



OFFICE OF THE  
**STATE AUDITOR**

## **Auditor Alert 2019-01**

**Date:** April 15, 2020

**Subject:** Source of GAAP for Charter Schools

### **Introduction**

The Office of the State Auditor (Office) was asked by the Office of the Utah State Board of Education (USB) to provide guidance with respect to the correct source of Generally Accepted Accounting Principles (GAAP) for charter schools. Historically, governmental entities follow GAAP standards set by the Governmental Accounting Standards Board (GASB) while all other public and private entities follow GAAP standards set by the Financial Accounting Standards Board (FASB).

### **Analysis of Laws and Standards**

#### **Professional Accounting Standards:**

According to GASB<sup>1</sup>, organizations meet the criteria for governmental accounting, financial reporting, and auditing purposes based solely on the application of any of the following:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments,
- The potential for unilateral dissolution by a government with the net assets reverting to a government, or
- The power to enact and enforce a tax levy.

The fact that an entity is incorporated as a nonprofit organization and exempt from federal income taxation under the provisions of IRC Section 501 is not a criterion in determining whether an organization meets the criteria for governmental accounting, financial reporting, and auditing purposes. Similarly, the amount of government funding received by a nonprofit entity is not a criteria promulgated by GASB.

#### **State Statute:**

State statute recognizes all charter schools as public schools and part of the state public education system. Also, charter schools are under the control of a governmental entity as to:

1. *Creation and termination of the school's charter.* Utah Code Section 53G-5-503 specifically allows a charter school authorizer to terminate the charter agreement for not meeting requirements, not meeting standards, low performance, failure to improve, violations of code or other laws, and other good cause. Additionally, during the 2020 general session of the State Legislature, HB242 introduced a provision that states, "the nonprofit corporation under which the charter school is organized and managed may be unilaterally dissolved by the authorizer".

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<sup>1</sup> GASB Codification of Governmental Accounting and Financial Reporting Standards 1000.801

2. *The disposition of the school's assets upon dissolution.* Utah Code Section 53G-5-504 states “a closing charter school shall return any assets remaining, after all liabilities and obligations of the closing charter school are paid or discharged, to the closing charter school’s authorizer.” This statute also stipulates, “the closing charter school’s authorizer shall oversee liquidation of assets and payment of debt in accordance with state board rule.”

### **Additional USBE Financial Reporting Requirements**

In addition to requirements promulgated by the GASB, the USBE imposes additional accounting and financial reporting requirements. Administrative Rule R277-113-6(2)(ii) requires the establishment of internal controls and procedures to record transactions when they occur in the proper program. R277-113-4(7)(f) requires each charter school monitor its expenditure of restricted funds to ensure compliance with applicable laws and grant terms and conditions.

### **Conclusion**

Recent statutory changes regarding the ability for the authorizer to unilaterally dissolve a charter school with the net assets reverting to the authorizer now meets the criteria for governmental accounting, financial reporting, and auditing. Thus, all Utah charter schools, regardless of legal form, must follow accounting standards promulgated by the GASB for all fiscal years beginning after June 30, 2020.