Charter School Audit Season: Lessons Learned from FY25

By Gus Saliba, CPA, Partner and Daniel Smolan, CPA, Director

Charter schools should begin planning now for the fiscal year 2026 audit season. Early attention to federal funding, audit support, school-specific risk areas and internal policies can help reduce delays, strengthen reporting and avoid late surprises.

The following are areas that require attention.

Evaluate Single Audit Readiness Early

Effective with the June 30, 2026 fiscal year, not-for-profit organizations (including charter schools) that expend at least $1,000,000 in federal awards are generally required to undergo a single audit and prepare the Schedule of Expenditures of Federal Awards. Schools should evaluate single audit readiness by identifying all federal awards received during the year, assigning ownership for grant reporting, maintaining award documentation and reimbursement support, tracking expenditures by program in the general ledger and reviewing whether federal compliance responsibilities are understood across the organization.

Strengthen Audit Support and Documentation

Ensure that support for the following is readily available including the related documents. Note what will be under consideration.

- **Leases** − Review new leases for proper lease classification (finance vs. operating), discount rate, inclusion of reasonably certain renewals, rent abatements, nonlease components, contingencies and lease incentives. Existing leases that were amended or modified may result in a remeasurement of the lease liability and adjustment to the right-of-use asset and/or recognition of a gain or loss.

- **Functional expense reporting** − Auditors will look for consistency and reasonableness with allocations and support for allocation drivers (e.g., time studies, student enrollment, square footage). Functional expense allocations should be supported by an auditable workbook that ties allocations directly to the general ledger and financial statements.

Monitor School-Specific Risk Areas

These areas should be analyzed prior to the audit start date:

- **Going concern monitoring** - Check going concern indicators throughout the fiscal year for conditions that could raise substantial doubt about the school's ability to continue as a going concern within one year of the financial statement issuance date. For charter schools, common underlying causes include enrollment declines, chronic underenrollment and substantial occupancy or lease costs.

- **Student underenrollment -** When charter school enrollment falls below the approved range, the school should make the authorizer aware of the underenrollment and consider plans to revise the approved enrollment to meet current or expected enrollment.

- **Restructurings and charter revisions** - Events such as new charters, mergers and reorganizations present unique complications, including reporting start-up revenue and expenses, identifying the correct reporting entity and properly rolling forward opening balances. Maintaining documentation, including revised charter agreements, name revisions and permanent file documents (i.e., articles of incorporation, EIN, tax exemption, by-laws) is key to supporting accurate reporting.

- **Escrow accounts** - Escrow account balances should be monitored during the year for compliance with the charter agreement. If balances in escrow fall below the required minimum, they must be replenished promptly to maintain compliance with the charter.**Cybersecurity** - Schools should periodically assess cybersecurity risks affecting key systems and consider using internal or external information technology consultants to implement assessments, awareness training and phishing testing.

Refreshing the Financial Policies and Procedures Manual

A charter school's financial policies and procedures manual (FPP) is an important tool for defining policies around approvals, purchasing, disbursements, credit/debit card usage, payroll, grants compliance, journal entries, bank reconciliations and revenue recognition.

Review the FPP periodically to determine if the documented policies are still in line with actual operations, especially after turnover or system changes. Update the FPP, if necessary, for changes in staff roles, new risks or activities and thresholds for approvals and capitalization of fixed assets.

Early Planning and Communication

Reviewing these areas in advance of the audit supports efficient operations, reliable financial reporting and compliance with charter requirements. In addition, auditors can serve as a year-round resource to answer questions and provide guidance as issues arise.

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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