

# *Charter BOD Fiduciary Duty*

*Fiduciary Duty and Charter Finance Basics  
for Charter School Board of Directors*

# Objectives

- Define Fiduciary Duty
- Charter Funding Sources
- Differences between charter and traditional school funding
- Define Average Daily Membership (ADM)
- Review treasurer's basic financial review to fulfill fiduciary duty
- Identify financial best practices each charter should complete
- Provide list of financial policies that should be addressed by charter schools
- Cash on Hand Calculation
- Measures of Fiscal Stability
  - (This is an overview, there is enough for another training)

## Defining Fiduciary Duty

\*Great blog post defining Fiduciary Duty from Board Effect (board management software) – Reference for all slides pertaining to Fiduciary Duty

<https://www.boardeffect.com/blog/fiduciary-responsibilities-nonprofit-board-directors/>

## Three Fiduciary Responsibilities

1. Duty of Care
2. Duty of Loyalty
3. Duty of Obedience

*Board Directors are called fiduciaries because they are legally responsible for managing a nonprofit entity's assets.*

## Defining Fiduciary Duty

### **Duty of Care**

- *Care and concern as any prudent person*
- *Active participant*
- *Advance charter's mission and goals*
- *Read and understand financial reports – examine variances*
- *Strategic planning (org goals)*

### **Duty of Loyalty**

- Place interests of charter ahead of personal interests at all times
- Publicly disclose conflicts of interest
- Do not use board service for personal gain

## Defining Fiduciary Duty

### **Duty of Obedience**

- *Charter follows applicable laws and regulations*
- *Charter follow the mission as stated in charter and nonprofit recognition*

### **Legal Responsibility for Assets**

- Ensure funds are used for intended purpose
- Finances support the mission of the nonprofit (IRS and DPI)
- Protect the charters' reputation!

# Differences Between Charter and Traditional School Funding

## **Charter Schools**

- Higher degree of freedom and flexibility
- State Per Pupil
- Local Per Pupil
- Federal programs allotted to charters

## **Traditional Schools**

- Funding flows through multiple 'sources'
  - Staff position allotments
  - State vendor contracts
- Capital funds
- Transportation funds
- Local funding

# Charter School Funding Sources

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## State

- Must be used during fiscal year
- Can not be used for capital expenses
- Must use within 3 days of request
- Kept in state account until needed

## Local

- Can carry over year to year
- Can be used for any board authorized expenses

## Federal

- Must be used during grant cycle
- Must be used for specific grant purposes

# Balance Sheet Gain(Loss) VS YTD Activity

- Net Gain(Loss) must match Surplus(Deficit) in YTD Activity of the current month budget report



# Bank Balances VS Bank Recons

- Bank Statement(s) ending balances must match Statemet Balance on Bank Recon
- Bank Recon Difference must be \$0.00
- Sign the Bank Recon Summary for each bank account each month

# Review EOY Projections

- Review EOY projections and corresponding notes on the current month budget report
- Compare the Surplus/(Deficit) to the prior month EOY projection
- Ask the appropriate school personnel for highlights to the changes in the EOY projections

# Report the following to the Board of Directors Monthly

- Total Revenue MTD and YTD
- Total Expenses MTD and YTD
- Total Surplus MTD and YTD
- EOY Projected Revenue and Expenses
- EOY Projected Surplus/(Deficit) and highlight changes from prior month projection
- Bank Balances
- Financial Notes – Financial activity of relative significance

**DATE**

Period Activity		
Period Operating Activity		
Revenue		\$349,000.00
Expense		\$323,000.00
Total Net Income for Period:		\$26,000.00

YTD Activity		
YTD Operating Activity		
Revenue		\$1,259,000.00
Expense		\$1,110,000.00
Surplus		\$149,000.00
EOY Projections		
Revenue		\$2,500,000.00
Expense		\$2,350,000.00
Surplus		\$150,000.00
Original Budget		
Revenue		\$2,400,000.00
Expense		\$2,325,000.00
Surplus		\$75,000.00
Original Budget vs EOY Projections		
Revenue		104.17%
Expense		101.08%
Surplus		200.00%

Treasurer's Agenda	
	Notes
1. Review 2019 Committee Budgets & Operational Summary	
2. Review Capital Expense Activity	
3. Review Financials	
4. Other Items	

Financial Report Discussion Items	
Revenue	
Expense	

Account Balances	
BB&T Operating Account	\$895,000.00
BB&T Reserve Account	\$350,000.00
Certified Deposit exp 7/31/2020	\$72,000.00
Certified Deposit exp 11/30/2020	\$85,000.00

# Financial Best Practices

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Financial Report at every board meeting

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Finance committee meets regularly

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Access to financial statements

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Adopt annual budget

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Track Budget Amendments and Board Approvals

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Annual Financial Testing – DPI Financial Framework

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Complete Audit by October 31

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Financial partner – checks & balances, separation of duties

# Recommended Charter Financial Policies

- Purchasing
  - Employee Type Spend Limits
  - Credit Card Authorization
  - Purchase Orders
  - Check Request
  - Reimbursement Requests
- Accounts Payable/Receivable
  - Segregation of Duties
  - Dual Signature
  - Check Security
- Deposits
  - Receivables Stamped Deposit Only
  - Deposit Frequency
- Cash Management
  - Cash on Hand
- Vendor Screening/Selection
  - Disbarment list
  - Bid procedures
  - Indemnification clause in contracts
- Financial Grievance/Disclosure Procedure
- Capitalization Policy
- Acquisitions and Disposals
  - Inventory Management
  - Disposing of Equipment
- Federal Funds Policies
- Time and Effort
  - Logging hours (especially related to grant funds)
- Bank Reconciliations
  - Complete by third-party signed by school
- Audit Policy
- Computer Software and Hardware
  - Passwords
  - Accessing financial data
- Human Resources
  - Hiring Policy
  - Leave Policy
  - Benefits Policy
  - P/T & F/T Employment
  - Contracted Number of Work Days
  - Retiree Rehire

# Calculating Cash on Hand


## DPI Financial Framework Components

- Indicator
- Measure
- Metric
- Target
- Rating

## Unrestricted Days Cash: Near-Term

- $\text{Cash}/(\text{Total Exp} - \text{Depr.}) * 365$
- Measures # days of operation with inflow of cash

 30 or more days' cash

 Fewer than 30 days' cash

# Financial Framework Overview

From the Charter School Financial Framework:

“Charter schools have the autonomy to manage their finances consistent with state and federal law; however, the North Carolina State Board of Education (SBE) and the North Carolina Department of Public Instruction (DPI) must protect taxpayer dollars by ensuring that the schools are financially stable. SBE and DPI, by renewing or not renewing a charter school, determine whether charter schools are not only academically and organizationally sound, but also financially viable.”

- Measures are the means to evaluate an aspect of an indicator (Near-Term, Sustainability, Financial Management)
  - Current Ratio
  - Unrestricted Days Cash
  - Average Daily Membership Variance
  - Debt Default
  - Revenues over Expenditures
  - Total Margin
  - Debt to Asset Ratio
  - Debt Service Coverage Ratio
  - Unassigned Governmental Fund Balance Ratio



# Did we meet our Objectives?

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