



# TEXAS EDUCATION AGENCY

## Special Supplement to the Financial Accountability System Resource Guide

### Charter Schools

Update 5.0

January 2010

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

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## **Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

### **INTRODUCTION**

The *Special Supplement to the Financial Accountability System Resource Guide, Charter Schools* (the supplement) and the *Special Supplement To Financial Accounting and Reporting, Nonprofit Charter School Chart Of Accounts* (together, the supplements) are integral components of the Financial Accountability System Resource Guide (FASRG).

The supplement contains references to certain sections of the FASRG. Individuals responsible for the oversight and operation of an open-enrollment charter school must bear in mind that other sections of the FASRG may also apply to the operation of an open-enrollment charter school program. Also, although the supplement may identify certain requirements applicable to an open-enrollment charter school, these same and other requirements may also apply to the charter holder, the governing body of the charter holder, and/or the governing body of the charter school. It should be noted, however, that certain requirements discussed in the supplement may not apply to the non-charter school programs, functions, services, and/or activities of the charter holder. TEC 12.104 discusses specific requirements applicable to open-enrollment charter schools. The requirements discussed in this document are complex and management must provide for the adequate training of all staff that has significant roles and responsibilities involving business management. If open-enrollment charter school personnel do not have adequate skills and expertise, then management should contract with outside consultants to ensure adherence with generally accepted standards of business management and the effective and efficient use of public funds.

### **Effective Date**

The supplement is effective January 2010.

### **Applicability**

The supplements discuss financial accounting and reporting requirements applicable to open-enrollment charter schools operated by a private or independent institution of higher education as defined under Section 61.003 of the Texas Education Code (TEC 61.003) or an organization that is exempt from taxation under Section 501(c)(3), Internal Revenue Code of 1986 (26 U.S.C. Section 501(c)(3)). The financial accounting and reporting requirements discussed in the supplements do not apply to an open-enrollment charter school operated by an institution of higher education as defined in TEC 61.003 or a governmental entity.

An open-enrollment charter school operated by an institution of higher education or a governmental entity must adhere to the financial accounting and reporting requirements discussed in the FASRG.

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**DEFINITIONS**

This supplement will use the following definitions, in accordance with Section 12.1012 of the Texas Education Code (TEC), as amended:

1. "Charter holder" means the entity to which a charter is granted pursuant to TEC 12, as amended.
2. "Governing body of a charter holder" means the board of directors, board of trustees, or other governing body of a charter holder.
3. "Governing body of an open-enrollment charter school" means the board of directors, board of trustees, or other governing body of an open-enrollment charter school. The term includes the governing body of a charter holder if that body acts as the governing body of the open-enrollment charter school.
4. "Management company" means a person, other than a charter holder, who provides management services for an open-enrollment charter school.
5. "Management services" means services related to the management or operation of an open-enrollment charter school, including:
  - (a) planning, operating, supervising, and evaluating the school's educational programs, services, and facilities;
  - (b) making recommendations to the governing body of the school relating to the selection of school personnel;
  - (c) managing the school's day-to-day operations as its administrative manager;
  - (d) preparing and submitting to the governing body of the school a proposed budget;
  - (e) recommending policies to be adopted by the governing body of the school, developing appropriate procedures to implement policies adopted by the governing body of the school, and overseeing the implementation of adopted policies; and
  - (f) providing leadership for the attainment of student performance at the school based on the indicators adopted under Sections 39.053 and 39.301 or by the governing body of the school.
6. "Officer of an open-enrollment charter school" means:
  - (a) the principal, director, or other chief operating officer of an open-enrollment charter school;
  - (b) an assistant principal or assistant director of an open-enrollment charter school; or
  - (c) a person charged with managing the finances of an open-enrollment charter school.
7. "Charter school" means open-enrollment charter school as defined in TEC 12, as amended.

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8. “Governing body of the charter school” means governing body of an open-enrollment charter school as defined above.
9. “Charter school official” means an officer of an open-enrollment charter school as defined above.

In addition to the definitions noted above, the following terms will be defined as discussed below.

10. “Agent” means any individual or organization that is authorized by the charter holder pursuant to the authority vested in the office they hold or a contractual agreement to conduct business on behalf of the charter holder. This includes, but is not necessarily limited to, the following:
  - Members of the governing body of the charter holder and/or the charter school;
  - Officials, representatives, and/or employees of the charter holder and/or the charter school; and
  - Independent third-party service providers acting on behalf of the charter holder and/or the charter school.
11. “Federal funds” means funds paid by the Texas Education Agency and received by the charter holder pursuant to a federal award granted to the charter holder.
12. “Federal property” means any real or personal property purchased or leased with federal funds.
13. “Public funds” means funds paid by the Texas Education Agency and received by the charter holder pursuant to TEC 12.106.
14. “Public property” means any real or personal property purchased or leased with public funds.
15. “Real property” means real estate as defined in Section 100.1011(4) of Title 19 of the Texas Administrative Code (19 TAC 100.1011).
16. “Personal property” means personal property as defined in 19 TAC 100.1011(6).

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**WHAT'S NEW**

This section summarizes substantive changes to this supplement. Changes to the format of this supplement are not identified.

Amended Section	Amendment
Effective Date	Revised effective date.
1.1.2	Updated information on migration from FASB Statements to FASB Codification, effective beginning fiscal year 2009/10.
1.2.11.1.2	Updated information on availability of indirect cost rate.
1.2.12	Updated FASB references to FASB Codification format.
1.3.1	Minor edits.
1.4	Minor edits.
1.7.1	Updated requirement to file Federal single audit electronically.
1.7.2	Updated FASB references to FASB Codification format.
1.8.2.1	Minor edits.
1.8.2.2	Minor edits.
1.8.2.3	Added section on depository transactions.
3.3.1	Updated purchasing threshold from \$25,000 to \$50,000 according to House Bill 987, 81 <sup>st</sup> legislature, regular session.
4.5	Updated to have independent auditor check continued existence of corporation awarded the charter and non-profit status.
6.1	Accreditation status section updated regarding financial accountability.
6.2	Financial solvency section added as result of House Bill 3, 81 <sup>st</sup> legislature, regular session.
6.3	Projected deficit section added as result of House Bill 3, 81 <sup>st</sup> legislature, regular session.
Appendix 3	Updated FASB references to FASB codification format, sample TRS pension note disclosure, and GAS report for SAS 115 format. Added sample related party note disclosure.

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**FINANCIAL ACCOUNTING AND REPORTING**

**1.1 Financial Accounting and Reporting Structure**

The purpose of financial accounting and reporting by charter schools is to accumulate and provide information to facilitate decision making by various user groups. Certain requirements have been established requiring charter schools to maintain proper financial accounting and reporting systems. In addition, principles and policies to ensure uniformity in accounting have been developed.

1.1.2 FASB Codification

Guidelines for financial accounting and reporting are derived from generally accepted accounting principles (GAAP). Charter schools are required to adhere to GAAP. The Financial Accounting Standards Board (FASB) defines GAAP in the FASB Accounting Standards Codification TM (Codification) effective for fiscal years 2009/10 and later. FASB ASC 958 (Not-for-Profit Entities) contains information on GAAP specific to non-profit entities. For additional information, see <http://asc.fasb.org>.

In the absence of specific guidance in this supplement, the charter holder is to follow generally accepted accounting principles.

1.1.2.5 Status of State Revenues Held in Trust

House Bill 6, 77th Legislative Session, states that funds received by a charter holder after September 1, 2001 pursuant to Section 12.106, as amended, of the Texas Education Code are public funds held in trust by the charter holder for the benefit of the students of the charter school. This requirement will be implemented by charter schools through the use of net asset code 420, Foundation School Program and other State Aid, which is used for all public funds received in former state aid not defined in net asset codes 380-418 (TEC §12.106, as amended, and TEC §12.107, as amended). Refer to the *Special Supplement To Financial Accounting and Reporting, Nonprofit Charter School Chart Of Accounts*.

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### **1.2 Financial Statement Elements**

The elements of financial statements are those items that are derived from the general ledger accounts maintained by the charter school in its financial accounting system. Some of the major elements are discussed in this section.

#### 1.2.1 Cash and Investments

Charter schools should adopt policies and procedures that identify the types of investments it is allowed to utilize and the steps that it will follow when using the investments identified.

See 1.2.1 Cash and Investments in the FASRG for additional guidance.

#### 1.2.2 Public Funds Investment

According to TAC §100.1045, a charter holder shall invest state funds in accordance with Government Code, §§2256.009-2256.016 (also known as the Public Funds Investment Act). State funds invested by a charter holder shall be maintained in a discrete charter investment account, separate and distinct from the operating accounts for the charter school and separate and distinct from any investment accounts related to non-charter activities. A charter holder shall invest state funds in accordance with any applicable provision or covenant contained in a debt instrument, bond indenture, or similar agreement.

Nothing in TAC §100.1045 shall authorize the investment of state or federal grant funds, unless investment of such funds is expressly authorized under the terms of the grant.

Investment of state funds shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of state funds shall be governed by the following investment objectives, in order of priority:

- (A) preservation and safety of principal;
- (B) liquidity; and
- (C) yield.

#### 1.2.4 Capital Assets

Charter schools are responsible for accounting for both current and noncurrent assets. Included within noncurrent assets are capital and intangible assets. Capital assets have certain properties that distinguish them from other types of noncurrent assets. Capital assets are:

- Tangible in nature;
- Long-lived (have a life that exceeds one year);
- Of a significant value at purchase or acquisition time (\$5,000 per unit or lower amount adopted in charter school's policies); and
- Reasonably identified and controlled through a physical inventory system.

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Capital assets may include land, buildings, machinery, furniture and other equipment.

The emphasis in accounting for capital assets is on control and accountability. Accordingly, a variety of data relating to a charter school's capital assets must be accumulated to maintain control and accountability over them. These data include:

- Quantity,
- Location,
- Condition, and
- Life expectancy.

Capital asset records are necessary to designate accountability for the custody and maintenance of individual items, and to assist in approximating future requirements. All capital transactions for the acquisition of capital assets should be controlled through a well-defined authorization procedure. If the budget does not authorize the purchase of specific items, approval power, subject to specific monetary limits, should be assigned to the chief executive/operating officer. If approval power has not been assigned to the chief executive/operating officer, then the governing body of the charter school must approve the purchase of specific items.

**Note:** Separate accountability for capital assets is a legal requirement of programs receiving monies from the federal government. Accounting for funds received for these programs is maintained under temporarily restricted net asset codes.

Charter school personnel should refer to the following sections of the FASRG for additional guidance:

1.2.4.2 Basis of Capital Assets

1.2.4.3 Property Accounts for Capital Assets

1.2.4.4 Accounting for Maintenance, Additions and Betterments

1.2.4.7 Control of Capital Assets

1.2.4.8 Inventories of Capital Assets

1.2.4.9 Capital Asset Records

In addition to the discussion noted at 1.2.4.7 Control of Capital Assets and 1.2.4.8 Inventories of Capital Assets, charter schools shall maintain accurate capital asset records that include the following information:

- (a) A description of the capital asset.
- (b) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
- (c) Local, state, and/or federal funds used to acquire the capital asset.

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- (d) Whether title vests in the charter school, the state government, or the federal government.
- (e) Acquisition date (or date received, if the equipment was furnished by a donor) and cost.
- (f) Information from which one can calculate the percentage of state and/or federal participation in the cost of the capital asset (not applicable to equipment furnished by a donor).
- (g) Location and condition of the capital asset and the date the information was reported (this may be the date of the last physical inventory taken by the charter school).
- (h) Unit acquisition cost.
- (i) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a charter school compensates the federal awarding agency for its share.

A physical inventory must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that capital assets exist, and are in use.

1.2.4.10 Capital Asset Exhibit

House Bill 6, 77th Legislative Session, states that property purchased or leased with funds received by a charter holder under Section 12.106 after September 1, 2001 is considered to be public property for all purposes under state law. Effective with fiscal years starting after September 1, 2001, the charter holder must include an exhibit (see [1.7.2.7 Schedule of Capital Assets for Individual Charter School](#)) in the financial and compliance report identifying the capital assets of the charter school and the ownership interest of all parties (*i.e.*, local, state, federal) in all real property and improvements and capitalized personal property acquired with public funds during the term of the charter or presently held by the charter holder. Alternatively, the charter holder may include a note disclosure stating that all property acquired during the term of the charter, and all property presently held by the charter holder, may be considered public property. If an exhibit is included in the financial and compliance report, it must also include a reconciliation of amounts disclosed in the applicable statement of financial position if the exhibit amounts differ from the amounts reported on the applicable statement of financial position.

1.2.11 Expenses

Charter schools must ensure that expenses are properly allocated to the appropriate sources of funding, projects and/or cost objectives. This includes not only sources of funding provided by state and/or federal agencies but also by local programs. Local programs include programs, services, activities, and functions administered by the charter school, the charter holder, and any other individual and/or entity affiliated with the charter holder and conducting business on behalf of the charter holder and/or the charter school.

Generally, expenses can be allocated to a specific local, state, and/or federal source of funding, project and/or cost objective. In some instances, however, the transaction that generated the expense cannot be attributed to a specific source of funding, project and/or cost objective. Consequently, the charter school may need to develop a methodology for allocating certain expenses (*e.g.*, administrative overhead costs, business office expenses, facility/office rent expense, management service fees, telephone charges).

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### 1.2.11.1 Cost Allocations

To ensure that expenses are properly allocated to local, state and federal funds provided to the charter school, the charter school must develop a methodology for allocating certain types of expenses. The independent auditor must ensure that the methodology used is reasonable, properly allocates expenses between local, state, and federal sources of funding, projects and/or cost objectives, and is consistently applied by the charter school.

#### *1.2.11.1.1 Cost Allocation Plan*

In some instances, a charter school may incur expenses that only benefit certain sources of funding, projects and/or cost objectives. However, the nature of the transactions may be such that a one-to-one cost assignment cannot be made. In these cases, the charter school must develop a method for identifying costs and assigning these costs to the benefited source of funding, project or cost objective on a reasonable and consistent basis. The charter school must maintain an accounting system and records that adequately document and support the propriety of the costs assigned.

#### *1.2.11.1.2 Indirect Cost Rate Proposal*

Indirect costs are costs that have been incurred for common or joint purposes and benefit more than one source of funding, project or cost objective. Generally, indirect costs are those remaining after direct costs have been determined and assigned directly to a source of funding, project or cost objective. A cost may not be allocated to a source of funding, project or cost objective as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned as a direct cost. Indirect costs are normally charged to a source of funding, project or cost objective by the use of an indirect cost rate. The indirect cost rate is documented in an indirect cost rate proposal.

The charter school must develop a method for identifying indirect costs and developing a rate to be applied against the funds for every source of funding, project or cost objective. The charter school must maintain an accounting system and records that adequately document and support the propriety of the costs included in the indirect cost rate proposal. The charter school may contact the Division of Financial Audits to obtain an indirect cost rate.

### 1.2.12 Reclassification of Net Assets

FASB ASC 958-225-45 (Other Presentation Matters), states that the reclassification of net assets attributable to the expiration of donor-imposed restrictions shall be reported as separate items. Generally, revenues reported on the statement of activities may be presented in three broad categories.

- Local and intermediate sources such as contributions received from charter holder constituents, funds receive pursuant to grants from local governmental and nongovernmental entities, and other sources, such as income from investments.
- State sources such as Foundation School Program funding and other formula or state grants.
- Federal sources such as funding through formula or discretionary grants awarded to the charter holder by the federal or state government.

Generally, local and intermediate sources of revenue are reported as unrestricted net assets if these do not have donor-imposed restrictions. In contrast, state and federal sources of revenue are generated pursuant to awards by state and/or federal agencies to the charter holder. These awards represent public funds and

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must be expended pursuant to applicable statutes, regulations, and grant requirements. Consequently, state and federal sources of revenue must be classified as temporarily restricted net assets until the funds are expended pursuant to applicable statutes, regulations, and grant requirements.

In accordance with state law, a charter holder is entitled to receive state aid for the charter school based on student attendance; however, before the charter holder may reclassify state aid from temporarily restricted net assets to unrestricted net assets, it must meet a two part test. First, the charter school must demonstrate that it expended state aid for the benefit of its students. Second, the charter school must expend state aid consistent with TEC §45.105(c) (See [1.8.2.9 Use of State Aid](#) for further discussion.). The charter school must clearly document that it met these requirements in its financial accounting records before it may reclassify state aid from temporarily restricted net assets to unrestricted net assets.<sup>1</sup>

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<sup>1</sup> FASB ASC 958 (formerly Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*), permits the reporting of state and federal revenues as unrestricted net assets provided that the restrictions noted above have been met in the same reporting period (*i.e.*, fiscal year) and that this accounting treatment is consistent from period to period and is disclosed in the charter holder's accounting policy. To enable the TEA to conduct its oversight responsibilities, the applicable disclosure must include a statement or table that identifies the total dollar amounts by net asset code that were recognized as temporarily restricted net assets during the fiscal year but were subsequently reclassified to unrestricted net assets as expended or at the end of the fiscal year and upon determination that the applicable restrictions were met.

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### **1.3 Special Accounting Treatments**

Two areas are discussed as special accounting treatments. Each of these items is accounted for in a different manner from school districts if the charter school is a 501(c)(3) non-profit entity.

#### **1.3.1 Shared Services Arrangements**

Shared services arrangements are used by school districts and/or education service centers to share personnel or services, when one entity cannot justify the cost of employing a specialized staff member, but a group can justify a portion of the salary. Specific guidance is provided in the FAR module of the Financial Accountability System Resource Guide and PEIMS Data Standards for school districts (as government entities) to record and report the results of operations of shared service arrangements. This guidance does not apply to non-profit charter schools since they are 501(c)(3) entities rather than government entities; therefore, non-profit charter schools are required to record the results of shared service arrangements within their own financial statements. If one entity maintains the accounting transactions for all entities sharing services, that entity must provide the necessary accounting information to each of the participating entities to record transactions.

Any charter schools with a governmental charter holder (city, university, community college, etc.) are still required to follow governmental accounting standards and would follow shared service accounting guidelines.

#### **1.3.2 On-behalf Payments**

GASB 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires school districts to record the amounts of TRS benefit payments made by the State of Texas on behalf of the school district. **This statement does not apply to non-profit charter schools since they are 501(c)(3) entities rather than government entities; therefore, non-profit charter schools are not required to record on-behalf payments related to TRS benefits.**

**Any charter schools with a governmental charter holder (city, university, community college, etc.) are still required to follow governmental accounting standards and would record on-behalf payments.**

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**1.4 Account Codes**

Charter schools must adopt a standard financial accounting system. The financial accounting system must meet at least the minimum requirements prescribed by the State Board of Education and also be subject to review and comment by the state auditor. Additionally, the financial accounting system must conform to GAAP.

Each charter school must have an annual independent audit conducted that meets the minimum requirements of the state board of education, subject to review and comment by the state auditor. The annual audit must include the performance of certain audit procedures for the purpose of reviewing the accuracy of the fiscal information provided by the charter school through the Public Education Information Management System (PEIMS). The audit procedures are to be adequate to detect material errors in the charter school's fiscal data to be reported through the PEIMS system for the fiscal period under audit. For further guidance on PEIMS audit procedures, refer to section 4.2.6 of the FASRG, Audit Procedures on PEIMS Fiscal Data.

A major purpose of the account code structure is to establish the standard charter school financial accounting system. Although certain codes within the account code structure may be used at local option, the sequence of the codes within the structure and the account codes are to be uniformly used by all charter schools in accordance with generally accepted accounting principles.

Refer to the *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter School Chart of Accounts* for additional discussion.

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### 1.5 Internal Control

A strong system of internal control enables the charter school to ensure that resources are properly handled, properly used, and available for designation by management and the board. For further guidance on internal control, refer to the following sections of the FASRG.

1.5.1 Internal Control - Defined

1.5.2 Common Types of Control Procedures

1.5.3 Internal Control Check List

1.5.4 Suggested Areas for Consideration of the Internal Control Structure

#### 1.5.5 Accounting Policies and Procedures

An important element of a strong system of internal control is a charter school's accounting policies and procedures. These may be included as part of a comprehensive manual that identifies the charter school's administrative, accounting, business, contractual, financial, legal, operating, payroll, personnel, and programmatic functions. The accounting policy and procedures manual is an important means of establishing a strong control environment and should be strictly adhered to by charter school personnel. A sound accounting policy and procedures manual can provide numerous benefits including:

- Providing internal controls and safeguards;
- Providing timely reporting on the status of funds; and
- Allowing systematic disbursements to maximize available funds.

At a minimum, the accounting policy and procedures manual should include discussion concerning:<sup>2</sup>

- The budgeting process including preparation, amendment, and board approval;
- The accounting reports prepared for management and the governing body of the charter school;
- The review and approval of the annual financial and compliance report by the governing body of the charter school;
- The issuance and appropriate use of credit and/or debit cards including the reimbursement process and approval of expenditures;
- The control and confidentiality of accounting, business, contractual, financial, legal, operating, payroll, personnel, and program records;
- The release of accounting, business, contractual, financial, legal, operating, payroll, personnel, and program records to the general public pursuant to open records statutes;

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<sup>2</sup> This is not an all-inclusive list. Charter school officials should carefully consider the various administrative, accounting, business, contractual, financial, legal, operating, payroll, personnel, and programmatic functions that need to be discussed in its accounting policy and procedures manual.

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- The data and/or reports needed to ensure that state and federal reporting requirements are met (*e.g.*, PEIMS, Single Audit, expenditure reports);
- The duties performed by administrative and/or business office personnel with particular emphasis on the segregation of key responsibilities and duties;
- The individuals authorized to initiate, approve, and record transactions;
- The procedures to be followed for the different accounting, business, contractual, financial, legal, operating, payroll, personnel, and programmatic transactions conducted on behalf of the charter school by employees of the charter school, the charter holder, and/or affiliates of the charter holder;
- The charter school's chart of accounts with particular emphasis on compliance with and accurate use of the account codes discussed in the *Special Supplement To Financial Accounting and Reporting*;
- The charter school's purchasing functions with an emphasis on compliance with state and federal statutes and regulations; and
- The types of documents (*e.g.*, purchase requisition, purchase order, invoice, receipt, utility billing statement) required for the disbursement of funds.

The governing body of the charter school should review and approve the contents of the accounting policy and procedures manual, including amendments. The accounting policy and procedures manual should be periodically (*e.g.*, biannually) reviewed and updated, as necessary, to ensure that its contents comply with applicable state and/or federal statutes and regulations. Charter school officials should ensure that employees adhere to the accounting policy and procedures manual.

For an example of possible topics to include in the charter school's accounting policies and procedures manual, see [Appendix 2: Sample Accounting Policies and Procedures Manual Table of Contents](#). Charter school officials must bear in mind, however, that this is not an all-inclusive list and that some of the topics noted may not necessarily apply to the charter school. Charter school officials should carefully consider the various administrative, accounting, business, contractual, financial, legal, operating, payroll, personnel, and programmatic functions that need to be discussed in its accounting policy and procedures manual.

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### 1.7 Reporting

The intent of the following section is to provide the charter holder, the charter school and independent auditors information and guidance regarding reporting requirements. The primary focus of this section is the financial and compliance report that must be submitted to the Texas Education Agency (TEA) as discussed below. The Data Collection and Reporting module of the FASRG contains more extensive information regarding overall reporting objectives and procedures.

#### 1.7.1 Financial Reporting and Data Submission

The charter holder is required to file:

- A financial and compliance report;
- Any reports to management (generally referred to as management letters) or other similarly named correspondence from the charter school's independent auditor issued during the audit;
- PEIMS and other reports as required by individual TEA divisions; and
- Local audit of state compensatory education, in accordance with Module 9 of the FASRG, if the charter school is notified by the TEA that a local audit is required. The PEIMS data is required for submission to the TEA in four separate reports throughout the year. For further information on PEIMS submissions see the Data Collection and Reporting module or the [PEIMS Data Standards](#).

The charter holder must file the financial and compliance report and any management letters to the following address:

STATE (Required for all charter holders)

If mailed:

Texas Education Agency  
Financial Audits Division  
Attn.: Desk Reviews Section  
1701 North Congress Avenue  
Austin, TX 78701

If hand-delivered:

Texas Education Agency  
Room 5-113  
1701 North Congress Avenue  
Austin, Texas

Other: Other State agencies that the charter holder received direct funding from other than TEA.

#### FEDERAL

All charter holders that expend \$500,000 or more in direct/indirect Federal awards must submit a Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments and Non-Profit Organizations electronically through the Federal Audit Clearinghouse website (<http://harvester.census.gov/sac/>).

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See [Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#).

### 1.7.2 Financial and Compliance Report

The financial and compliance report discussed in this section represents a critical monitoring instrument that enables the TEA to properly oversee the financial and programmatic operations of open-enrollment charter schools and to adhere to federal and state monitoring requirements. The independent auditor's assessment of the financial condition, results of operation, internal controls and compliance of the charter school and the charter holder, as discussed in his written opinion and other reports, constitute an important element of the TEA's risk assessment process and enables the TEA to identify critical issues that require further intervention. Consequently, the financial and compliance report must conform to generally accepted auditing standards, generally accepted government auditing standards, generally accepted accounting principles, and the requirements of this section. The financial and compliance report must also be filed in a timely manner.

The charter holder shall prepare or approve a report of the financial activity of the corporation for the preceding year. State law and the contract for charter require that the charter holder contract with a certified public accountant to audit the financial and programmatic operations of the charter school. FASB ASC 958-205-45 (Not-for-Profit Entities/Presentation of Financial Statements/Other Presentation Matters) addressed certain inconsistencies in reporting by not-for-profit organizations and requires that not-for-profit organizations report financial position, results of operations, cash flow and other disclosures for the entity as the whole. FASB ASC 958 also recognized the special-purpose needs of regulatory bodies that cannot be met by general-purpose financial statements. In order to address inconsistencies in the financial and compliance reports filed by charter holders and to ensure compliance with the requirements noted above, the charter holder is required to file an original financial and compliance report that contains the following:

1. Certificate of board,
2. Independent auditor's report,
3. Statement of Financial Position (Exhibit A-1),
4. Statement of Activities (Exhibit A-2),
5. Statement of Cash Flows (Exhibit A-3),
6. Notes to the financial statements,
7. Statement of Financial Position for Individual Charter School (Exhibit B-1),
8. Statement of Activities for Individual Charter School (Exhibit B-2),
9. Statement of Cash Flows for Individual Charter School (Exhibit B-3),
10. Schedule of Expenses for Individual Charter School (Exhibit C-1),
11. Schedule of Capital Assets for Individual Charter School (Exhibit D-1),
12. Budgetary Comparison Schedule for Individual Charter School (Exhibit E-1),
13. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*,
14. Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 (if applicable),
15. Schedule of Findings and Questioned Costs (Exhibit F-1),
16. Corrective Action Plan (Exhibit G-1) (if applicable),
17. Schedule of Expenditure of Federal Awards (Exhibit H-1) (if applicable), and
18. Notes to the Schedule of Expenditure of Federal Awards (if applicable).

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Exhibits A-1, A-2 and A-3 and the notes to the financial statements must be prepared for the entity as a whole (*i.e.*, both for charter and non-charter operations). The purpose of these general-purpose financial statements is to provide relevant information that meets the common interests of various user groups who provide resources to the not-for-profit organization. These exhibits and note disclosures adhere to the requirements of FASB ASC 958.

Exhibits B-1, B-2, B-3, C-1, D-1, E-1, and F-1 must be prepared for each individual charter school operated by the charter holder having a separate 6-digit county-district number. The certificate of board and exhibits B-1, B-2, B-3, C-1, D-1, E-1, and F-1 represent special-purpose statements necessary for the TEA's oversight of charter school financial and programmatic operations. The certificate of board and the exhibits adhere to the requirements of the Texas Education Code and the contract for charter and will be used to ensure compliance with certain statutory, regulatory and contractual requirements, including the Public Education Information Management System Data Standards.

The independent auditor's report and the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, are required pursuant to generally accepted auditing standards and generally accepted government auditing standards as promulgated by the American Institute of Certified Public Accountants and the United States Government Accountability Office, respectively.

The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, exhibits F-1, G-1 and H-1, and the notes to the schedule of expenditure of federal awards are required pursuant to Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, issued by the United States Office of Management and Budget.

### 1.7.2.1 Certificate of Board

The certificate of board is a required component of the financial and compliance report and must include the original signatures of the presiding officer and the secretary of the governing body of the charter holder. The certificate of board must also indicate if the governing body approved or disapproved the contents of the financial and compliance report and the date that of its approval or disapproval.<sup>3,4</sup>

See [Sample Certificate of Board](#).

### 1.7.2.2 Independent Auditor's Report

The independent auditor's report must be dated and signed by a certified public accountant licensed by the Texas State Board of Public Accountancy. The report must conform to generally accepted auditing standards and generally accepted government auditing standards as promulgated by the American Institute of Certified Public Accountants and the United States Government Accountability Office, respectively.

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<sup>3</sup> Approval or disapproval of the financial and compliance report must be supported in the minutes to the meetings of the charter holder.

<sup>4</sup> An essential element of generally accepted accounting standards of fiscal management is the reporting of the financial condition and results of operation of an organization to the body responsible for oversight of the organization's financial operations. The certificate of board evidences that the governing body of the charter holder has been informed of the organization's financial condition and results of operations and has been given an opportunity to address deficiencies or potential financial issues.

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See [Sample Independent Auditor's Report](#).

1.7.2.3 Statement of Financial Position for Individual Charter School (Exhibit B-1)

In addition to the general-purpose statement of financial position for the not-for-profit organization as a whole (charter holder), the financial and compliance report must include a statement of financial position for each individual charter school operated by the charter holder as of the end of the applicable fiscal year. If the charter holder only operates a single charter school and does not conduct any non-charter activities, this requirement may be met by preparing a general-purpose statement of financial position and a note disclosure that the charter holder only operates a single charter school and does not conduct any other charter or non-charter activities.

See [Sample Statement of Financial Position for Individual Charter School](#).

1.7.2.4 Statement of Activities for Individual Charter School (Exhibit B-2)

In addition to the general-purpose statement of activities for the not-for-profit organization as a whole (charter holder), the financial and compliance report must include a statement of activities for the fiscal year end of each individual charter school operated by the charter holder. This special-purpose statement must disclose revenues by detailed object code and expenses by detailed function code as defined in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. If the charter holder only operates a single charter school and does not conduct any non-charter activities, this requirement may be met by preparing a general-purpose statement of activities and a note disclosure that the charter holder only operates a single charter school and does not conduct any other charter or non-charter activities. The charter holder must still report revenues by detailed object code and expenses by detailed function code in the notes to the financial statements or as a separate exhibit.

See [Sample Statement of Activities for Individual Charter School](#).

1.7.2.5 Statement of Cash Flows for Individual Charter School (Exhibit B-3)

In addition to the general-purpose statement of cash flows for the not-for-profit organization as a whole (charter holder), the financial and compliance report must include a statement of cash flows for the fiscal year of the charter school for each individual charter school operated by the charter holder. If the charter holder only operates a single charter school and does not conduct any non-charter activities, this requirement may be met by preparing a general-purpose statement of cash flows and a note disclosure that the charter holder only operates a single charter school and does not conduct any other charter or non-charter activities.

See [Sample Statement of Cash Flows for Individual Charter School](#).

1.7.2.6 Schedule of Expenses for Individual Charter School (Exhibit C-1)

The financial and compliance report must include a schedule of expenses for the fiscal year of the charter school for each individual charter school operated by the charter holder. This special-purpose schedule must disclose expenses by object code class as defined in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*.

See [Sample Schedule of Expenses for Individual Charter School](#).

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### 1.7.2.7 Schedule of Capital Assets for Individual Charter School (Exhibit D-1)

The financial and compliance report must include a schedule of capital assets for each individual charter school operated by the charter holder as of the end of the applicable fiscal year. This special-purpose schedule must disclose capitalized assets by major object code, as defined in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. This schedule must be supported locally with records that adhere to the requirements discussed in [1.2.4.9 Capital Asset Records](#). Also, refer to 1.2.4.10 Capital Asset Exhibit for the requirement to reconcile amounts from this schedule to the Statement of Financial Position if the amounts differ.

See [Sample Schedule of Capital Assets for Individual Charter School](#).

### 1.7.2.8 Budgetary Comparison Schedule for Individual Charter School (Exhibit E-1)

The financial and compliance report must include a budgetary comparison schedule for the fiscal year end of each individual charter school operated by the charter holder. This special-purpose schedule must disclose revenues by detailed object code and expenses by detailed function code as defined in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. If the exhibit discloses a variance(s) between the final budgeted amounts and the actual amounts that exceed ten percent of the final budgeted amount, the charter holder must include a written statement discussing the cause of the variance and the corrective action(s) that were taken to ensure that the charter school adheres to its budget. If the original and final budgeted amounts vary by more than 10 percent of the original budgeted amounts, the charter holder must include a written statement discussing the cause of the variance(s).

See [Sample Budgetary Comparison Schedule for Individual Charter School](#).

### 1.7.2.9 Schedule of Findings and Questioned Costs (Exhibit F-1)

The financial and compliance report must include a schedule of findings and questioned costs for each individual charter school operated by the charter holder. This special-purpose schedule must disclose the following:

1. A summary of the auditor's results which shall include:
  - a. The type of report the auditor issued on the financial statements of the auditee (*i.e.*, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
  - b. A statement as to whether significant deficiencies in internal control were disclosed by the audit of the financial statements and whether any such deficiencies were material weaknesses;
  - c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee;
2. Findings relating to the financial statements which are required to be reported in accordance with generally accepted government auditing standards; and
3. Findings and questioned costs for state and federal awards.

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If the charter holder must prepare a schedule of findings and questioned costs pursuant to the Single Audit Act, then this schedule must conform to the requirements discussed in Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, issued by the United States Office of Management and Budget.

#### *1.7.2.9.1 Reporting Audit Findings*

Audit findings specific to charter school operations shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for the TEA to arrive at a decision regarding potential administrative action. The following specific information shall be included, as applicable, in audit findings:

1. A reference number;
2. A description of the source of funds by net asset code and net asset code description;
3. The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation;
4. A complete description of the condition found, including facts that support the deficiency identified and if the deficiency(s) represents an isolated instance or a systemic problem;
5. The total dollar amount of questioned costs;
6. The effect or possible effect of the deficiency(s);
7. Recommendations to prevent future occurrences of the deficiency(s) identified in the audit finding and how to address past deficiency(s); and
8. A statement from charter holder or charter school administrators that discusses the corrective action(s) that will be taken to address the auditor's findings and recommendations.<sup>5</sup>

Audit findings must also be reported consistent with generally accepted government auditing standards as promulgated by the United States Government Accountability Office.

#### 1.7.2.10 Corrective Action Plan (Exhibit G-1)

This exhibit is required if the charter holder is subject to the Single Audit Act and must conform to the requirements discussed in Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, issued by the United States Office of Management and Budget.

#### 1.7.3 Conduct of Audit

The charter holder must have the audit performed by an independent auditor licensed as a certified public accountant by the Texas State Board of Public Accountancy. The Auditing module of the FASRG includes an in-depth discussion concerning the audit process and addresses specific topics including audit requirements and preparation for the audit.

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<sup>5</sup> This statement is not required if a corrective action plan is prepared pursuant to Office of Management and Budget Circular No. A-133.

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### 1.7.3.1 Retention to Working Papers

The auditor shall retain working papers and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the TEA to extend the retention period.

### 1.7.3.2 Access to Working Papers

Audit working papers shall be made available upon request to the TEA. Access to working papers includes the right to obtain copies of working papers, as is reasonable and necessary.

### 1.7.4 Filing Requirement

As provided in TEC §44.008, the charter holder must submit an original copy of the financial and compliance report and the accompanying management letter to the TEA School Financial Audits Division within 150 days following the end of the charter school's fiscal year.<sup>6,7,8</sup> The financial and compliance report and the accompanying management letter will be deemed timely filed if it is complete and is filed within 150 days following the end of the charter school's fiscal year. The financial and compliance report will be deemed complete if it includes a signed certificate of board and a signed independent auditor's report. A financial and compliance report filed with a certificate of board or an independent auditor's report that has not been signed will be deemed incomplete.<sup>9</sup>

If the governing body of the charter holder declines or refuses to approve the independent auditor's report, it shall nevertheless file with the TEA a copy of the financial and compliance report with a detailed statement discussing the reasons for failing to approve the report.

#### 1.7.4.1 Method of Filing

Effective with the fiscal year ended August 31, 2002, the TEA requires that charter holders file the financial and compliance report in both paper format and electronic format. The financial and compliance report must be filed in a specified electronic file type. Instructions on this requirement can be found in the [Electronic AFR Submission document](#), (in Adobe Acrobat® pdf format).

#### 1.7.4.2 Notification by Charter Holder

If the charter holder is unable to file a complete financial and compliance report on or before the date due, the charter holder must notify the TEA School Financial Audits Division in writing. The charter holder's notification must identify the name of the firm conducting the audit (include the name of the auditor-in-charge), explain the circumstances causing the noncompliance, and must indicate the date that the charter

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<sup>6</sup> Currently, certain provisions discussed in the contract for charter require the charter holder to file the financial and compliance report within 120 days after the end of the charter school's fiscal year. A charter holder may continue to adhere to the applicable contractual requirement regarding the filing of the financial and compliance report. However, the filing requirement discussed in the supplement will be used to determine compliance with the applicable contractual filing requirement.

<sup>7</sup> If the charter holder has a fiscal year end different from the charter school's fiscal year end, it must file the financial and compliance report within 150 days following the end of the charter school's fiscal year.

<sup>8</sup> Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, issued by the United States Office of Management and Budget, requires that the report be "submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit." The latter part of this requirement, however, does not adhere to the filing requirement specified in the supplement. Consequently, the filing requirement specified in the supplement will be used to determine compliance.

<sup>9</sup> A draft of the financial and compliance report constitutes an incomplete report and will not be accepted to determine if the charter holder complied with the filing requirement.

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holder will file the financial and compliance report. The charter holder must also enclose a copy of the independent auditor's engagement letter with the notification letter.

### 1.7.4.3 Noncompliance

If the charter holder fails to file a financial and compliance report on or before the date due, it will be deemed delinquent. Consistent with TEC §44.008, TEA cannot grant extensions nor waive this filing requirement.

#### *1.7.4.3.1 Material Noncompliance*

With regards to the financial and compliance report filing requirement, material noncompliance occurs after the 30th day that the financial and compliance report was due. A charter holder that fails to file the financial and compliance report within 180 days following the end of the charter school's fiscal year end will be deemed to be in material noncompliance with the requirements of this supplement, the applicable contract for charter and state law. This finding of noncompliance will also result in potential ineligibility to participate in state and federal grants and programs.

#### *1.7.4.3.2 Administrative Action and Investigation*

If the charter holder does not file the financial and compliance report within 180 days following the charter school's fiscal year end, the School Financial Audits Division may recommend that the TEA consider administrative action against the charter holder. The TEA School Financial Audits Division may also conduct an investigation of the charter holder's financial accounting practices and compliance with state and federal program requirements.

### 1.7.5 Financial Statement

Section 140.005 of the Local Government Code, as amended, requires the governing body of a charter school to prepare an annual financial statement showing for each fund:

- The total receipts of the fund, itemized by source of revenue, including service charges, grants of state money, gifts, or other general sources from which funds are derived;
- The total disbursements of the fund, itemized by the nature of the expenditure; and
- The balance in the fund at the close of the fiscal year.

This information must be provided pursuant to statutory requirements discussed in Chapter 552 of the Government Code. The charter school may satisfy this requirement by providing a copy of the Statement of Activities.

### 1.7.6 Single Audit

The Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, requires non-federal entities that expend \$500,000 or more in a year in federal awards to have a single or program-specific audit conducted for that year. This requirement applies to the charter holder as a whole and not to any single component of the charter holder (*i.e.*, the charter school).

See [Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#).

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1.7.6.1 Noncompliance

If the charter holder fails to file a financial and compliance report that conforms to the requirements of the Single Audit Act, the charter holder will be required to submit a corrected report that adheres to the requirements discussed in Circular A-133.

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### 1.8 Federal and State Compliance and Reporting

The charter holder is responsible for compliance with the requirements discussed in this section. The independent auditor must conduct audit procedures to determine if the charter holder and/or the charter school complied with the requirements discussed in this section and must identify any issues regarding compliance.

#### 1.8.1 Federal Compliance

Several state and regulatory requirements are applicable to all or most federal assistance programs. These requirements are discussed in the applicable program grant or performance contract guidelines and other federal and state publications. Charter school officials are responsible for ensuring that charter school personnel adhere to regulatory requirements for federal programs.

See [Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations](#), [Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#), and [OMB A-133 Compliance Supplement](#).

##### 1.8.1.1 Cash Management

Federal regulations require that the amount of federal funds maintained locally be minimized. Federal awards generally require that the charter school request payment after the amount has been expended. To ensure compliance with federal requirements, the charter school should adopt procedures that ensure that federal funds are received after it has paid for reimbursable expenses and that it does not maintain a balance of federal funds in excess of that required to meet operational expenses. Any violations of this requirement and the amounts in question must be reported in the schedule of findings and questioned costs included in the financial and compliance report.

See [Part 205 of Title 31 of the Code of Federal Regulations](#).

##### 1.8.1.2 TEA Approved Budget

Federal grant requirements stipulate that the charter holder and/or charter school (the grantee) adhere to the budget approved by the TEA included with the grant application submitted by the grantee. Generally, the grantee may amend the budget without submitting the amendment to the TEA for approval. However, the grantee should refer to the applicable grant application to determine if such amendments are permitted and the conditions that must be met. In certain instances, the grantee may be required to submit budget amendments to the TEA for approval before the expenditure of funds. In general, if the grantee expends grant funds before the amendment is approved, the amount(s) may represent questionable costs and may be subject to recapture by the TEA.

#### 1.8.2 State Compliance

TEC 12, as amended, authorizes the State Board of Education to grant charters. TEC 12, as amended, also authorizes the Commissioner of Education to make rules governing charter school operations and to require reports and issue certain regulations for charter schools. In general, there are several law or rule documents that may specifically apply to charter schools. These are:

- The [Texas Education Code](#)
- The [Texas Administrative Code](#)

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- Texas Education Agency [Financial Accountability System Resource Guide](#)
- Texas Education Agency [Student Attendance Accounting Handbook](#)
- Texas Education Agency [PEIMS Data Standards](#)

The above documents set forth the laws, rules or regulations with which a charter holder must comply for financial-legal purposes. It is not implied here that the above documents include all laws, rules or regulations affecting charter school operations, as there are others.

1.8.2.1 Nepotism

TEC 12.1055 states that Chapter 573 of the Government Code does not apply to a charter school if it is rated acceptable or higher under Chapter 39 of the Texas Education Code for at least two of the preceding three school years. However, if the charter school is rated academically unacceptable for at least two of the preceding three school years, then Chapter 573 of the Government Code applies.

Independent auditors must perform audit procedures to ascertain the applicability of Chapter 573 of the Government Code and to ensure compliance with its requirements. In the event that Chapter 573 of the Government Code does not apply, independent auditors must nonetheless ensure that the governing body of the charter school complied with the requirements in Sections 171.003-171.007 of the Local Government Code with respect to a personnel matter as discussed in TEC 12.055(b).

The charter holder and/or the charter school must adopt local policies addressing nepotism. The charter holder and the charter school must refer to TEC 12.055, Chapter 573 of the Government Code and Sections 171.003-171.007 of the Local Government Code to ensure that local policies comply with state law.

For further guidance on nepotism, refer to section 1.8.2.2, Nepotism, of the FASRG.

If applicable, a charter holder's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

1.8.2.2 Pecuniary Interest

As discussed in TEC 12.1054, if a charter school is rated acceptable or higher, then a charter school employee may serve as a member of the governing body of the charter holder or the charter school if the employees do not constitute a quorum of the governing body or any committee of the governing body. However, all individuals serving on the governing body shall comply with Sections 171.003-171.007 of the Local Government Code.

Charter schools must adopt local policies addressing conflicts of interest. The charter school must refer to TEC 12.1054 and Chapter 171 of the Local Government Code to ensure that local policies comply with state law. Also, refer to Sections 100.1131-100.1135 of the Texas Administrative Code for further regulatory requirements.

For further guidance on pecuniary interest, please refer to section 1.8.2.3, Pecuniary Interest, of the FASRG.

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If applicable, a charter holder's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

#### 1.8.2.3 Depository Contract

TEC 12.107(b) requires that a charter school file a copy of the depository contract between the charter holder and any bank into which state funds are deposited. (See §100.1043(b) of Title 19 of the Texas Administrative Code.) This information is required to be filed annually by November 1; however, if there has been no change since the last filing, the charter holder may file a statement to this effect in lieu of a copy of the depository contract. A specific format for the depository contract is not prescribed. However, the charter holder must ensure that the depository contract contains the following information:

1. The name of the charter holder and its corresponding federal employer identification number (FEIN);
2. The name of the charter school and its corresponding county-district number;
3. The name of the bank and its corresponding FEIN;
4. The number assigned to the bank account to be used to deposit and disburse public funds;
5. The date that the depository contract was executed; and
6. The signatures of the representatives authorized to execute the depository agreement for the bank and the charter holder.

The charter holder should seek appropriate legal counsel, if necessary, before executing a depository contract with a bank. A copy of the applicable depository contract should be sent to the following address:

Texas Education Agency  
Financial Audits Division  
Attention: Dana Flores, Desk Reviews Section  
1701 North Congress Avenue  
Austin, TX 78701

According to Section 2257.024 of the [Government Code](#), the following items should be considered in the collateralization policy of a school district:

- A public entity may contract with a bank that has its main office or a branch office domiciled in this state to secure a deposit of public funds.
- The contract may contain a term or condition relating to an investment security used as a security for a deposit of public funds, including a term or condition relating to the:
  - Possession of the collateral;
  - Substitution or release of an investment security;
  - Ownership of the investment securities of the bank used to secure a deposit of public funds; and
  - Method by which an investment security used to secure a deposit of public funds is valued.

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Under Section 2257 of the [Government Code](#), the following items are considered to be eligible “investment security” for collateralization purposes:

- An obligation that in the opinion of the attorney general of the United States is a general obligation of the United States and backed by its full faith and credit;
- A general or special obligation issued by a public agency that
  - Is payable from taxes, revenues, or a combination of taxes and revenues;
  - Is rated as to investment quality by a nationally recognized rating agency; and
  - Has a current rating of not less than A or its equivalent; or
- A security in which a public entity may invest under Subchapter A, Chapter 2256; or
- An ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;
- A fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security; or
- A floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security.

[Senate Bill 638](#), 81<sup>st</sup> Regular Legislative session, added Subchapter F to Chapter 2257 of the Government Code. This will allow for the establishment of a pooled collateral program to begin operations not later than the first business day of April 2010. Financial institutions will be required to file reports with the Comptroller’s office to ensure compliance with the collateral requirements.

#### 1.8.2.4 Contracts and Purchases - Competitive Procurement

TEC 12.1053 and federal regulations require that charter schools adhere to certain purchasing and contract statutory provisions. See [Public Purchasing and Contracts](#).

If applicable, a charter holder’s independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

#### 1.8.2.5 State Program Indirect Cost Rates

See section 1.8.2.7 State Program Indirect Cost Rates in the FASRG.

#### 1.8.2.8 Records

As used herein, record and records shall mean any and all written, printed, electronic and/or magnetic material, both originals and copies thereof including any and all data or information stored in any electronic and/or magnetic medium, in the possession, custody, and/or control of the charter holder and any of its agents. Record and records shall also mean to include the following types of documents.

1. Administrative records, including but not necessarily limited to the following:
  - General correspondence and memorandums;
  - Grant files, including grant applications, notices of grant award, correspondence from the grantor, budgets, budget amendments, and expenditure reports;

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- Inventory records for state textbooks;
  - Procedure manual(s) or handbook(s) developed by the administrators of the organization, including any manuals or handbooks addressing accounting, administrative, business, contract, finance, payroll, personnel, and student practices or procedures; and
  - Teacher class and/or work schedules.
2. Business records, including but not necessarily limited to the following:
- Accounting policies and procedures manuals or handbooks;
  - Accounting, finance and payroll reports, journals (including petty cash journals), general ledgers, subsidiary ledgers and registers;
  - Agreements, contracts, and shared service arrangements, including exhibits, amendments, and other supporting documentation for transactions for the purchase of real property, personal property, software, services, *etc.*;
  - Asset management records, including asset ledgers and subsidiary ledgers, inventory records for real and personal property, documentation evidencing the authorization and disposal of real or personal property;
  - Bank statements, including deposit slips, canceled checks and bank reconciliations;
  - Budgets and budget amendments, including working papers created exclusively for the preparation of budgets;
  - Cost allocation records that document the allocation of costs among accounts and sources of funding, including records relating to interdepartmental or interfund accounting transactions;
  - Corporate credit card statements and the supporting vendor invoices and store or restaurant receipts;
  - Independent auditor annual financial and compliance reports;
  - Internal Revenue Service forms, including Form W-2s, Form 990s, and Form 1099s;
  - Journal vouchers, including supporting documentation such as auditor adjustments that evidence journal entries and amendments;
  - Payroll records, including authorization forms, deduction authorizations, direct deposit applications, leave reports, time and attendance reports, and wage and salary schedules;
  - Personnel files, including employment applications, employment contracts, employee service records, certificates, licenses, permits, criminal background checks and work schedules;
  - Purchasing records, including advertisements, invitations to bid, bids, requests for proposals, bid sheets, and requests for quotations or estimates;
  - Purchase requisitions, purchase orders and disbursement vouchers including supporting documentation (*e.g.*, vendor invoices, store receipts, professional service contract, *etc.*);
  - Reimbursement and travel vouchers including supporting documentation (*e.g.*, hotel room rental statement, restaurant receipts, travel itineraries, *etc.*);
  - Teacher Retirement System forms and reports; and
  - Electronic files containing accounting, financial and payroll data, including the software files necessary for the maintenance of the data and for the submission of the data to the Public Education Information Management System.
3. Governance records, including but not necessarily limited to the following:
- Notices, including agendas, of the meetings of the governing body;
  - Notes taken during meetings from which written minutes are prepared;

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- Minutes to the meetings of the governing body, including any audio or video tapes and any attachments, exhibits, schedules, or other material presented to the members of the governing body during the meetings; and
  - Policy manual(s) adopted by the governing body.
4. Student and student attendance records, including but not necessarily limited to the following:
- School calendars adopted by the governing body;
  - Student enrollment records, including enrollment applications, birth certificates, proof of residency documentation, immunization records, report cards, and academic achievement records;
  - Student attendance records and reports, as defined in the Student Attendance Accounting Handbook;
  - Special program files, including special education student files; and
  - Electronic files containing student and student attendance data, including the software files necessary for the maintenance of the data and for the submission of the data to the Public Education Information Management System.

Refer to Local Schedule SD, Retention Schedule for Records of Public School Districts, and Local Schedule GR, Retention Schedule for Records Common to All Local Governments, for additional guidance. These documents are published by the Texas State Library and Archives Commission.

A record will be deemed to be in the possession, custody or control of the charter holder, including any of its agents, if it either has physical possession of the item or has a right to possession of the item that is equal or superior to the individual, organization, and/or entity who has physical control of the item.

Nothing in this section entitles the Texas Education Agency and any of its representatives to a record(s) that does not pertain to the operation of the charter school and the administration of the charter school's activities, services, programs and functions.

*1.8.2.6.1 Records Maintenance and Retention Policies and Procedures*

The governing body of the charter holder must adopt policies and procedures regarding records maintenance and retention. At a minimum, the policies and procedures must:

1. Identify the types of records typically generated by the charter holder and its agents during the normal course of conducting business activities related to the operation of the charter school and the administration of the charter school's activities, services, programs and functions;
2. Identify which of the records identified pursuant to 1 above are legally required to be retained and which records are retained for management purposes;
3. Identify which of the records identified pursuant to 1 above are deemed essential or vital to the operation of the charter school and the administration of the charter school's activities, services, programs and functions;
4. Identify which of the records identified pursuant to 1 above are subject to disclosure in response to a request filed under the Chapter 552 of the Government Code;

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5. Identify which of the records identified pursuant to 1 above are deemed confidential, as discussed in Chapter 552 of the Government Code;
6. Identify the official custodian of records and state their duties and responsibilities;
7. Require the identification of the location of the records identified pursuant to 1 above, including the storage of records on electronic and magnetic mediums and at offsite locations;
8. Require the development and maintenance of a records retention schedule;
9. Discuss the process for safeguarding and preserving records;
10. Discuss the method and timing for the disposition of records, the process to be used for the authorization of the disposition of records, the documentation to be maintained regarding the disposition of records, and the official responsible for authorizing the disposition of records; and
11. Stipulate that contracts with management companies must include a provision that addresses the right of possession of any and all records created and maintained by the management company during and after the period that the contract is effective.

With regards to item 11 above, the governing body of the charter holder must ensure that the records of the charter school created and maintained by a management company are physically maintained within the State of Texas at all times. Refer to Section 100.1159 and 100.1203(a)(3) of the Texas Administrative Code.

If applicable, a charter holder's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

*1.8.2.6.2 Access to Records*

Pursuant to state and federal statutes and regulations and the applicable contract for charter, the charter holder and its agents must grant Texas Education Agency personnel access to any record relating to the operation of the charter school and/or the administration of any charter school activity, service, program and/or function. This includes all accounting, administrative, business, contractual, financial, payroll, personnel, program, student, and other files maintained by the charter school, the charter holder, a management company, and/or other service provider acting as an agent of the charter school and/or the charter holder. Failure to provide access to charter school records by any or all entities and individuals involved in the administration of the charter school may represent a violation of the applicable contract for charter.

The following will be deemed to be a failure to adhere to this requirement:

- Denial of access to any record in the possession, custody or control of the charter holder or any of its agents or
- Failure to respond a written request from the Texas Education Agency for a copy(s) of any record(s) in the possession, custody or control of the charter holder or any of its agents.

The charter holder and its agents must ensure that any and all charter school records are readily accessible to Texas Education Agency personnel.

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### *1.8.2.6.3 Records Retention*

Charter schools must retain and have access to all financial programmatic records, supporting documents, statistical records and any other records pertaining to federal or state programs. Record retention requirements for federal and state programs are mandated by the Texas State Library and Archives Commission (refer to Local Schedule SD, Retention Schedule for Records of Public School Districts, and Local Schedule GR, Retention Schedule for Records Common to All Local Governments, for additional guidance). Refer to Section 7.4, Records Management, in the FASRG. Special consideration should be focused on the guidance provided in Section 7.4.3.1 of the FASRG. The record retention period is automatically extended if the charter school is under investigation, litigation or administrative action. This latter requirement applies to all records that pertain to the investigation, litigation or administrative hearing.

If applicable, a charter holder's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

### *1.8.2.6.4 Transfer of Records*

As discussed in TEC 12.1052(d), a charter holder that ceases to operate a charter school shall transfer its records in the manner specified by the Commissioner of Education to a custodian(s) designated by the commissioner. To ensure that all charter school records are transferred to the custodian(s) designated by the commissioner, the charter holder must provide a detailed inventory of charter school records. Upon completion of the inventory, the charter holder must prepare the records for transfer to the custodian(s).

### *1.8.2.6.5 Accounting Record Defined*

The charter holder and the charter school are responsible for maintaining accounting records consistent with generally accepted accounting standards. At a minimum, the disbursement of public funds must be supported with the following:

1. An original internal accounting document<sup>10</sup> that includes a notation that:
  - a. The disbursement was authorized by a charter holder or charter school official;
  - b. The disbursement was authorized pursuant to the budget adopted by the governing body;
  - c. The disbursement was classified in the financial accounting system;
  - d. Identifies the business purpose of the disbursement; and
  - e. Identifies the check number of the account used to disburse the funds.
2. An original and complete third-party document.<sup>11,12</sup>

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<sup>10</sup> An internal accounting document may include, but is not necessarily limited to, a purchase order, a payment authorization form, an expense reimbursement form, a travel reimbursement form, a payroll schedule, a payroll authorization form, or an employment contract. This requirement may also be met if the original third-party document includes a notation with the required information noted above.

<sup>11</sup> A third-party document may include, but is not necessarily limited to, an executed contract, an itemized utility billing statement, an itemized receipt, an itemized invoice, or a bank deposit receipt. Billing statements that list invoiced amounts do not constitute acceptable third-party documentation because these documents do not itemize the goods purchased or the

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### 1.8.2.7 Public Education Management Information System Data Standards

The annual audit must include the performance of certain audit procedures for the purpose of reviewing the accuracy of the fiscal information provided by the charter school through the PEIMS. The audit procedures are to be adequate to detect material errors in the charter school's fiscal data to be reported through the PEIMS system for the fiscal period under audit. The charter school's independent auditor must maintain adequate documentation of the work performed to ensure the accuracy of the charter school's PEIMS submission. For further guidance on PEIMS audit procedures, refer to section 4.2.6 of the FASRG, Audit Procedures on PEIMS Fiscal Data.

See *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter School Chart of Accounts*.

### 1.8.2.8 Account Code Structure

With the exception of the codes that may be used at local option, all charter schools must use the account code structure as described in the *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter School Chart of Accounts*. Failure to use the account code structure as discussed in the *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter School Chart of Accounts* should be disclosed in the Schedule of Findings and Questioned Costs as a noncompliance issue.

See *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter School Chart of Accounts*.

### 1.8.2.9 Use of State Aid

As mandated in TEC §12.107, state and federal funds paid to the charter holder for the operation of the charter school are to be used for the benefit of the students of the charter school and may only be used for the following purposes:

1. The payment of teachers' and superintendents' salaries and interest on money borrowed on short time to pay those salaries that become due before the state funds for the current year become available;<sup>13</sup>
2. The purchase of appliances and supplies;
3. The payment of insurance premiums;
4. The payment of janitors and other employees;
5. The purchase of school sites;

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services rendered. Consequently, this type of document does not enable the charter holder to properly classify the related expense(s) in the charter school's financial accounting system. Estimates, proposals, and quotes also do not constitute acceptable third-party documentation as these types of documents do not represent the final settlement of the amount(s) due for the goods or services purchased.

<sup>12</sup> Due to the potential for fraud, the consistent use of copies of original third-party documents or of incomplete (*e.g.*, missing third-party address) third-party documents should be identified as an internal control weakness and as a compliance issue.

<sup>13</sup> Loans for the purpose of payment of teachers may not be paid out of funds other than those for the current year.

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6. The buying, building, repairing, and renting of school buildings, including acquiring school buildings and sites by leasing through annual payments with an ultimate option to purchase; and
7. For other purposes necessary in the conduct of the charter school as determined by the governing body of the charter school.

In addition to the requirements noted above, state and federal funds designated for a specific purpose must be used consistent with the project approved by the grantor office and the applicable requirements of the grant or program.<sup>14</sup>

It is the responsibility of the charter holder and the charter school to demonstrate that public funds were used to secure goods and services for the benefit of the charter school's students and that the use of public funds conformed to the requirements of TEC §45.105(c), as outlined above. The charter holder and the charter school must maintain complete original records that clearly identify the business purpose of any disbursement of public funds and how these are aligned to the requirements discussed in this section and mandated by law.

*1.8.2.9.1 Use of State Aid for Social Activities*

Unless directly related to the benefit of students, costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable. In addition to demonstrating that this type of expense resulted in a direct benefit to the students, the charter holder and/or the charter school must identify the students that benefited from the applicable disbursement of public funds.

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<sup>14</sup> Certain funds paid to the charter holder from the Foundation School Program may represent allotments for special education, compensatory education, bilingual education, career and technical education, and gifted and talented education. At least 60% of the funds received for career and technical education must be expended in direct costs. At least 55% of the funds received for the other FSP programs must be expended in direct costs. As mandated in 19 TAC 105.11, no more than 45% of an allotment may be expended for indirect costs, as defined (40% for career and technical education).

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**1.9 Other Topics of Interest**

Charter school personnel are encouraged to review the contents of the following sections in the FASRG.

Appendix 4 - Teacher Retirement System Forms

Appendix 8 – General Requirements for all Federal Programs

Appendix 9 - Catalog of Federal Domestic Assistance Identification Numbers

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**BUDGETING**

Charter schools must adopt a budgeting process that is consistent with the requirements discussed in the Budgeting module of the FASRG. Specifically, charter school officials must consider carefully the comments noted in the following sections of the FASRG:

2.1 Preface

2.3 Budget Process Overview

2.4 Budgetary Approaches

2.10 Review, Approval and Maintenance of the District Budget

2.12 Budgeting for Grant Programs

2.13 Budgets for Multi-year Construction Projects

In addition to the requirements discussed in the sections noted above, the governing body of the charter school must formally adopt the charter school's budget prior to the start of the fiscal year and before the expenditure of funds. The budget must include all expenses and must be prepared in a manner consistent with the account code structure used by the charter school. In addition to the budget's initial adoption, the governing body of the charter school must also formally adopt amendments to the charter school's budget.

The minutes to the meetings of the governing body of the charter school must be used to record adoption of and amendments to the budget. The minutes must include a description of the action taken by the board and a copy of the budget and/or amendments adopted.

If applicable, a charter holder's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

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**PUBLIC PURCHASING AND CONTRACTS**

Unless a charter school's charter describes procedures for purchasing and contracting approved by the State Board of Education, TEC 12.1053 requires a charter school to adhere to various statutory requirements discussed in different sections of the Government Code and the Local Government Code.

**3.1 Locally Adopted Policies and Procedures**

The governing body of a charter school must adopt policies and procedures that identify the purchasing and contracting requirements that the charter school must follow and the measures that charter school personnel must take to ensure compliance. Charter school officials are encouraged to review the Purchasing model of the FASRG. Section 3.6., Purchasing Policy Manual - Model Content Outline, may be used as a starting point for developing purchasing policies and procedures.

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### **3.2 Real Property Held in Trust**

This section of the supplement is based on statutory requirements discussed in Subchapter D, Chapter 2252 of the Government Code and Section 100.1071 of the Texas Administrative Code. The requirements discussed in Chapter 2252 of the Government Code apply to charter schools unless the charter school's charter otherwise describes procedures for purchasing and contracting and the procedures are approved by the State Board of Education.

#### 3.2.1 Identification of Trust Property

A charter school may not purchase real property held in trust until the trustee submits to the governing body of the charter school a copy of the trust agreement identifying the true owner of the property. The trustee is required to identify the true owner of the property to the charter school. Additionally, a charter school may not sell real property to a trustee until the charter school receives from the trustee a copy of the trust agreement identifying the person who will be the true owner of the property. The trustee shall identify the person who will be the true owner of the property to the charter school.

The charter school is required to maintain adequate documentation demonstrating adherence to this requirement.

#### 3.2.2 Noncompliance

A conveyance of property is void if a charter school fails to comply with the requirements noted above.

A charter school's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

#### 3.2.3 Confidentially

A trust agreement submitted to the governing body of the charter school is confidential information.

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**3.3 Competitive Procurement Procedures on Certain Public Works Contracts**

This section of the supplement is based on statutory requirements discussed in Subchapter B, Chapter 271 of the Local Government Code, as amended, and in Section 100.103 and 100.1073 of the Texas Administrative Code. The requirements discussed in Chapter 271 of the Local Government Code apply to charter schools unless the charter school's charter otherwise describes procedures for purchasing and contracting and the procedures are approved by the State Board of Education.

3.3.1 Bidding Procedures

If a charter school is required by statute to award a contract for the construction, repair, or renovation of a structure, road, highway, or other improvement or addition to real property on the basis of competitive bids, and if the contract requires the expenditure of more than \$50,000 from charter school funds, the bidding on the contract must be accomplished as discussed in Subchapter B, Chapter 271 of the Local Government Code, as amended. The charter school must adopt procedures that identify transactions subject to competitive bidding requirements and that discuss the steps that staff must take to ensure compliance with applicable law.

3.3.2 Noncompliance

As discussed in Subchapter B, Chapter 271 of the Local Government Code, as amended, a contract awarded in violation of state law is void. Furthermore, a violation of the competitive bidding requirements may represent a criminal offense that could result in prosecution of a charter school officer and/or employee and in immediate removal of the officer and/or employee from office and/or employment.

A charter school's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

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### **3.4 Competitive Procurement**

Charter schools must adopt local policies addressing competitive procurement to ensure compliance with federal requirements and that purchases are made using a process that provides the best value for the charter school (TEC 44.031-44.901). Generally, federal regulations require that grantees and subgrantees use their own procurement procedures in accordance with applicable state and local laws and regulations and provided that the procurements conform to applicable federal law and the standards discussed in Section 80.36 of Title 34 of the Code of Federal Regulations (34 CFR 80.36). Generally, 34 CFR 80.36 requires the following:

1. Maintenance of a contract administration system;
2. Maintenance of a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts;
3. Local procedures that provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items;
4. Ensure that awards are made only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement;
5. Maintenance of records sufficient to detail the significant history of a procurement; and
6. Protest procedures to handle and resolve disputes relating to procurements and shall in all instances disclose information regarding the protest to the awarding agency.

The items noted above are not all inclusive. Refer to 34 CFR 80.36 for additional discussion.

#### 3.4.1 Noncompliance

A charter school's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

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### **3.5 Professional Services**

This section of the supplement is based on statutory requirements discussed in Subchapter A, Chapter 2254 of the Government Code and Section 100.103 and 100.1205 of the Texas Administrative Code. The requirements discussed in Chapter 2254 of the Government Code apply to charter schools unless the charter school's charter otherwise describes procedures for purchasing and contracting and the procedures are approved by the State Board of Education.

#### 3.5.1 Professional Services Defined

A charter school is responsible for ensuring compliance with applicable state law for the following types of professional services:

- (1) accounting;
- (2) architecture;
- (3) landscape architecture;
- (4) land surveying;
- (5) medicine;
- (6) optometry;
- (7) professional engineering;
- (8) real estate appraising; or
- (9) professional nursing.

This includes services provided by individuals licensed or registered as:

- (1) a certified public accountant;
- (2) an architect;
- (3) a landscape architect;
- (4) a land surveyor;
- (5) a physician, including a surgeon;
- (6) an optometrist;
- (7) a professional engineer;
- (8) a state certified or state licensed real estate appraiser; or
- (9) a registered nurse.

#### 3.5.2 Procedures for the Procurement of Professional Services

The charter school must adopt procedures that identify transactions subject to the requirements discussed in Subchapter A, Chapter 2254 of the Government Code and Section 100.1205 of the Texas Administrative Code and that discuss the steps that staff must take to ensure compliance with applicable law.

#### 3.5.3 Noncompliance

A contract entered into or an arrangement made in violation of applicable state law is void.

A charter school's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

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**3.6 Conflict of Interest Statements**

[Local Government Code Chapter 176](#) provides information regarding conflict of interest statements to be filed by vendors and certain school district employees. [HB 1491](#) passed by the 80<sup>th</sup> Legislature made modifications to the requirements for conflict of interest statements and requires charter schools to follow the requirements. Refer to the [Texas Ethics Commission website](#) for additional information and sample forms.

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### AUDITING

#### 4.1 Student Attendance Accounting and Adjustments to Foundation School Program Payments

As provided for in TEC §12.106, the charter holder is entitled to receive state aid from the Foundation School Program (FSP) for the operation of its charter school(s). The FSP allocation is subject to adjustment based on student data submitted by the charter school or as the result of an audit or investigation of student attendance data.

Charter school attendance records may be audited by TEA's Division of Financial Audits. TEA auditors have the authority to examine attendance records for any year the charter school is required to retain records. An audit, as authorized by Title 19, TAC, Section 100.1029, is performed in accordance with *Government Auditing Standards* and includes tests of the student attendance accounting procedures as considered necessary in the circumstances. The objectives of an audit of a charter school's attendance accounting system are to determine the following:

- Compliance with rules regarding days of charter school operation and instruction
- Compliance with rules regarding student eligibility
- Compliance with rules regarding student attendance for funding purposes
- Compliance with rules regarding student attendance accounting records
- Completeness and accuracy of student attendance data reported to TEA

All attendance accounting systems must readily reproduce the student attendance data required in the *Student Attendance Accounting Handbook* upon notification of an audit, regardless of the medium of storage used. Student attendance data must be organized into three distinct data sets: the Student Detail Report, Campus Summary Report(s) and the District Summary Report. Each of these reports is described in detail in the *Student Attendance Accounting Handbook* which the charter school should review to ensure that all required documentation is present and available for audit. The retention period for all documentation required should be in accordance with the Texas State Library and Archives Commission Local Library Schedule S-D and G-R.

According to TAC §100.1041(d), if a charter holder, before or without approval for an expansion amendment under TAC §100.1033(d) (relating to Charter Amendment), extends the grade levels it serves, adds or changes the site of an instructional facility, expands its geographic boundaries, or exceeds its maximum allowable enrollment, then the charter holder is not eligible to receive state funds for the attendance of students who are served on the campus that has engaged in an unapproved expansion of its charter school operations.

Audit findings, comments and recommendations by the Division of Financial Audits are intended to determine the propriety of amounts funded in accordance with state law and to assist charter school officials in implementing better methods for determining and securing such future funding. In the event errors are detected, the TEA State Funding Division will adjust the charter school's current fiscal year's allocation upon receiving the final audit report from the Division of Financial Audits, unless the report is received during the final quarter of the current fiscal year. If the final audit report is received during the

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final quarter of a fiscal year, the audit adjustment will be applied against the charter school's allocation for the subsequent fiscal year.

In cases of extreme hardship, the audit adjustment may be spread across two years. Charter schools that request extension of the audit adjustment will be required to demonstrate extreme hardship and will be subject to continued financial monitoring throughout the repayment period. The maximum extension of an audit adjustment is the year in which the adjustment is first applied and the subsequent fiscal year.

### **4.2 Training Requirements**

The Commissioner's rules on open enrollment charter schools require training for the following charter school officials:

- ◆ members of governing bodies of charter holder and school
- ◆ chief executive and central administrative officers
- ◆ campus administrative officers
- ◆ business managers

TAC §§100.1102 through 100.1106 contain specifications regarding the timing, course content, exemptions and number of hours required.

According to TAC §100.1108, the charter holder is required to separately disclose in the annual audit any member of the governing body of the charter holder or a charter school, and any officer of a charter school, who fails to comply with §§100.1102-100.1105 and who continues to serve in such capacity as of the date of the audit report. Failure to comply is considered a material violation of the contract for charter and may be considered by the commissioner in any action or intervention.

A charter school's independent auditor is required to identify any instances of noncompliance in the Schedule of Findings and Questioned Costs.

### **4.3 Management Companies**

#### 4.3.1 Management Company Interest Disclosure

According to TAC §100.1153, the charter holder is required to separately disclose in the annual audit any member of the governing body of the charter holder or a charter school, and any officer or employee of a charter school, who has a substantial interest in a management company. If a person is prohibited by this section from serving as a member of the governing body of a charter holder, as a member of the governing body of a charter school, or as an officer or employee of a charter school, the charter holder shall remove the individual from such position immediately. Failure to comply is considered a material violation of the contract for charter and may be considered by the commissioner in any action or intervention.

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### 4.3.2 Management Company Contract Review

According to TAC §100.1155(c), at least 30 calendar days prior to any performance or payments under the contract, a charter holder must file a copy of each contract for management services, and each amendment, renewal or extension thereto, with the Texas Education Agency (TEA) division responsible for legal services for review under this section. Refer to TAC §100.1155 for additional requirements regarding management contracts.

### 4.3.3 Prohibition of Management Company Loans

According to TAC §100.1157, neither a charter holder or a charter school may accept any loan or credit from, or incur any debt to, a management company that has a contract to provide management services to:

- (1) that charter school; or
- (2) another charter school that operates under a charter granted to the charter holder.

A charter holder is required to separately disclose in its annual audit report, all loans or credit received or indebtedness incurred by the charter holder or the charter school to any person or entity providing management services to the charter school or another charter school that operates under a charter granted to the charter holder. Refer to TAC §100.1157 for additional requirements regarding management company loans.

## **4.4 State Single Audit (UGMS)**

The Uniform Grant Management Standards (UGMS) were established to provide a standardized set of financial management procedures for grantor agencies in Texas. State agencies are required to adhere to these standards when administering grants and other financial assistance agreements with cities, counties and other political subdivisions of the state.

Chapter 783 of the Government Code excludes school districts; however, to further consistency and accountability, some state agencies have applied these standards by rule or contract to all their subrecipients.

If a charter school receives state grants directly or federal block grants from a state agency other than TEA, the auditor must check the grant requirements of that agency, since some require a state single audit for that specific grant, i.e., the charter school may agree voluntarily to a state single audit as a condition of receiving the grant.

The Uniform Grant Management Standards are found on the [governor's office](#) website.

## **4.5 Non-profit Status**

The auditor should check that the corporation continues in existence and maintains its non-profit status, as a failure to do so is considered a material violation of the charter contract.

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**ACCOUNTABILITY**

According to TAC §100.1021, the commissioner of education may modify, place on probation, revoke, or deny renewal of an open-enrollment charter if the commissioner determines the charter holder:

- (1) failed to satisfy accountability rating requirements and other student performance requirements, as determined by the commissioner under TAC §100.1022;
- (2) failed to satisfy generally accepted accounting standards of fiscal management, as determined by the commissioner under TAC §100.1022;
- (3) failed to protect the health, safety, or welfare of the students enrolled at the school, as determined by the commissioner under TAC §100.1025, TAC §100.1022;
- (4) committed a material violation of the open-enrollment charter, as determined by the commissioner under TAC §100.1022; or
- (5) failed to comply with the requirements of the Texas Education Code (TEC), Chapter 12, Subchapter D, or other applicable state and/or federal law or rule, as determined by the commissioner under TAC §100.1022.

Refer to TAC §100.1022(c), for minimum financial performance required.

According to TAC §100.1023, the commissioner of education shall temporarily withhold state funds, suspend the authority of an open-enrollment charter school to operate, impose a sanction under Texas Education Code, §39.131(a), and/or take any other reasonable action the commissioner determines necessary, if the commissioner determines that a charter holder:

- (1) committed a material violation of the school's charter;
- (2) failed to satisfy generally accepted accounting standards of fiscal management; or
- (3) failed to comply with this subchapter or another applicable rule or law.

**6.1 Accreditation Status**

According to TAC §97.1055(g), in considering the financial performance of a charter operator during a fiscal year for which no financial accountability ratings were assigned to charter operators under §TAC 109.1002, the following substitute criteria is applied:

Any of the following findings is deemed the equivalent of Substandard Achievement under School FIRST:

- 1) the annual audit report was received more than 180 days after year-end,
- 2) the annual audit report disclosed net assets of less than 80% of liabilities, or

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- 3) the annual audit report contained an adverse opinion including a going concern disclosure, or a disclaimer of opinion.

**6.2 Financial Solvency**

[HB 3](#), 81<sup>st</sup> Regular Legislative Session, added a provision in [TEC 39.0822](#) that the agency shall develop a review process to anticipate the future financial solvency of each school district and open-enrollment charter school. As the system is developed and implemented, information will be posted on the Financial Audits website. [Financial Solvency Review Process](#)

The review process shall analyze:

1. District revenues and expenditures for the preceding school year; and
2. Projected district revenues and expenditures for the current school year and the following two school years.

In analyzing the information, the review process developed must consider, for the preceding school year, the current school year, and the following two school years, as appropriate:

1. Student-to-staff ratios relative to expenditures, including average staff salaries;
2. The rate of change in the district unreserved general fund balance;
3. The number of students enrolled in the district;
4. The adopted tax rate of the district;
5. Any independent audit report prepared for the district; and
6. Actual district financial information for the first quarter.

The agency shall consult school district financial officers and public finance experts in developing the review process under this section.

The agency shall develop an electronic-based program for school districts to use in submitting information to the agency. Each district shall update information for purposes of the review within the period prescribed by the commissioner. The commissioner shall adopt rules to allow a district to enter estimates of critical data into the program before the district adopts its budget.

The program must:

1. Be capable of importing, to the extent practicable, data a district has previously submitted to the agency;
2. Include an entry space that allows a district to enter information explaining any irregularity in data submitted; and
3. Provide alerts for
  - a. A student-to-staff ratio that is significantly outside the norm;
  - b. A rapid depletion of the district general fund balance; and

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- c. A significant discrepancy between actual budget figures and projected revenues and expenditures.

An alert in the program must be developed to notify the agency immediately on the occurrence of a condition described above. After the agency is alerted, the agency shall immediately notify the affected school district regarding the condition triggering the alert.

**6.3 Projected Deficit**

If the review process indicates a projected deficit for a school district general fund within the following three years, the district shall provide the agency interim financial reports, supplemented by staff and student count data, as needed, to evaluate the district's current budget status. If the interim financial data substantiates the projected deficit, the school district shall develop a financial plan and submit the plan to the agency for approval. The agency may approve the plan only if the agency determines the plan will permit the district to avoid the projected insolvency.

The commissioner shall assign a school district an accredited-warned status if:

1. The district fails to submit a plan;
2. The district fails to obtain approval from the agency for a plan;
3. The district fails to comply with a plan approved by the agency; or
4. The agency determines in a subsequent school year, based on financial data submitted by the district, that the approved plan for the district is no longer sufficient or is not appropriately implemented.

TEXAS EDUCATION AGENCY  
School Financial Audits Division

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**STATE COMPENSATORY EDUCATION**

Charter schools are subject to all the guidelines and requirements contained in FASRG Module 9, State Compensatory Education.

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**APPENDIX 1: ACRONYMS USED IN THE SPECIAL SUPPLEMENT**

FASB	Financial Accounting Standards Board
FASRG	<u>Financial Accountability System Resource Guide</u>
GAAP	generally accepted accounting principles
PEIMS	Public Education Information Management System
TAC	Texas Administrative Code
TEA	Texas Education Agency
TEC	Texas Education Code

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**APPENDIX 2: SAMPLE ACCOUNTING POLICIES AND PROCEDURES MANUAL TABLE OF CONTENTS**

The following is a listing of possible topics that can be included in an accounting policies and procedures manual. This listing is not all-inclusive and does not imply that each subject needs to be addressed by the charter school. Charter school personnel are responsible for developing and adopting policies and procedures appropriate for their organization.

Accounting Computer File Back-Up Procedure  
Accounts Payable  
Accounts Receivable Write-Off Procedures and Authority  
Annual Financial and Compliance Report  
Audit Committee  
Bank Reconciliations  
Bid Requirements  
Budget Amendments  
Budget Committee  
Budget Preparation and Adoption  
Cancellation of Purchase Orders  
Capitalization Policy  
Chart of Accounts  
Check Disbursements  
Check Endorsement/Stamp  
Clearing Accounts  
Competitive Bidding  
Computer Passwords  
Competitive Procurement  
Contract Signing Authority  
Control Over Checks and Cash  
Corporate Credit Cards  
Cost Allocation Plans  
Date- and Time-Received Stamp  
Debt  
Deferred Revenues  
Depreciation  
Document Sign-out  
Donated Property  
Employee Access to Records  
Federal Identification Number  
Forms  
Gift of Public Funds Prohibited  
Independent Contractors  
Insurance  
Internal Revenue Service Form Requirements: Completion and Filing  
Inventory and Supplies  
Investments  
Leasehold Improvements  
Leases (Capital and Operating)  
Mandatory Vacations/Leave

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Non-sufficient Funds Checks  
Occupancy Expenses  
Paid Stamp  
Permanently Restricted Net Assets  
Petty Cash Fund  
Postage Log  
Prepaid Expenses  
Procurement of Professional Services  
Public Access to Records (Open Records Requests)  
Purchase Orders  
Real Property Transactions  
Records Retention and Destruction  
Refunds  
Rent  
Repairs and Improvements  
Requests for New Policies and Procedures  
Safe Deposit Box  
Salary Advances  
Segregation of Duties  
Selection of Audit Firm  
Taking Work Home  
Teacher Retirement System of Texas Form Requirements: Completion and Filing  
Telephone Expenses (Long distance charges and cellular phones)  
Temporarily Restricted Net assets  
Temporary Employment Agencies  
Time Sheets  
Travel Advances  
Travel Expenses  
    1. Authorizations  
    2. Travel Advance  
    3. Personal Mileage  
    4. Public Carrier  
    5. Lodging  
    6. Meals  
    7. Taxi  
    8. Telephone  
    9. Entertainment  
    10. Tips  
    11. Parking and Tolls  
    12. Car Rentals  
Unrestricted Net Assets  
Voided checks  
Write-Off of Old Checks  
Year-end Closing Procedures  
Exhibits: Examples of Approved Forms Used and/or Required

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**APPENDIX 3: FINANCIAL AND COMPLIANCE REPORT**

**NOTE**

This financial and compliance report presented in this appendix is an example and is provided for illustrative purposes. Generally, this appendix identifies some of the reporting requirements that must be incorporated into the financial and compliance report filed by the charter holder.

**ASSUMPTIONS**

The charter holder is a not-for-profit organization with two charter schools (Anywhere Charter School and Anywhere Charter Academy), a summer program for at-risk youths (non-charter school related), and a central administrative office. The charter holder's fiscal year end coincides with that of the charter school.

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**Sample Certificate of Board**

Anywhere Charter Holder  
(Federal Employer Identification Number: 12-3456789)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Anywhere Charter Holder was reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 20BB, at a meeting of the governing body of the charter holder on the \_\_\_\_\_ day of \_\_\_\_\_, 20BB.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

**NOTE:** If the governing body of the charter holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

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**Sample Independent Auditor's Report**

JONES AND JONES, CPAs  
Post Office Box 99  
Anywhere, TX 79999

**Independent Auditor's Report**

Board of Directors  
Anywhere Charter Holder  
10 Main Street  
Anywhere, TX 79999

Members of the Board of Directors:

We have audited the accompanying statements of financial position of Anywhere Charter Holder as of August 31, 20BB and 20AA, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Anywhere Charter Holder's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anywhere Charter Holder as of August 31, 20BB and 20AA, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 20BB, on our consideration of Anywhere Charter Holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jones and Jones, CPAs  
October 30, 20BB

# **General-Purpose Financial Statements**

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**Sample Statement of Financial Position**

Exhibit A-1

Anywhere Charter Holder  
 Statement of Financial Position  
 As of August 31, 20BB and 20AA

	<u>20BB</u>	<u>20AA</u>
<b><u>Assets</u></b>		
Current Assets		
Cash and cash equivalents	\$ x,xxx	\$ x,xxx
Accounts receivable	xxx	x,xxx
Prepaid expenses	xxx	xxx
Total current assets	<u>x,xxx</u>	<u>x,xxx</u>
Property and Equipment, net	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total Assets	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities		
Accounts payable	\$ xx,xxx	\$ xx,xxx
Accrued liabilities	xx,xxx	xx,xxx
Deferred revenue	x,xxx	-
Current portion of long-term debt	xx,xxx	xx,xxx
Total current liabilities	<u>xxx,xxx</u>	<u>xxx,xxx</u>
Long-Term Debt	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total Liabilities	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>
Net Assets		
Unrestricted	xx,xxx	xx,xxx
Temporarily restricted	x,xxx	-
Total Net Assets	<u>\$ xx,xxx</u>	<u>\$ xx,xxx</u>
Total Liabilities and Net Assets	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

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**Sample Statement of Activities**

Exhibit A-2

Anywhere Charter Holder  
 Statement of Activities<sup>15</sup>  
 For the Years Ended August 31, 20BB and 20AA

	Unrestricted	Temporarily Restricted	Totals	
			20BB	20AA
<b>Revenues</b>				
Local support:				
Contributions	\$ xx,xxx		\$ xx,xxx	\$ xx,xxx
Fund-raising activities	xx,xxx		xx,xxx	xx,xxx
Interest and other income	xxx		Xxx	xxx
Total local support	xx,xxx		xx,xxx	xx,xxx
State program revenues				
Foundation School Program		xxx,xxx	xxx,xxx	xxx,xxx
Other State Aid		x,xxx	x,xxx	x,xxx
Total state program revenues		xxx,xxx	xxx,xxx	xxx,xxx
Federal program revenues:				
ESEA Title I Part A		xx,xxx	xx,xxx	xx,xxx
ESEA Title X		x,xxx	x,xxx	x,xxx
Child Nutrition		xx,xxx	xx,xxx	xx,xxx
Total federal program revenues		xx,xxx	xx,xxx	xx,xxx
Net assets released from restrictions:				
Restrictions satisfied by payments	xxx,xxx	(xxx,xxx)	—	—
Total Revenues	\$ x,xxx,xxx	x,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
<b>Expenses</b>				
Program Services:				
Instruction and Instructional-Related Services	xxx,xxx		xxx,xxx	xxx,xxx
Instructional and School Leadership	xxx,xxx		xxx,xxx	xxx,xxx
Support Services:				
Administrative Support Services	xx,xxx		xx,xxx	xx,xxx
Ancillary Services	xx,xxx		xx,xxx	xx,xxx
Support Services–Non-Student Based	xx,xxx		xx,xxx	xx,xxx
Support Services–Student (Pupil)	xx,xxx		xx,xxx	xx,xxx
Fund Raising	xx,xxx		xx,xxx	xx,xxx
Total Expenses	\$ x,xxx,xxx	—	\$ x,xxx,xxx	\$ x,xxx,xxx
Change in Net Assets	xx,xxx	x,xxx	xx,xxx	x,xxx
Net Assets, beginning of year	x,xxx	—	x,xxx	—
Net Assets, ending of year	\$ xx,xxx	\$ x,xxx	\$ xx,xxx	\$ x,xxx

<sup>15</sup> This statement illustrates the classification of expenses by function. As required by FASB ASC 958, expenses by function must be reported in either in the statement of activities or in the notes to the financial statements.

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**Sample Statement of Cash Flows**

Exhibit A-3

Anywhere Charter Holder  
 Statement of Cash Flows  
 For the Year Ended August 31, 20BB and 20AA

	<u>20BB</u>	<u>20AA</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ xxx,xxx	\$ xxx,xxx
Grant payments	xx,xxx	xx,xxx
Contributions and fund-raising activities	xx,xxx	xx,xxx
Miscellaneous sources	xxx	xxx
Payments to vendors for goods and services rendered	(xxx,xxx)	(xxx,xxx)
Payments to charter school personnel for services rendered	(xxx,xxx)	(xxx,xxx)
Interest payments	(xx,xxx)	(xx,xxx)
Net cash provided by operating activities	<u>xx,xxx</u>	<u>xx,xxx</u>
Cash flows from investing activities:		
Purchase of land and building		(x,xxx,xxx)
Purchase of equipment	(x,xxx)	(xx,xxx)
Net cash provided by investing activities	<u>(x,xxx)</u>	<u>(x,xxx,xxx)</u>
Cash flows from financing activities:		
Issuance of long-term debt		x,xxx,xxx
Principal payments on long-term debt	(xx,xxx)	
Net cash provided by financing activities	<u>(xx,xxx)</u>	<u>x,xxx,xxx</u>
Net increase in cash	xxx	xxx
Cash at beginning of year	<u>x,xxx</u>	<u>x,xxx</u>
Cash at ending of year	<u>\$ x,xxx</u>	<u>\$ x,xxx</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ x,xxx	\$ x,xxx
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	xx,xxx	xx,xxx
(Increase) Decrease in assets:		
Accounts receivable	xxx	xxx
Increase (Decrease) in liabilities:		
Accounts payable	xxx	xxx
Accrued liabilities	(xxx)	(xxx)
Net cash provided by operating activities	<u>\$ x,xxx</u>	<u>\$ x,xxx</u>

# **Notes to the Financial Statements**

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**Sample Notes to the Financial Statements**

Anywhere Charter Holder  
Notes to the Financial Statements  
For the Year Ended August 31, 20BB

Note 1: Summary of Significant Accounting Policies

The general-purpose financial statements of Anywhere Charter Holder (the corporation) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

*Reporting Entity*

The corporation is a not-for-profit organization incorporated in the State of Texas in 19WW and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The corporation is governed by a Board of Directors comprised of seven members. The Board of Directors is selected pursuant to the bylaws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the corporation.

Since the corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

*Corporate Operations*

Initially, the corporation operated a summer program for at-risk youths. This program was still in operation during the fiscal year ended August 31, 20BB. In 19XX, the State Board of Education of the State of Texas granted the corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Anywhere Charter School was opened on September 1, 19YY. Subsequent to the awarding of the charter for Anywhere Charter School, the corporation applied for and received a second charter in 19YY. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Anywhere Charter Academy was opened on September 1, 19ZZ. Anywhere Charter School and Anywhere Charter Academy were organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the corporation's board of directors.

*Basis of Accounting and Presentation*

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted** – net assets that are not subject to donor-imposed stipulations.

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**Temporarily restricted** – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted** – net assets required to be maintained in perpetuity with only the income to be used for the charter school’s activities due to donor-imposed restrictions.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Contributions*

The corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Cash and Cash Equivalents*

For financial statement purposes, the corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

*Capital Assets*

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Note 2: Capital Assets

Capital assets at August 31, 20BB and 20AA were as follows:

	<u>20BB</u>	<u>20AA</u>
Land	xxx,xxx	xxx,xxx
Buildings and improvements	x,xxx,xxx	x,xxx,xxx
Vehicles and equipment	xxx,xxx	xxx,xxx
Total property and equipment	x,xxx,xxx	x,xxx,xxx
Less accumulated depreciation	xxx,xxx	xxx,xxx
Property and equipment, net	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

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Capital assets acquired with public funds received by the corporation for the operation of Anywhere Charter School and Anywhere Charter Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for each individual charter school.

Note 3: Long-Term Debt

Long-term debt at August 31, 20BB consists of the following:

Note payable to a bank, 5% interest, principal and interest due monthly in installments of \$x,xxx, commencing October 1, 19YY. Final payment is due October 1, 20MM. The note is secured by a first lien on land and buildings of the charter school. \$ x,xxx,xxx

Less current portion of long-term debt	xxx,xxx
Total long-term debt	<u>\$ x,xxx,xxx</u>

Future maturities of long-term debt at August 31, 20BB are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
20CC	\$ xx,xxx	\$ xx,xxx	\$ xx,xxx
20DD	xx,xxx	xx,xxx	xx,xxx
20EE	xx,xxx	xx,xxx	xx,xxx
20FF	xx,xxx	xx,xxx	xx,xxx
20GG	xx,xxx	xx,xxx	xx,xxx
Thereafter	xxx,xxx	xxx,xxx	x,xxx,xxx
	<u>\$ x,xxx,xxx</u>	<u>\$ xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

Note 4: Pension Plan Obligations

*Plan Description*

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

*Funding Policy*

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member’s annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2009, 2008 and 2007, and a state contribution rate of 6.58% for fiscal years 2009 and 2008 and 6.0% for fiscal year 2007. The charter school’s employees’ contributions to the System for the years ending August 31, 20BB and 20AA were \$ xx,xxx and \$ xx,xxx , respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the years ending August 31, 20BB and 20AA were \$ x,xxx and \$ x,xxx, respectively, equal to the required contributions for each year.

Note 5: Health Care Coverage

During the year ended August 31, 20BB, employees of the charter school were covered by a Health Insurance Plan (the Plan). The charter school contributed \$xxx per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 6: Deferred Revenue

Deferred revenue at August 31, 20BB and 20AA consisted of the following:

	<u>20BB</u>	<u>20AA</u>
ESEA Title I Part A – Improving Basic Programs	x,xxx	–
Child Nutrition	x,xxx	–
Total	<u>\$ x,xxx</u>	<u>–</u>

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets for the years ending August 31, 20BB and 20AA consisted of the following:

	<u>20BB</u>	<u>20AA</u>
ESEA Title I Part A – Improving Basic Programs	x,xxx	–
ESEA Title X – Public Charter School Grant	x,xxx	–
Total	<u>\$ x,xxx</u>	<u>–</u>

Note 8: Leases

Future minimum payments under noncancelable operating leases as of August 31, 20BB are as follows:

20CC	<u>\$ xxx,xxx</u>
20DD	<u>xxx,xxx</u>
20EE	<u>xxx,xxx</u>
20FF	<u>xxx,xxx</u>



# **Specific-Purpose Financial Statements**

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Statement of Financial Position for Individual Charter School**

Exhibit B-1.1

Anywhere Charter School  
 Statement of Financial Position  
 As of August 31, 20BB and 20AA

	<u>20BB</u>	<u>20AA</u>
<b><u>Assets</u></b>		
Current Assets		
Cash and cash equivalents	\$ x,xxx	\$ x,xxx
Accounts receivable	xxx	x,xxx
Prepaid expenses	xxx	xxx
Total current assets	<u>x,xxx</u>	<u>x,xxx</u>
Property and Equipment, net	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total Assets	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities		
Accounts payable	\$ xx,xxx	\$ xx,xxx
Accrued liabilities	xx,xxx	xx,xxx
Deferred revenue	x,xxx	-
Current portion of long-term debt	xx,xxx	xx,xxx
Total current liabilities	<u>xxx,xxx</u>	<u>xxx,xxx</u>
Long-Term Debt	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total Liabilities	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>
Net Assets		
Unrestricted	xx,xxx	xx,xxx
Temporarily restricted	x,xxx	-
Total Net Assets	<u>\$ xx,xxx</u>	<u>\$ xx,xxx</u>
Total Liabilities and Net Assets	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Statement of Financial Position for Individual Charter School**

Exhibit B-1.2

Anywhere Charter Academy  
 Statement of Financial Position  
 As of August 31, 20BB and 20AA

	<u>20BB</u>	<u>20AA</u>
<b><u>Assets</u></b>		
Current Assets		
Cash and cash equivalents	\$ x,xxx	\$ x,xxx
Accounts receivable	xxx	x,xxx
Prepaid expenses	xxx	xxx
Total current assets	<u>x,xxx</u>	<u>x,xxx</u>
Property and Equipment, net	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total Assets	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities		
Accounts payable	\$ xx,xxx	\$ xx,xxx
Accrued liabilities	xx,xxx	xx,xxx
Deferred revenue	x,xxx	-
Current portion of long-term debt	xx,xxx	xx,xxx
Total current liabilities	<u>xxx,xxx</u>	<u>xxx,xxx</u>
Long-Term Debt	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total Liabilities	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>
Net Assets		
Unrestricted	xx,xxx	xx,xxx
Temporarily restricted	x,xxx	-
Total Net Assets	<u>\$ xx,xxx</u>	<u>\$ xx,xxx</u>
Total Liabilities and Net Assets	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Statement of Activities for Individual Charter School**

Exhibit B-2.1

Anywhere Charter School  
 Statement of Activities  
 For the Years Ended August 31, 20BB and 20AA

	Unrestricted	Temporarily Restricted	Totals	
			20BB	20AA
<b>Revenues</b>				
Local support:				
5740 Other Revenues from Local Sources	\$ xx,xxx		\$ xx,xxx	\$ xx,xxx
State program revenues				
5810 Foundation School Program Act Revenues		xxx,xxx	xxx,xxx	xxx,xxx
5820 State Program Revenues Distributed by Texas Education Agency		x,xxx	x,xxx	x,xxx
Total state program revenues	—	xxx,xxx	xxx,xxx	xxx,xxx
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency		xx,xxx	xx,xxx	xx,xxx
Net assets released from restrictions:				
Restrictions satisfied by payments	xxx,xxx	(xxx,xxx)	—	—
Total Revenues	\$ x,xxx,xxx	x,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
<b>Expenses</b>				
11 Instruction	xxx,xxx		xxx,xxx	xxx,xxx
12 Instructional Resources and Media Services	xx,xxx		xx,xxx	xx,xxx
13 Curriculum Development and Instructional Staff Development	xx,xxx		xx,xxx	xx,xxx
21 Instructional Leadership	xx,xxx		xx,xxx	xx,xxx
23 School Leadership	xx,xxx		xx,xxx	xx,xxx
31 Guidance, Counseling and Evaluation Services	xx,xxx		xx,xxx	xx,xxx
32 Social Work Services	xx,xxx		xx,xxx	xx,xxx
33 Health Services	x,xxx		x,xxx	x,xxx
34 Student (Pupil) Transportation	xx,xxx		xx,xxx	xx,xxx
35 Food Services	xx,xxx		xx,xxx	xx,xxx
36 Cocurricular/Extracurricular Activities	x,xxx		x,xxx	x,xxx
41 General Administration	xx,xxx		xx,xxx	xx,xxx
51 Plant Maintenance and Operations	xx,xxx		xx,xxx	xx,xxx
52 Security and Monitoring Services	xx,xxx		xx,xxx	xx,xxx
53 Data Processing Services	xx,xxx		xx,xxx	xx,xxx
61 Community Services	xx,xxx		xx,xxx	xx,xxx
81 Fund Raising	xx,xxx		xx,xxx	xx,xxx
Total Expenses	\$ x,xxx,xxx	—	\$ x,xxx,xxx	\$ x,xxx,xxx
Change in Net Assets	xx,xxx	x,xxx	xx,xxx	x,xxx
Net Assets, beginning of year	x,xxx	—	x,xxx	—
Net Assets, ending of year	\$ xx,xxx	\$ x,xxx	\$ xx,xxx	\$ x,xxx

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Statement of Activities for Individual Charter School**

Exhibit B-2.2

Anywhere Charter Academy  
 Statement of Activities  
 For the Years Ended August 31, 20BB and 20AA

	Unrestricted	Temporarily Restricted	Totals	
			20BB	20AA
<b>Revenues</b>				
Local support:				
5740 Other Revenues from Local Sources	\$ xx,xxx		\$ xx,xxx	\$ xx,xxx
State program revenues				
5810 Foundation School Program Act Revenues		xxx,xxx	xxx,xxx	xxx,xxx
5820 State Program Revenues Distributed by Texas Education Agency		x,xxx	x,xxx	x,xxx
Total state program revenues	—	xxx,xxx	xxx,xxx	xxx,xxx
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency		xx,xxx	xx,xxx	xx,xxx
Net assets released from restrictions:				
Restrictions satisfied by payments	xxx,xxx	(xxx,xxx)	—	—
Total Revenues	\$ x,xxx,xxx	x,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
<b>Expenses</b>				
11 Instruction	xxx,xxx		xxx,xxx	xxx,xxx
12 Instructional Resources and Media Services	xx,xxx		xx,xxx	xx,xxx
13 Curriculum Development and Instructional Staff Development	xx,xxx		xx,xxx	xx,xxx
21 Instructional Leadership	xx,xxx		xx,xxx	xx,xxx
23 School Leadership	xx,xxx		xx,xxx	xx,xxx
31 Guidance, Counseling and Evaluation Services	xx,xxx		xx,xxx	xx,xxx
32 Social Work Services	xx,xxx		xx,xxx	xx,xxx
33 Health Services	x,xxx		x,xxx	x,xxx
34 Student (Pupil) Transportation	xx,xxx		xx,xxx	xx,xxx
35 Food Services	xx,xxx		xx,xxx	xx,xxx
36 Cocurricular/Extracurricular Activities	x,xxx		x,xxx	x,xxx
41 General Administration	xx,xxx		xx,xxx	xx,xxx
51 Plant Maintenance and Operations	xx,xxx		xx,xxx	xx,xxx
52 Security and Monitoring Services	xx,xxx		xx,xxx	xx,xxx
53 Data Processing Services	xx,xxx		xx,xxx	xx,xxx
61 Community Services	xx,xxx		xx,xxx	xx,xxx
81 Fund Raising	xx,xxx		xx,xxx	xx,xxx
Total Expenses	\$ x,xxx,xxx	—	\$ x,xxx,xxx	\$ x,xxx,xxx
Change in Net Assets				
Net Assets, beginning of year	xx,xxx	x,xxx	xx,xxx	x,xxx
Net Assets, ending of year	x,xxx	—	x,xxx	—
Net Assets, ending of year	\$ xx,xxx	\$ x,xxx	\$ xx,xxx	\$ x,xxx

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Statement of Cash Flows for Individual Charter School**

Exhibit B-3.1

Anywhere Charter School  
Statement of Cash Flows  
For the Year Ended August 31, 20BB and 20AA

	<u>20BB</u>	<u>20AA</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ xxx,xxx	\$ xxx,xxx
Grant payments	xx,xxx	xx,xxx
Contributions and fund-raising activities	xx,xxx	xx,xxx
Miscellaneous sources	xxx	xxx
Payments to vendors for goods and services rendered	(xxx,xxx)	(xxx,xxx)
Payments to charter school personnel for services rendered	(xxx,xxx)	(xxx,xxx)
Interest payments	(xx,xxx)	(xx,xxx)
Net cash provided by operating activities	<u>xx,xxx</u>	<u>xx,xxx</u>
Cash flows from investing activities:		
Purchase of land and building		(x,xxx,xxx)
Purchase of equipment	(x,xxx)	(xx,xxx)
Net cash provided by investing activities	<u>(x,xxx)</u>	<u>(x,xxx,xxx)</u>
Cash flows from financing activities:		
Issuance of long-term debt		x,xxx,xxx
Principal payments on long-term debt	(xx,xxx)	
Net cash provided by financing activities	<u>(xx,xxx)</u>	<u>x,xxx,xxx</u>
Net increase in cash	xxx	xxx
Cash at beginning of year	<u>x,xxx</u>	<u>x,xxx</u>
Cash at ending of year	<u>\$ x,xxx</u>	<u>\$ x,xxx</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ x,xxx	\$ x,xxx
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	xx,xxx	xx,xxx
(Increase) Decrease in assets:		
Accounts receivable	xxx	xxx
Increase (Decrease) in liabilities:		
Accounts payable	xxx	xxx
Accrued liabilities	(xxx)	(xxx)
Net cash provided by operating activities	<u>\$ x,xxx</u>	<u>\$ x,xxx</u>

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Statement of Cash Flows for Individual Charter School**

Exhibit B-3.2

Anywhere Charter Academy  
Statement of Cash Flows  
For the Year Ended August 31, 20BB and 20AA

	<u>20BB</u>	<u>20AA</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ xxx,xxx	\$ xxx,xxx
Grant payments	xx,xxx	xx,xxx
Contributions and fund-raising activities	xx,xxx	xx,xxx
Miscellaneous sources	xxx	xxx
Payments to vendors for goods and services rendered	(xxx,xxx)	(xxx,xxx)
Payments to charter school personnel for services rendered	(xxx,xxx)	(xxx,xxx)
Interest payments	(xx,xxx)	(xx,xxx)
Net cash provided by operating activities	<u>xx,xxx</u>	<u>xx,xxx</u>
Cash flows from investing activities:		
Purchase of land and building		(x,xxx,xxx)
Purchase of equipment	(x,xxx)	(xx,xxx)
Net cash provided by investing activities	<u>(x,xxx)</u>	<u>(x,xxx,xxx)</u>
Cash flows from financing activities:		
Issuance of long-term debt		x,xxx,xxx
Principal payments on long-term debt	(xx,xxx)	
Net cash provided by financing activities	<u>(xx,xxx)</u>	<u>x,xxx,xxx</u>
Net increase in cash	xxx	xxx
Cash at beginning of year	<u>x,xxx</u>	<u>x,xxx</u>
Cash at ending of year	<u>\$ x,xxx</u>	<u>\$ x,xxx</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ x,xxx	\$ x,xxx
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	xx,xxx	xx,xxx
(Increase) Decrease in assets:		
Accounts receivable	xxx	xxx
Increase (Decrease) in liabilities:		
Accounts payable	xxx	xxx
Accrued liabilities	(xxx)	(xxx)
Net cash provided by operating activities	<u>\$ x,xxx</u>	<u>\$ x,xxx</u>

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Schedule of Expenses for Individual Charter School**

Exhibit C-1.1

Anywhere Charter School  
Schedule of Expenses  
For the Years Ended August 31, 20BB and 20AA

	Totals	
	20BB	20AA
<b>Expenses</b>		
6100 Payroll Costs	xxx,xxx	xxx,xxx
6200 Professional and Contracted Services	xx,xxx	xx,xxx
6300 Supplies and Materials	xxx,xxx	xxx,xxx
6400 Other Operating Costs	xx,xxx	xx,xxx
6500 Debt	xx,xxx	xx,xxx
Total Expenses	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Schedule of Expenses for Individual Charter School**

Exhibit C-1.2

Anywhere Charter Academy  
Schedule of Expenses  
For the Years Ended August 31, 20BB and 20AA

	Totals	
	20BB	20AA
<b>Expenses</b>		
6100 Payroll Costs	xxx,xxx	xxx,xxx
6200 Professional and Contracted Services	xx,xxx	xx,xxx
6300 Supplies and Materials	xxx,xxx	xxx,xxx
6400 Other Operating Costs	xx,xxx	xx,xxx
6500 Debt	xx,xxx	xx,xxx
Total Expenses	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Schedule of Capital Assets for Individual Charter School**

Exhibit D-1.1

Anywhere Charter School  
Schedule of Capital Assets  
For the Year Ended August 31, 20BB

	Ownership Interest		
	Local	State	Federal
1110 Cash		x,xxx	
1510 Land and Improvements:		xxx,xxx	
1520 Buildings and Improvements:		xxx,xxx	
1531 Vehicles:		xxx,xxx	xx,xxx
1539 Furniture and Equipment:	xx,xxx		xx,xxx
Total Property and Equipment	xx,xxx	xxx,xxx	xx,xxx

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Schedule of Capital Assets for Individual Charter School**

Exhibit D-1.2

Anywhere Charter Academy  
Schedule of Capital Assets  
For the Year Ended August 31, 20BB

	Ownership Interest		
	Local	State	Federal
1110 Cash		x,xxx	
1510 Land and Improvements:		xxx,xxx	
1520 Buildings and Improvements:		xxx,xxx	
1531 Vehicles:		xxx,xxx	xx,xxx
1539 Furniture and Equipment:	xx,xxx		xx,xxx
Total Property and Equipment	xx,xxx	xxx,xxx	xx,xxx

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Budgetary Comparison Schedule for Individual Charter School**

Exhibit E-1.1

Anywhere Charter School  
 Budgetary Comparison Schedule  
 For the Year Ended August 31, 20BB

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local support:				
5740 Other Revenues from Local Sources	\$ xx,xxx	\$ x,xxx	\$ x,xxx	\$ xxx
State program revenues				
5810 Foundation School Program Act Revenues	xxx,xxx	xxx,xxx	xxx,xxx	—
5820 State Program Revenues Distributed by Texas Education Agency	x,xxx	x,xxx	x,xxx	—
Total state program revenues	xxx,xxx	xxx,xxx	xxx,xxx	—
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	xx,xxx	xx,xxx	xx,xxx	—
Total Revenues	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	—
<b>Expenses</b>				
11 Instruction	xxx,xxx	xxx,xxx	xxx,xxx	—
12 Instructional Resources and Media Services	xx,xxx	xx,xxx	xx,xxx	—
13 Curriculum Development and Instructional Staff Development	xx,xxx	xx,xxx	xx,xxx	—
21 Instructional Leadership	xx,xxx	xx,xxx	xx,xxx	—
23 School Leadership	xx,xxx	xx,xxx	xx,xxx	—
31 Guidance, Counseling and Evaluation Services	xx,xxx	xx,xxx	xx,xxx	—
32 Social Work Services	xx,xxx	xx,xxx	xx,xxx	—
33 Health Services	x,xxx	x,xxx	x,xxx	—
34 Student (Pupil) Transportation	xx,xxx	xx,xxx	xx,xxx	—
35 Food Services	xx,xxx	xx,xxx	xx,xxx	—
36 Cocurricular/Extracurricular Activities	x,xxx	x,xxx	x,xxx	—
41 General Administration	xx,xxx	xx,xxx	xx,xxx	—
51 Plant Maintenance and Operations	xx,xxx	xx,xxx	xx,xxx	—
52 Security and Monitoring Services	xx,xxx	xx,xxx	xx,xxx	—
53 Data Processing Services	xx,xxx	xx,xxx	xx,xxx	—
61 Community Services	xx,xxx	xx,xxx	xx,xxx	—
81 Fund Raising	xx,xxx	xx,xxx	xx,xxx	—
Total Expenses	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	—
Change in Net Assets	xx,xxx	xx,xxx	xx,xxx	xxx
Net Assets, beginning of year	x,xxx	x,xxx	x,xxx	—
Net Assets, ending of year	\$ xx,xxx	\$ xx,xxx	\$ xx,xxx	\$ xxx

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Budgetary Comparison Schedule for Individual Charter School**

Exhibit E-1.2

Anywhere Charter Academy  
 Budgetary Comparison Schedule  
 For the Year Ended August 31, 20BB

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local support:				
5740 Other Revenues from Local Sources	\$ xx,xxx	\$ x,xxx	\$ x,xxx	\$ xxx
State program revenues				
5810 Foundation School Program Act Revenues	xxx,xxx	xxx,xxx	xxx,xxx	—
5820 State Program Revenues Distributed by Texas Education Agency	x,xxx	x,xxx	x,xxx	—
Total state program revenues	xxx,xxx	xxx,xxx	xxx,xxx	—
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	xx,xxx	xx,xxx	xx,xxx	—
Total Revenues	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	—
<b>Expenses</b>				
11 Instruction	xxx,xxx	xxx,xxx	xxx,xxx	—
12 Instructional Resources and Media Services	xx,xxx	xx,xxx	xx,xxx	—
13 Curriculum Development and Instructional Staff Development	xx,xxx	xx,xxx	xx,xxx	—
21 Instructional Leadership	xx,xxx	xx,xxx	xx,xxx	—
23 School Leadership	xx,xxx	xx,xxx	xx,xxx	—
31 Guidance, Counseling and Evaluation Services	xx,xxx	xx,xxx	xx,xxx	—
32 Social Work Services	xx,xxx	xx,xxx	xx,xxx	—
33 Health Services	x,xxx	x,xxx	x,xxx	—
34 Student (Pupil) Transportation	xx,xxx	xx,xxx	xx,xxx	—
35 Food Services	xx,xxx	xx,xxx	xx,xxx	—
36 Cocurricular/Extracurricular Activities	x,xxx	x,xxx	x,xxx	—
41 General Administration	xx,xxx	xx,xxx	xx,xxx	(xxx)
51 Plant Maintenance and Operations	xx,xxx	xx,xxx	xx,xxx	—
52 Security and Monitoring Services	xx,xxx	xx,xxx	xx,xxx	—
53 Data Processing Services	xx,xxx	xx,xxx	xx,xxx	—
61 Community Services	xx,xxx	xx,xxx	xx,xxx	—
81 Fund Raising	xx,xxx	xx,xxx	xx,xxx	—
Total Expenses	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	—
Change in Net Assets	xx,xxx	xx,xxx	xx,xxx	—
Net Assets, beginning of year	x,xxx	x,xxx	x,xxx	—
Net Assets, ending of year	\$ xx,xxx	\$ xx,xxx	\$ xx,xxx	—

# **Compliance and Internal Control**

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

JONES AND JONES, CPAs  
Post Office Box 99  
Anywhere, TX 79999

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Anywhere Charter Holder  
10 Main Street  
Anywhere, TX 79999

Members of the Board of Directors:

We have audited the financial statements of Anywhere Charter Holder (the corporation) as of and for the year ended August 31, 20AA, and have issued our report thereon dated October 30, 20AA. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Anywhere Charter Holder's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Anywhere Charter Holder's internal control over financial reporting.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anywhere Charter Holder's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Anywhere Charter Holder in a separate letter dated October 30, 20AA.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones and Jones, CPAs  
October 30, 20AA

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

**Sample Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

JONES AND JONES, CPAs  
Post Office Box 99  
Anywhere, TX 79999

**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of Anywhere Charter Holder with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 20AA. Anywhere Charter Holder's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Anywhere Charter Holder's management. Our responsibility is to express an opinion on Anywhere Charter Holder's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB [Circular A-133](#), *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB [Circular A-133](#) require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Anywhere Charter Holder's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Anywhere Charter Holder's compliance with those requirements.

In our opinion, Anywhere Charter Holder complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 20AA.

Internal Control over Compliance

The management of Anywhere Charter Holder is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Anywhere Charter Holder's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Anywhere Charter Holder's internal control over compliance.

**Special Supplement to the Financial Accountability System Resource Guide, Charter Schools**

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones and Jones, CPAs  
October 30, 20AA

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**Sample Schedule of Findings and Questioned Costs**

Exhibit F-1

Anywhere Charter Holder  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 20BB

I. Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

*Federal Awards*

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Identification of major programs:		
ESEA Title I Part A, Improving Basic Programs (CFDA 84.010A)		
Dollar threshold used to distinguish between Type A and Type B programs	\$ xxx,xxx	
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

II. Financial Statement Findings None identified.

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III. Findings and Questioned Costs for State and Federal Awards

None identified.

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**Sample Schedule of Prior Audit Findings**

Anywhere Charter Holder  
Schedule of Prior Audit Findings  
For the Year Ended August 31, 20BB

Finding 20AA-1

*Criteria*

Paragraph K, Records Retention and Management, of the applicable Contract for Charter states

“Charterholder shall implement a records management system that conforms to the system required of school districts under the Local Government Records Act, Section 201.001, et seq., Local Government Code, and rules adopted thereunder; provided, however, that records subject to audit shall be retained and available for audit for a period of not less than five (5) years from the latter of the date of termination or renewal of the charter.”

*Condition*

Anywhere Charter Holder (the corporation) did not maintain adequate documentation to support certain disbursements from charter school funds. Specifically, the corporation did not require that original receipts be filed before the payment of amounts owed on charter school credit card accounts.

Total amount of unsupported expenditures: \$xx,xxx

*Effect*

Charter school funds were used to pay unsupported expenditures and, consequently, the charter school was unable to adequately account for the disbursement of funds. The corporation may have violated the Contract for Charter.

*Recommendation*

The corporation must maintain adequate documentation to ensure that disbursements are adequately supported. Corporation employees should be adequately trained and supervised to ensure that the accounting policies and procedures are followed in a proper and timely manner. The corporation should use local funds to reimburse the state and federal programs that paid for the unsupported transactions.

*Management Response*

The corporation will train staff to ensure that they are knowledgeable of the corporation’s accounting policies and procedures. The management of the corporation will monitor employee adherence to these guidelines and rules. The corporation will reimburse the state and federal programs the amount of \$xx,xxx for the supported transactions identified by the auditor.

*Status*

Auditors did not identify any additional lapses in documentation requirements. The corporation reimbursed the applicable state and federal programs the amount of \$xx,xxx.

*Management’s Explanation for not implementing the Recommendation*

N.A.

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**Sample Schedule of Expenditure of Federal Awards**

Exhibit H-1

Anywhere Charter Holder  
 Schedule of Expenditure of Federal Awards  
 For the Year Ended August 31, 20BB

Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Education</u>			
Passed Through State Department of Education:			
ESEA Title I Part A	84.010	xxxxxx	xxx,xxx
ESEA Title X	84.206	xxxxxx	<u>    x,xxx</u>
Total State Department of Education			xxx,xxx
<u>United States Department of Agriculture</u>			
Passed through State Department of Education:			
National School Lunch	10.555	n/a	xx,xxx
School Breakfast Program	10.553	n/a	<u>    xx,xxx</u>
Total State Department of Education			xx,xxx
Total Expenditures of Federal Awards			<u>\$ xxx,xxx</u>

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**Sample Notes to the Schedule of Expenditure of Federal Awards**

Anywhere Charter Holder  
Notes to the Schedule of Expenditure of Federal Awards  
For the Year Ended August 31, 20BB

Note 1: Standard Financial Accounting System

For all federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

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**APPENDIX 4: SUMMARY OF TEXAS ADMINISTRATIVE CODE COMMISSIONER'S RULES REGARDING OPEN ENROLLMENT CHARTER SCHOOLS**

Division 1. General Provisions

- §100.1011. Definitions
- §100.1013. Filing of Documents
- §100.1015. Applicants for an Open-Enrollment Charter or Public Senior College or University Charter
- §100.1017. Application to Public Senior College or University Charters

Division 2. Commissioner Action and Intervention

- §100.1021. Adverse Action on an Open-Enrollment Charter
- §100.1022. Standards for Adverse Action on an Open-Enrollment Charter
- §100.1023. Intervention Based on Charter Violations
- §100.1025. Intervention Based on Health, Safety, or Welfare of Students
- §100.1027. Accountability Ratings and Sanctions
- §100.1029. Agency Audits, Monitoring, and Investigations
- §100.1031. Charter Renewal
- §100.1033. Charter Amendment
- §100.1035. Compliance Records on Nepotism, Conflicts of Interest, and Restrictions on Serving
- §100.1037. Notification of Charter Application

Division 3. Charter School Funding and Financial Operations

- §100.1041. State Funding
- §100.1043. Status and Use of State Funds; Depository Contract
- §100.1045. Investment of State Funds
- §100.1047. Accounting for State Funds
- §100.1049. Disclosure of Campaign Contributions
- §100.1051. Audit by Commissioner; Records in the Possession of a Management Company

Division 4. Property of Open-Enrollment Charter Schools

- §100.1063. Use of Public Property by a Charter Holder
- §100.1065. Property Acquired with State Funds Received Before September 1, 2001--Special Rules
- §100.1067. Possession and Control of the Public Property of a Former Charter Holder
- §100.1069. Rights and Duties Not Affected
- §100.1071. Real Property Held in Trust
- §100.1073. Improvements to Real Property

Division 5. Charter School Governance

- §100.1101. Delegation of Powers and Duties
- §100.1102. Training for Members of Governing Bodies of Charter Holder and School
- §100.1103. Training for Chief Executive and Central Administrative Officers
- §100.1104. Training for Campus Administrative Officers
- §100.1105. Training for Business Managers

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- §100.1106. Exemption for Participation in a Shared Services Cooperative
- §100.1107. Course Providers
- §100.1108. Record of Compliance and Disclosure of Non-compliance
- §100.1111. Applicability of Nepotism Provisions; Exception for Acceptable Performance
- §100.1112. General Nepotism Provisions
- §100.1113. Relationships By Consanguinity or By Affinity
- §100.1114. Nepotism Prohibitions
- §100.1115. Nepotism Exceptions
- §100.1116. Enforcement of Nepotism Prohibitions
- §100.1131. Conflicts of Interest and Board Member Compensation; Exception
- §100.1132. General Conflict of Interest Provisions
- §100.1133. Conflicts Requiring Affidavit and Abstention From Voting
- §100.1134. Conflicts Requiring Separate Vote on Budget
- §100.1135. Acting as Surety and other Conflicts; Criminal Penalties
- §100.1151. Criminal History; Restrictions on Serving
- §100.1153. Substantial Interest in Management Company; Restrictions on Serving
- §100.1155. Procedures for Prohibiting a Management Contract
- §100.1157. Loan from Management Company Prohibited
- §100.1159. Public Records Maintained by Management Company; Contract Provision

Division 6. Charter School Operations

- §100.1201. Voluntary Participation in State Programs
- §100.1203. Records Management
- §100.1205. Procurement of Professional Services
- §100.1207. Student Admission
- §100.1209. Municipal Ordinances
- §100.1211. Students
- §100.1213. Failure to Operate
- §100.1215. Instructional Facilities
- §100.1217. Eligible Entity; Change in Status

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**APPENDIX 5: HELPFUL LINKS**

[TEA Charter Schools Division website](#)

[Charter School Funding Template](#)

[Student Attendance Accounting Handbook](#)

[Internal Revenue Service Tax Information for Non-profits \(IRS\)](#)

[TEA Grants Management Resources](#)

[Teacher Retirement System \(TRS\)](#)

[Texas Administrative Code \(TAC\)](#)

[Texas Education Code, Chapter 12, Charters](#)

[TEA Payment Report](#)

[Internal Revenue Service Employment Tax Publications](#)