Charter School Audit Season: Lessons Learned from FY25

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Charter schools face tight scrutiny across almost all levels, including compliance with their charter agreement, federal grants compliance, financial and staffing challenges, structural changes and complicated accounting issues. The fiscal year 2025 audit season highlighted a number of recurring issues that affected audit timing, support and compliance across the charter school sector.

Accounting and Reporting

Going Concern

Going concern is the assumption that an entity will continue operating for the foreseeable future and be able to meet its obligations as they become due. Management is required to assess going concern each reporting period with a look-forward period of one year from the financial statement issuance date (or the date the financial statements are available to be issued). Disclosures are required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern, whether or not the substantial doubt is alleviated by management's plans.

Common triggers of substantial doubt of a charter school's ability to continue as a going concern noted during the fiscal year 2025 audit season include:

- Deficit/decrease in net assets
- Decrease in year-over-year revenue
- Low ending cash balance
- Current ratio of less than 1.0
- Negative cash flows from operating activities

Functional Expense Allocations and Reporting

Functional expense allocations can be a "pain point" for charter schools, as they rely on methodology and judgment. Common issues with charter school functional expense reporting included a number of positions (which should align to the related salary line) and accurate allocation of fundraising expenses.

Lease Accounting Under ASC 842

Recognition of new leases and lease modifications was a common area that caused delays during the audits, including proper lease classification (finance vs. operating), discount rate, inclusion of reasonably certain renewals, rent abatements, nonlease components, contingencies and lease incentives.

Schedule of Expenditures of Federal Awards (SEFA)

Common SEFA issues noted during the fiscal 2025 audits include:

- Inaccurate reporting of grant title, Assistance Listing Number, pass-through entities and pass-through identifying numbers.
- Combining federal awards for charter schools that operate more than one charter.
- SEFA expenditures not reconciled to the general ledger. It's best practice to have a separate general ledger account for each federal award program.

Compliance and Operations

Cybersecurity

Common cybersecurity findings with charter schools include:

- No defined and documented IT disaster recovery/business continuity plan and/or policy
- No cybersecurity awareness program
- No formal process for approving, testing and documenting changes to IT resources
- No control implemented to force workstations to lock after a specified period of activity

Student Underenrollment

Many charter schools have faced underenrollment since the COVID-19 pandemic, with the trend continuing in the fiscal year 2025 audit season. In addition to charter compliance considerations, underenrollment can also pressure liquidity forecasts and going concern conclusions.

When charter schools are underenrolled, auditors generally inquire if the authorizer is made aware of the underenrollment and if there are plans to revise the approved enrollment to meet current or expected enrollment.

Escrow Noncompliance

Charter schools are required to maintain a minimum balance in their escrow account as described in their charter agreement. During the fiscal year 2025 audit season, it was noted that some balances in escrow fell below the required minimum and were not replenished to maintain compliance with the charter. Auditors will generally report a finding for noncompliance if the escrow account was not replenished to the required level per the charter agreement.

Other Common Issues in Charter School Audits

Other common issues noted during the fiscal year 2025 audit season include proper maintenance of student and employee files, support and approvals for credit/debit card transactions and general ledger maintenance.

What This Means for Charter Schools

Reviewing these areas in advance of the audit is important for efficient and effective operations, reliable financial reporting and meeting the charter school’s compliance requirements. In addition, ironing out issues in these areas will help to mitigate any potential findings to be communicated to the school and its audit/finance committee.

Contact Us

The PKF O’Connor Davies Charter School practice has extensive experience in the charter school industry helping management and boards strengthen financial governance and audit readiness. If you have any questions, please contact your PKF O’Connor Davies client service team or:

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This article was originally published on August 26, 2026.