Position is at risk of continuing to decline, due to increases in Monthly Base Rent (**see Observation #1**). Exhibit E of the *Amended and Restated Lease Agreement* (First Amendment) outlines an amended rent schedule. The amended Monthly Base Rent will increase by 23%, 12%, and 9% over FY 2020, 2021, and 2022, respectively. For years 2023 to 2039 (end of lease), rent will increase by 2% annually. The amended Monthly Base Rent and percent increase from prior year ("PY") are noted in the table below:

Amended Rent Schedule as of March 2019			
Period Begin	Period End	Monthly Base Rent	Percent Increase From PY
3/1/2019	6/30/2019	\$75,000	--
7/1/2019	6/30/2020	\$92,000	23%
7/1/2020	6/30/2021	\$103,333	12%
7/1/2021	6/30/2022	\$112,500	9%
7/1/2022	9/30/2039	\$114,750 up to \$160,678	2% each year

Based on the above amended schedule the rent payments may continue to cause cash flow difficulty for the School due to the planned increases. Due to a lack of funds, the School has previously accumulated a past due amount of \$845,520, before any increases in Monthly Base Rent (**see Observation #1**).

Lack of Effective Budgetary Controls

The School should regularly monitor actual activity to planned activity and control their expenditure to ensure that it is in line with available funds. If required, appropriate corrective action should be taken to resolve significant differences including periodic board approved budget amendments. As noted above, we obtained and reviewed the FY 2018-2019 budget with a projected positive net income of \$50,599. However, the School is trending at a net loss of negative (\$277,244), which is \$327,843 lower than budgeted. In addition, we noted the rent expense obligations for the School's campus are not included in this amount. The increasing net loss, and lack of inclusion of all known items, indicates an inaccurate and unrealistic budget. The School should amend the budget to accurately reflect the current financial condition and comply with the charter agreement. An inaccurate budget and large variances 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. These are indicators of a deteriorating financial condition.

Results of Testing – continued

3. Additional Observation: Non-compliance with District Agreements

Monthly Financial Reports

SCPA's charter agreement with the District requires 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." We inspected the submission date for each of the monthly reporting packages from July 2018 to February 2019. We noted five (5) out of eight (8) monthly reports were submitted after the 20th of the subsequent month. The table below summarizes the results of our review. The late submissions are considered noncompliance with the School's charter contract.

Month and Year	Submission Date	Results
Jul-18	8/31/18	Late
Aug-18	Note - 1	Note - 1
Sep-18	11/14/18	Late
Oct-18	11/26/18	Late
Nov-18	12/20/18	On Time
Dec-18	1/25/19	Late
Jan-19	2/19/19	On Time
Feb-19	3/14/19	On Time

Note - 1: We were unable to determine if this submission was provided to the District timely, due to lack of documentation.

Banyan Litigation

The School had a support services agreement with Banyan dated December 19, 2013 (amended July 1, 2015) to provide certain non-academic services to the School consisting principally of administrative duties and responsibilities. The agreement was terminated in October 2015. The total amount of the Banyan note (\$114,343 as of June 30, 2018) is currently in dispute and thus, no payments were made in 2018 or 2019. The litigation is currently abated. We obtained and reviewed an email from Bell & Roper, P.A. dated June 22, 2018. The email indicated Banyan paid an additional fee to the American Arbitration Association to continue to keep the arbitration proceeding in abated status for an additional year. The payment of the remaining note outstanding is subject to the priority payment levels outlined in the CAP agreement and amended CAP. Banyan was a priority level 4, and in the amended CAP, Banyan remains on the bottom priority level. The priority of payout to the different creditors is required to occur when the School has surplus cash flow. Based on our financial assessment surplus cash flow has not materialized. Until the dispute reaches a resolution, the School should consult with their external auditors to determine how to properly account for the alleged obligation in their financial records. As noted above, the amount was omitted from the monthly financial reports submitted to the District from July 1, 2018 through February 28, 2019.

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.



RSM US LLP
7351 Office Park Place
Melbourne, Florida 32940-8229
(321) 751-6200
www.rsmus.com

www.rsmus.com

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party.

For more information, visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

© 2018 RSM US LLP. All Rights Reserved.