

## Charter School Financial Recovery Plan Guidelines

### State of Financial Emergency

The 2006 Legislature amended the financial emergency law (Section 218.503, F.S.) making it applicable to charter schools. Conditions stated in the law which may lead to a financial emergency are as follows:

- (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 debt payments when due, as a result of lack of funds.
- (b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.
- (c) Failure to transfer at the appropriate time, due to lack of funds:
  1. Taxes withheld on the income of employees.
  2. Employer and employee contributions for social security, 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
  2. Retirement benefits
- (e) An unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets deficit for which sufficient resources are not available.

Audit reports must include an appropriate finding if any of the specified conditions are found. The auditor must determine if a state of financial emergency exists.

### Notification of Sponsor

The charter school board is required to notify its sponsor and the Legislative Auditing Committee if one or more of the conditions has occurred or will occur if action is not taken (Section 218.503(2), F.S.).

### Notification of Charter School Governing Board

The Charter School Law (Section 1002.33(9)(g), F.S.) was also amended to require that financial audits that reveal a state of financial emergency are to be provided to the governing board of the charter school within seven days after a finding that a state of financial emergency exists.

### Submission of a Recovery Plan to the Sponsor

The charter school board must file a detailed financial recovery plan with the sponsor within 30 days after receipt of an audit report with a finding indicating that a financial emergency exists (Section 1002.33(9)(g), F.S.).

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## **Recovery Plan Should Address School's Viability for Continuing Operation**

A recovery plan must address the specifics of an audit finding that there is a state of financial emergency. Any such specifics must be addressed; however, a state of financial emergency dictates a comprehensive review of the school's operation. This review must point to viable operation beyond correction of the immediate status.

## **Assessment of Current Status**

A recovery plan has as its base a complete statement of the current condition of the school as of the date of the recovery plan submission. The plan will state how the school will move forward from the current status to meet its current and future obligations and be a viable entity within an acceptable time frame.

## **Revenues**

Charter school revenues are driven by full-time equivalent students in the various programs of the Florida Education Finance Program (weighted FTE). Optimistic projection of WFTE will lead to rapid deterioration of financial position if such optimism proves unwarranted. School districts and charter schools are initially funded based on projected WFTE. If projections prove to be higher than the actual counts in October and February, the overpayments based on projections must be recovered by the district from the charter school's scheduled remaining payments for the year. If the charter school has not created a reserve to guard against this eventuality, the school may not have enough revenue to sustain operations for the year without instituting severe cuts in expenditures. Revenues for the year can be recalculated using the worksheet found at the DOE website. The DOE worksheet is updated to use the latest calculation of the Florida Education Finance Program for the sponsoring school district in calculating the charter school's revenue using its revised FTE counts. (<http://www.fldoe.org/fefp/chartinst.asp>)

The recovery plan must address weighted FTE impact on financial status of the school.

## **Expenditures**

Benchmark data is frequently used in business and government to indicate areas of an entity's budget which may be out of line with standard statistics for a comparable entity. Benchmark data for charter schools are generally not available due to variations in size, missions, and setting; however, analysis of a charter school's budget should consider comparison to similar schools when possible (school districts or DOE may be able to provide data for similar charter schools upon request). Benchmarks could include: staffing ratios and percentages of budget for administrative costs, facilities costs, pupil transportation costs, and other functional categories.

## **Identified Cost Reductions**

The recovery plan submitted by the charter school governing board to its sponsoring school district board must specify dollar amounts of cost cuts or cost avoidance that will allow the charter school to correct the condition(s) that caused the school to be found in a state of financial emergency.

## **Monitoring of the Recovery Plan**

Section 1002.33(9)(k) states that the governing body of the charter school shall be responsible for monitoring a financial recovery plan in order to ensure compliance. Under Section 1002.33(5)(b), the sponsor has a duty to monitor the revenue and expenditures of the charter school. Accordingly, each board should receive a monthly financial report in a format sufficient to monitor progress toward achieving the plan in the agreed time frame.

## **Outline of Recovery Plan**

Audit Finding Specifics and Explanations  
Financial Status at Initiation of Recovery Plan  
Time Frame for Correction  
Projected Weighted FTE for Current Year and Next Year  
Projected Expenditures for Current Year and Next Year  
Dollar Amounts of Identified Cost Reductions  
Internal Measures to Monitor Plan  
Summary Narrative of Plan  
Reports to Governing Board and Sponsor

## **Additional Resources and Information**

The charter school statute, s. 1002.33, F.S.:

[http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=Ch1002/SEC33.HTM&Title=->2006->Ch1002->Section%2033#1002.33](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch1002/SEC33.HTM&Title=->2006->Ch1002->Section%2033#1002.33)

The state of financial emergency statute, s. 218.503, F.S.:

[http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&URL=Ch0218/part05.htm&StatuteYear=2006&Title=%2D%3E2006%2D%3EChapter%20218%2D%3EPart%20V](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&URL=Ch0218/part05.htm&StatuteYear=2006&Title=%2D%3E2006%2D%3EChapter%20218%2D%3EPart%20V)

The Florida Department of Education, Office of Independent Education and Parental Choice:

<http://www.floridaschoolchoice.org>

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