Financial Accountability System Resource Guide, Update 20

Module 2: Special Supplement—Charter Schools

Texas Education Agency
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Financial Accountability System Resource Guide, Update 20
Module 2: Special Supplement—Charter Schools

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2.1 Overview

2.1.1 Introduction

This module 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 this module 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 this module may not apply to the non-charter school programs, functions, services, and/or activities of the charter holder. The Texas Education Code (TEC), §12.104, discusses some specific requirements applicable to open-enrollment charter schools.

2.1.2 Applicability

The charter school modules 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 the 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. §501(c)(3)).

The financial accounting and reporting requirements discussed in the charter school modules do not apply to open-enrollment charter schools operated by:

- an institution of higher education defined in the TEC, §61.003, as any public technical institute, public junior college, public senior college or university, medical or dental unit, public state college, or other agency of higher education as defined in the section; or
- a governmental entity.

An open-enrollment charter school operated by an institution of higher education (that is not private or independent) or a governmental entity must adhere to the financial accounting and reporting requirements discussed in the other modules of the FASRG.

2.1.3 Definitions

This module will use the following definitions.

- “Charter school” means open-enrollment charter school as defined in the TEC, Chapter 12.
- “Governing body of the charter school” means governing body of an open-enrollment charter school as defined above.

- “Charter school official” means an officer of an open-enrollment charter school as defined above.
- “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:
    - 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.
- “Federal funds” means funds paid by the Texas Education Agency (TEA) and received by the charter holder pursuant to a federal award granted to the charter holder.
- “Federal property” means any real or personal property purchased or leased with federal funds.
- “Public funds” means funds paid by TEA and received by the charter holder pursuant to the TEC, §12.106.
- “Public property” means any real or personal property purchased or leased with public funds.
- “Real property” means real estate as defined in 19 Texas Administrative Code (TAC) §100.1001(24).
- “Personal property” means personal property as defined in 19 TAC §100.1001(22).

The following definitions are in accordance with the TEC, §12.1012:

- "Charter holder" means the entity to which a charter is granted under the TEC, Chapter 12.
- "Governing body of a charter holder" means the board of directors, board of trustees, or other governing body of a charter holder.
- "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.
- "Management company" means a person, other than a charter holder, who provides management services for an open-enrollment charter school.
- "Management services" means services related to the management or operation of an open-enrollment charter school, including:

    - planning, operating, supervising, and evaluating the school's educational programs, services, and facilities;
    - making recommendations to the governing body of the school relating to the selection of school personnel;
    - managing the school's day-to-day operations as its administrative manager;
    - preparing and submitting to the governing body of the school a proposed budget;
    - 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

  - providing leadership for the attainment of student performance at the school based on the indicators adopted under the TEC, §39.053 and §39.301, or by the governing body of the school.

- "Officer of an open-enrollment charter school" means:
  - the principal, director, or other chief operating officer of an open-enrollment charter school;
  - an assistant principal or assistant director of an open-enrollment charter school; or
  - a person charged with managing the finances of an open-enrollment charter school.

2.2 Financial Accounting and Reporting

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.

2.2.1 Authority

2.2.1.1 Generally Accepted Accounting Principles (GAAP)

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 nonprofit entities. For additional information, see https://asc.fasb.org/.

In the absence of specific guidance in this module, the charter holder is to follow GAAP.

2.2.1.2 Texas Education Code

An open-enrollment charter school is subject to state laws and rules governing public schools unless otherwise stated (TEC, §12.103).

The TEC, §12.106(c), allows the commissioner to adopt rules to provide and account for state funding of open-enrollment charter schools.

As stated in the TEC §12.1162, if TEA conducts a special accreditation investigation and determines that an open-enrollment charter school fails to satisfy generally accepted accounting standards of fiscal management, TEA may:

- Withhold funding temporarily.
- Suspend the authority of the charter school to operate.
- Take other reasonable actions the commissioner determines necessary.
- Take any of the actions described by the TEC, §39.102(a).

2.2.1.3 Texas Administrative Code

Title 19 of the Texas Administrative Code (TAC) §100.1047 provides rules for accounting for state and federal funds for open-enrollment charter schools. A charter holder must comply fully with:

- GAAP;
- the Financial Accountability System Resource Guide, as adopted by 19 TAC §109.41;
- federal standards for financial management systems, 34 Code of Federal Regulations (CFR), §80.20, Office of Management and Budget (OMB) Circular A-87, and/or other applicable federal standards; and
- the financial accountability rating system (Charter FIRST) specified in 19 TAC §109.1001.

A charter holder must keep separate and distinct accounting, auditing, budgeting, reporting, and recordkeeping systems for the management and operation of the charter school.

2.2.2 State Funds

Funds received under the TEC, §12.106 (state funding) after September 1, 2001, by a charter holder are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school and may be used only for a purpose for which a school may use local funds under the TEC, §45.105(c).[1]

Charter schools must account for these state funds using net asset code 420 – Foundation School Program and other State Aid, which is used for all public funds received and state aid that is not reported under net asset codes 380-480. See Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts.

2.2.2.1 Use of State Funds

As mandated in the TEC, §12.107, state 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 authorized in the TEC, §45.105(c):

- purchasing appliances and supplies
- paying insurance premiums
- paying janitors and other employees
- buying school sites

[1] This provision was stated in the TEC, §12.107, which was added by HB 6, 77th Legislative Session.

- buying, building, repairing, and renting school buildings, including acquiring school buildings and sites by leasing through annual payments with an ultimate option to purchase
- other purposes necessary in the conduct of the public schools determined by the board of trustees

Special Allotments

In addition to the requirements noted above, state funds designated for a specific purpose must be used for purposes consistent with the applicable requirements of the program. Certain Foundation School Program (FSP) funds paid to the charter holder may represent special allotments for:

- special education
- bilingual education or special language
- early education
- career and technology education
- gifted and talented education
- students with dyslexia or related disorder
- college, career, or military readiness

Maintenance of Records

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 the 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.

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.

2.2.2.2 Adjustments to Funds

As provided for in the TEC, §12.106, the charter holder is entitled to receive state funds from the Foundation School Program (FSP) for the operation of its charter school(s). However, 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.

Audits

19 TAC §100.1043 authorizes TEA to conduct routine audits, monitoring, and other investigations of the charter school or charter holder to determine compliance with the terms of the open-enrollment charter, with the terms of federal or state grants, or as authorized in the Texas Education Code or other law.

Student Attendance Accounting

Charter school attendance records may be audited by TEA. 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 19 TAC §100.1043, 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 Schedules S-D and G-R.

Expansion Amendment

According to 19 TAC §100.1061(c), if a charter holder, before or without approval for an expansion amendment under 19 TAC §100.1035 (relating to Charter Amendment), extends the grade levels it serves, adds or changes the address of a campus, facility, or site, expands its geographic boundaries, or exceeds its maximum allowable enrollment, then the charter holder is not eligible to receive state funds for the activities of the unapproved amendment of its charter school operations (such as receive funds or 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 TEA 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 State Funding Division will adjust the charter school's current fiscal year's allocation upon receiving the final audit report from the TEA division conducting the audit, unless the report is received during

the final quarter of the current fiscal year. If the final audit report is received during the 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.

2.2.3 Federal Funds

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. As stated in 19 TAC §100.1067, a charter holder that receives federal funds must comply fully with federal standards for financial management systems, 34 CFR, §80.20, Office of Management and Budget (OMB) Circular A-87, and/or other applicable federal standards.

2.2.4 Account Code Structure

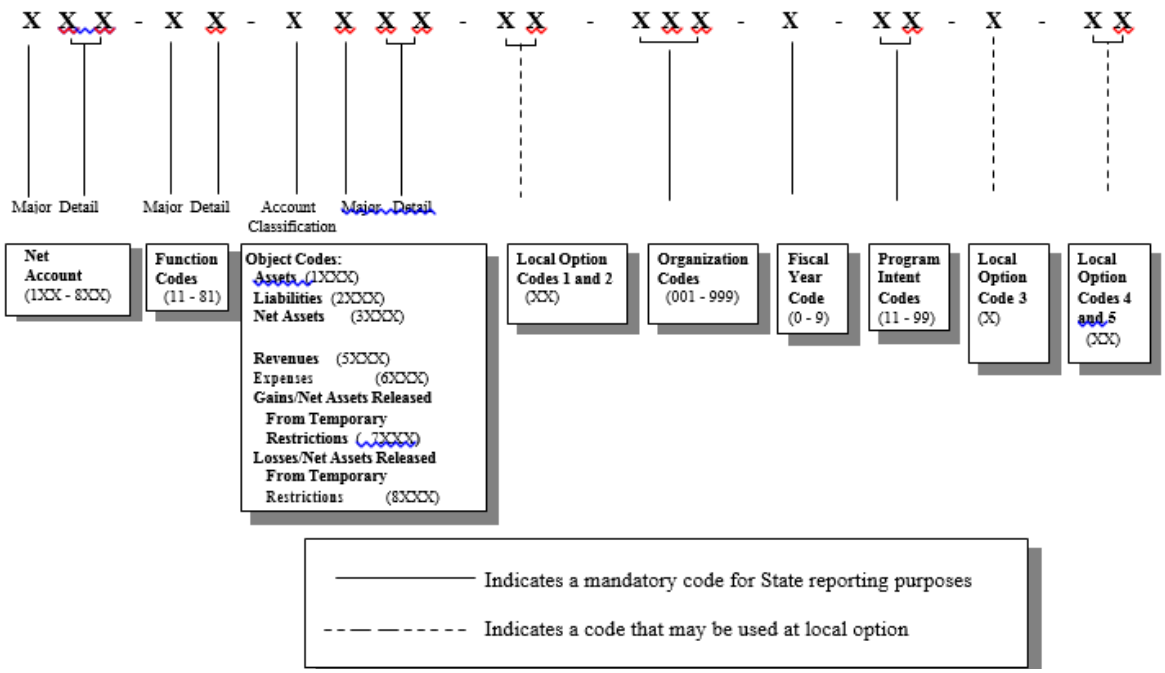
Charter schools must adopt a standard financial accounting system. The financial accounting system must meet at least the minimum requirements prescribed by the State Board of Education and also be subject to review and comment by the state auditor. Additionally, the financial accounting system must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

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.

With the exception of the codes that may be used at local option, nonprofit and private or independent institutions of higher education charter schools must use the account code structure as described in the Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts. Failure to use the account code structure as discussed in the Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts should be disclosed in the Schedule of Findings and Questioned Costs as a noncompliance issue.

Exhibit 2.2.4.A illustrates the account code structure that charter schools should use.

Exhibit 2.2.4.A **Account Code Structure**



2.2.5 Financial Statement Elements

Local Government Code, §140.005, requires the governing body of a charter school to prepare an annual financial statement showing the following 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
- 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.

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.

2.2.5.1 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.

According to 100 TAC §100.1065 a charter holder should 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 should 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 should invest state funds in accordance with any applicable provision or covenant contained in a debt instrument, bond indenture, or similar agreement.

Nothing in 100 TAC §100.1065 authorizes 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 should 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 should be governed by the following investment objectives, in order of priority:

- preservation and safety of principal
- liquidity
- yield

2.2.5.2 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.

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

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 schools should maintain accurate capital asset records that include the following information:

- a description of the capital asset
- manufacturer's serial number, model number, federal stock number, national stock number, or other identification number
- local, state, and/or federal funds used to acquire the capital asset
- whether title vests in the charter school, the state government, or the federal government.
- acquisition date (or date received, if the equipment was furnished by a donor) and cost
- 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)
- 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)
- unit acquisition cost
- 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.

Public Property

The TEC, §12.128, states that property purchased or leased with funds received by a charter holder under the TEC, §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 Exhibit B.11.a – Sample Schedule of Assets for Individual Charter School 1) 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. 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.

2.2.5.3 Net Assets

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 received pursuant to grants from local governmental and nongovernmental entities, and other sources, such as income from investments
- state sources, such as FSP 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 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.

FASB Accounting Standards Codification (ASC) 958-225-45 (Other Presentation Matters) indicates that the reclassification of net assets attributable to the expiration of donor-imposed restrictions should be reported as separate items.

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 the TEC, §45.105(c), (see 2.2.2.1 Use of State Funds 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.[2]

2.2.5.4 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).

2.2.6 Cost Allocations

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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[2] FASB ASU 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 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.

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.

2.2.6.1 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.

2.2.6.2 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.

2.2.7 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) nonprofit entity.

2.2.7.1 Shared Service 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 Financial Accounting and Reporting Appendices and Texas Education Data Standards (TEDS) for school districts (as government entities) to record and report the results of operations of shared service arrangements. This guidance does not apply to nonprofit charter schools since they are 501(c)(3) entities rather than government entities; therefore, nonprofit 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.

2.2.7.2 On-behalf Payments

Direct payments made by a paying entity on behalf of another, legally separate entity (employer entity) to a third-party recipient which relate to fringe benefits or salaries ("on-behalf payments") must be recognized as revenues and expenditures/expenses by the recipient employer entity. As a result, payments (contributions) made by the state (the "paying entity") to the TRS (the third-party recipient) on behalf of a charter school (an "employer entity") must be recorded as equal revenues and expenditures/expenses of the school district. This section provides a discussion of on behalf payments and methods for calculating and accounting for them.

Overview of Teacher Retirement Contributions and Payments

Employees of a charter school that are eligible for teacher retirement have a percentage of their salaries withheld to be paid to the TRS. In addition, the state pays matching funds to the TRS on behalf of the employees. The "matching amount" is not always equal to the deducted amount. For example, 8.35 percent may be deducted from employee gross pay (7.5 percent for teacher retirement and 1.25 percent for TRS-Care, the TRS health plan for retired employees) and the state may match with 7.5 percent for retirement and 1.25 percent for TRS-Care for a total matching amount of 8.75 percent. For a complete listing of contribution rates, see Reporting Contribution Rates on the TRS website. Charter schools (rather than the state) must pay the matching amounts for charter school employees that are paid from federal funds. Additionally, under certain circumstances, the charter school must pay a portion of the matching amounts for professional employees paid from non-federal sources. The matching amounts that are not paid by charter schools are paid by the state of Texas. These matching amounts paid by the state on behalf of a charter school's employees must be recorded by the school district as on-behalf payment revenues and expenditures. For more information on TRS contributions and reporting requirements, refer to the TRS payroll reporting manual.

On-behalf Payments

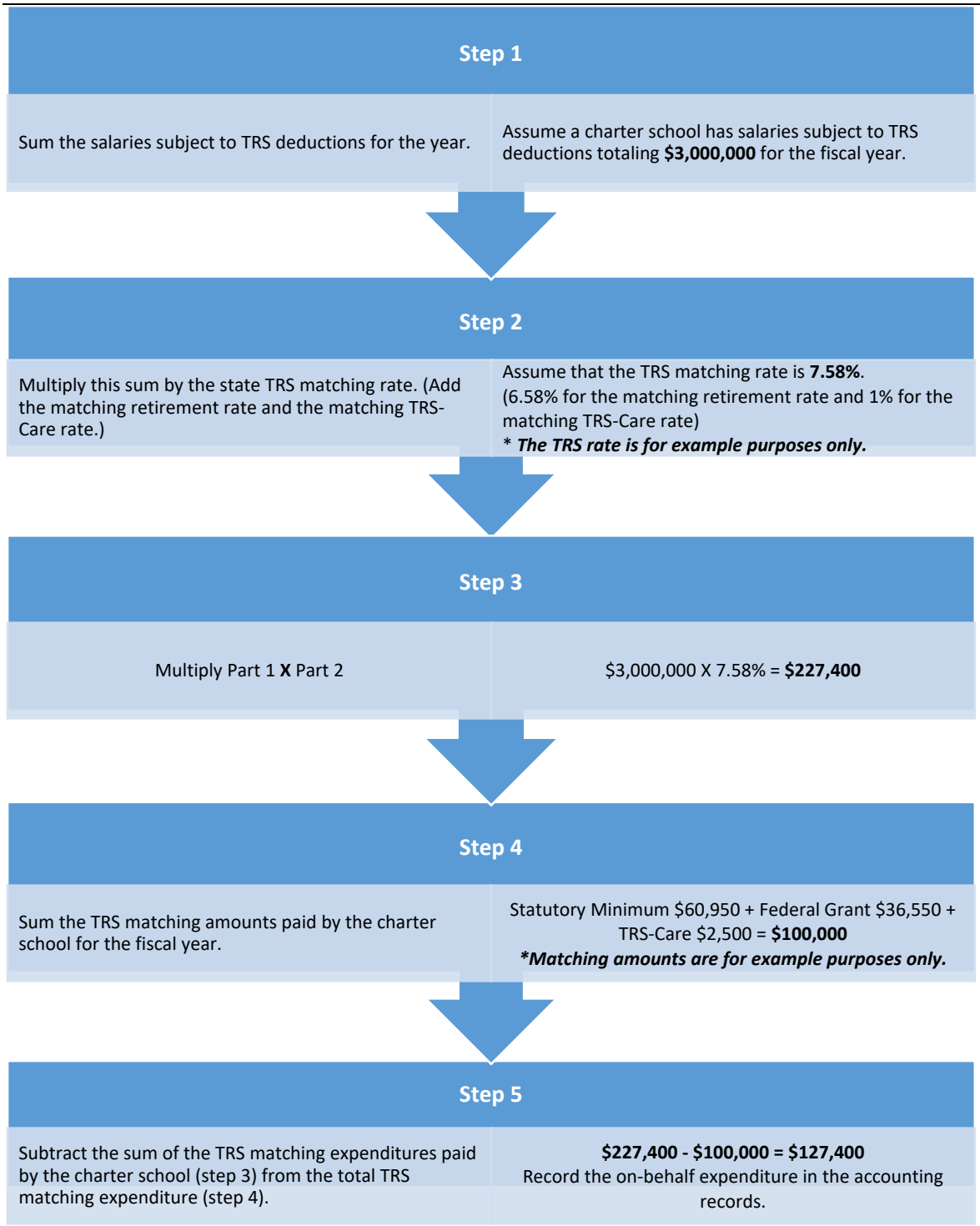
One method for calculating the amount of on-behalf revenue and expenditure/expense is as follows:

1. Sum the employee salaries, both from federal and non-federal sources, subject to TRS deductions for the fiscal year.
2. Multiply this sum by the state TRS matching rate (add the retirement rate and the TRS-Care rates). This product is the total TRS matching expenditure paid, regardless of who paid the matching amount.

3. Sum the TRS matching amounts paid by the charter school for the fiscal year, including the statutory minimum matching, federal grant matching, private grant, 90-day new employee, and TRS-Care matching.
4. Subtract the sum of the TRS matching amounts paid by the charter school (step 3) from the total TRS matching expenditure paid. The remainder is the amount of matching expenditure that must be recorded by the charter school as an on-behalf expenditure.
5. Record the expenditure in the accounting records.

An example of how to implement this method of calculating the on-behalf expenditure is found in Exhibit 2.2.7.2.A.

Exhibit 2.2.7.2.A Possible Methodology for Calculation and Recording On-behalf Payment Expenditures



End of Exhibit 2.2.7.2.A

2.2.7.3 Accounting for Leases

A lease is a contract, or part of a contract, that conveys the right to use the identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. FASB requires a lessee to recognize a **right-of-use asset** and a **lease liability** for the lease term. Accounting for the different types of leases is described below. Note that payments to be made in optional periods should be included in the measurement of the underlying asset only if the lessee is *reasonably certain*[3] to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option.

For short-term leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

Lessee Accounting

A lessee should classify a lease as a **finance lease** when the lease meets any of the criteria below at lease commencement. If none of these criteria are met, the lease should be classified as an **operating lease**.

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion should not be used for purposes of classifying the lease.
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.
- The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Finance Leases

A lessee should recognize a right-of-use asset and a lease liability for finance leases, initially measured at the present value of the lease payments, in the statement of financial position. Additionally, a lessee should recognize interest on the lease liability separately from amortization of the right-of-use asset. A lessee should classify repayments of the principal portion of the lease liability within financing activities

[3] FASB ASU 2016-02, Leases (Topic 842)

and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

Operating Leases

A lessee should recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the lease payments, in the statement of financial position. Additionally, a lessee should recognize a single lease cost, calculated so that the costs of the lease is allocated over the lease term on a generally straight-line basis. A lessee should classify all cash payments within operating activities in the statement of cash flows.

Lessor Accounting

- A lessor should classify a lease as a **sales-type lease** when the lease meets any of the criteria below at lease commencement. If none of these criteria are met, the lease should be classified as either a **direct financing lease** or an **operating lease**.
- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion should not be used for purposes of classifying the lease.
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.
- The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

A lessor should recognize lease income for sales-type and direct financing leases in accordance with FASB guidance for each type of lease.

Sales-Type Leases

At the commencement date, a lessor should measure the net investment in a sales-type lease to include the lease receivable[4] and the unguaranteed residual asset at the present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term that is not guaranteed by the lessee or any other third party unrelated to the lessor, discounted using the rate implicit in the lease. A lease receivable is a lessor's right to receive lease payments plus any amount that a lessor expects to derive from the underlying asset following the end of the lease term to the extent that it is

[4] FASB ASU 2016-02, Leases (Topic 842)

guaranteed by the lessee or any other third party unrelated to the lessor, measured on a discounted basis.

Direct Financing Leases

At the commencement date, a lessor should measure the net investment in a direct financing lease to include the lease receivable less the amount of any selling profit.

2.2.8 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. 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:[5]

- 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;
- the data and/or reports needed to ensure that state and federal reporting requirements are met (e.g., TSDS PEIMS, Single Audit, expenditure reports);

[5] 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.

- 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 Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts;
- 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.

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.

2.2.9 Data Submission Requirements

The intent of this section is to provide the charter holder, the charter school, and independent auditors with information and guidance regarding reporting requirements.

The charter holder is required to submit:

- a financial and compliance report;
- a data feed;
- 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; and
- TSDS PEIMS and other reports as required by individual TEA divisions. The TSDS PEIMS data is required for submission to TEA in four separate reports throughout the year. For further information on the TSDS PEIMS submissions, see the Texas Education Data Standards.

2.2.9.1 Annual Financial and Compliance Report

Submission Requirement

As provided in the 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 Financial Compliance Division within 150 days following the end of the charter school's fiscal year. If the charter holder has a fiscal year-end different from the charter school's fiscal year-end, it must submit the financial and compliance report to TEA within 150 days following the end of the charter school's fiscal year. The charter holder must also submit its latest complete audited annual financial report for the not-for-profit organization as a whole.

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.[6] 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.
If the governing body of the charter holder declines or refuses to approve the independent auditor's report, it must nevertheless file with TEA a copy of the financial and compliance report with a detailed statement discussing the reasons for failing to approve the report.

Method of Submission

Effective September 24, 2012, TEA requires that charter holders file the financial and compliance report in electronic format only, rather than in both electronic and paper formats. The financial and compliance report must be filed in a specified electronic file type. Instructions on this requirement can be found in the Electronic Report Submission Standards document.

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 Financial Compliance 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 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.

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 the TEC, §44.008, TEA cannot grant extensions nor waive this filing requirement.

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[6] 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.

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.

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 Financial Compliance Division may recommend that TEA consider administrative action against the charter holder. The Financial Compliance Division may also conduct an investigation of the charter holder's financial accounting practices and compliance with state and federal program requirements.

2.2.9.2 Data Feed

In addition to submitting an AFR as a PDF, charter schools must also submit its financial data in a data feed. As stated in 19 TAC §109.1001(f), charter school financial data must be submitted to TEA within 30 days of a charter school's AFR's due date or it will not meet the financial accountability standards.

Instructions for submitting the data feed and the standards for the data feed are available on the Financial Compliance Division's Electronic Submissions webpage.

2.2.9.3 TSDS PEIMS

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 TSDS PEIMS. The audit procedures are to be adequate to detect material errors in the charter school's fiscal data to be reported through the TSDS 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 TSDS PEIMS submission. For further guidance on the TSDS PEIMS audit procedures, refer to Module 4: Auditing.

See Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts.

2.2.9.4 Single Audit and Data Collection Form (Form SF-SAC)

The Single Audit Act of 1984, also known as the OMB A-133 audit and amended by Title 2, Code of Federal Regulations (CFR), Chapter II Office of Management and Budget Guidance, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, §200.501, requires a non-federal entity that expends $1,000,000 or more during the non-federal entity's fiscal year in federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part. The $$1,000,000 threshold is effective for federal funds expended for

auditee fiscal years beginning on or after October 1, 2024. 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).

If the charter holder fails to file an annual 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 2 CFR Part 200, Subpart F – Audit Requirements.

All charter holders that expend $1,000,000 or more in direct or indirect federal awards must submit a Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments, Indian Tribes, Institutions of Higher Education and Nonprofit Organizations electronically to the Federal Audit Clearinghouse.

2.3 Annual Financial and Compliance Report (AFR)

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 TSDS PEIMS. The audit procedures are to be adequate to detect material errors in the charter school's fiscal data to be reported through the TSDS PEIMS system for the fiscal period under audit.

The financial and compliance report discussed in this section represents a critical monitoring instrument that enables 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/her written opinion and other reports, constitute an important element of TEA's risk assessment process and enables 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.

2.3.1 Auditor Requirements

2.3.1.1 Licensing

The charter holder must have the audit performed by an independent auditor associated with a CPA firm that has a current, valid license issued by the Texas State Board of Public Accountancy or another state licensing authority. Module 4: Auditing includes an in-depth discussion concerning the audit process and addresses specific topics including audit requirements and preparation for the audit.

2.3.1.2 Retention of Working Papers

The auditor should 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 TEA to extend the retention period.

2.3.1.3 Access to Working Papers

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

2.3.2 Components of the AFR

The charter holder should prepare or approve a report of the financial activity of the corporation for the preceding year. State law and the contract for the 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 a whole. FASB ASC 958 also recognized the special-purpose needs of regulatory bodies that cannot be met by general-purpose financial statements.

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 (Exhibit B.1),
2. Independent Auditor's Report (Exhibit B.2),
3. Statement of Financial Position (Exhibit B.3),
4. Statement of Activities (Exhibit B.4),
5. Statement of Functional Expenses for Charter Holder (Exhibit B.4a)
6. Statement of Cash Flows for Charter Holder (Exhibit B.5),
7. Notes to the Financial Statements (Exhibit B.6),
8. Statement of Financial Position for Individual Charter School (Exhibit B.7),
9. Statement of Activities for Individual Charter School (Exhibit B.8),
10. Statement of Cash Flows for Individual Charter School (Exhibit B.9),
11. Schedule of Expenses for Individual Charter School (Exhibit B.10),
12. Schedule of Assets for Individual Charter School (Exhibit B.11),
13. Budgetary Comparison Schedule for Individual Charter School (Exhibit B.12),
14. 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 (Exhibit B.13),

15. Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance (Exhibit B.14),
16. Schedule of Findings and Questioned Costs (Exhibit B.15),
17. Schedule of Prior Audit Findings (Exhibit B.16),
18. Corrective Action Plan (if applicable),
19. Schedule of Expenditure of Federal Awards (Exhibit B.17) (if applicable),
20. Notes to the Schedule of Expenditure of Federal Awards (Exhibit B.18) (if applicable),
21. Schedule of Real Property Ownership Interest (Exhibit B.19) (if applicable),
22. Schedule of Related Party Transactions (Exhibit B.20) (if applicable), and
23. Schedule of Related Party Compensation and Benefits (Exhibit B.21) (if applicable).
24. Use of Funds Report - Select State Allotment Programs (Exhibit B.22)

FASB Requirements – Reporting on Entity as a Whole

The Statement of Financial Position (Exhibit B.3), Statement of Activities (Exhibit B.4), Statement of Functional Expenses (Exhibit B.4a) (or an analysis of expenses by both their natural classification and their functional classification on the face of the Statement of Activities or in the notes to the financial statements), Statement of Cash Flows (Exhibit B.5), 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.

State Requirements – Reporting on Individual Schools

The Statement of Financial Position for Individual Charter School (Exhibit B.7), Statement of Activities for Individual Charter School (Exhibit B.8), Statement of Cash Flows for Individual Charter School (Exhibit B.9), Schedule of Expenses (Exhibit B.10), Schedule of Assets (Exhibit B.11), Budgetary Comparison Schedule (Exhibit B.12), Schedule of Findings and Questioned Costs (Exhibit B.15), Schedule of Real Property Ownership Interest (Exhibit B.19, if applicable), Schedule of Related Party Transactions (Exhibit B.20, if applicable), and Schedule of Related Party Compensation and Benefits (Exhibit B.21, if applicable) must be prepared for each individual charter school operated by the charter holder having a separate six-digit county-district number. These exhibits and the certification of board represent special-purpose statements necessary for 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 TEDS.

Generally Accepted Auditing Standards Requirements

The independent auditor's report is required pursuant to generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants.

Generally Accepted Government Auditing Standards Requirements

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 (Exhibit B.13) is required pursuant to generally accepted government auditing standards as promulgated by the United States Government Accountability Office.

Code of Federal Regulations Requirements

The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with 2 CFR, §200, Subpart F (Exhibit B.14), Schedule of Findings and Questioned Costs (Exhibit B.15), Corrective Action Plan, and Schedule of Expenditure of Federal Awards (Exhibit B.17), and the notes to the schedule of expenditure of federal awards are required pursuant to 2 CFR, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

2.3.2.1 Certificate of the Board

The certificate of board is a required component of the financial and compliance report and must include the signatures, original or electronic,[7] 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.

See Exhibit B.1 – Sample Certificate of Board.

2.3.2.2 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.

See Exhibit B.2 – Sample Independent Auditor's Report.

2.3.2.3 Statement of Financial Position

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-

[7] Electronic Signatures in Global and National Commerce Act, 12 CFR, §609.910

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 Exhibit B.3 – Sample Statement of Financial Position and Exhibit B.7 – Sample Statement of Financial Position for Individual Charter School.

2.3.2.4 Statement of Activities

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 Module 3: Special Supplement—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 Exhibit B.4 – Sample Statement of Activities and Exhibit B.8 – Sample Statement of Activities for Individual Charter School.

2.3.2.5 Statement of Cash Flows

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 Exhibit B.5 – Sample Statement of Cash Flows and Exhibit B.9 – Sample Statement of Cash Flows for Individual Charter School.

2.3.2.6 Schedule of Expenses

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 Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts.

See Exhibit B.10 – Sample Schedule of Expenses.

2.3.2.7 Schedule of Assets

The financial and compliance report must include a schedule of 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 include cash and cash equivalents (object code 1110), investments (object code 1120), and capitalized assets (excluding accumulated depreciation) by major object code, as defined in Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts. This schedule must be supported locally with records that adhere to the requirements discussed in 2.2.5.2 Capital Assets (Capital Asset Records). Also, refer to 2.2.5.2 Capital Assets (Public Assets) for the requirement to reconcile amounts from this schedule to the Statement of Financial Position if the capital asset amounts differ.

See Exhibit B.11 – Sample Schedule of Assets.

2.3.2.8 Budgetary Comparison Schedule

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 Module 3: Special Supplement—Nonprofit Charter School Chart of Accounts. If the exhibit discloses a variance(s) between the final budgeted amounts and the actual amounts that exceed 10 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 Exhibit B.12 – Sample Budgetary Comparison Schedule.

2.3.2.9 Schedule of Findings and Questioned Costs

The financial and compliance report must include a schedule of findings and questioned costs for each individual charter school operated by the charter holder.

Disclosures

This special-purpose schedule must disclose:

- a summary of the auditor's results, which should include:
    - the type of report the auditor issued on the financial statements of the auditee (i.e., unmodified opinion, modified opinion, adverse opinion, or disclaimer of opinion);
    - 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;

- a statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;
- findings relating to the financial statements which are required to be reported in accordance with generally accepted government auditing standards; and
- findings and questioned costs for state and federal awards.

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 2 CFR, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Findings

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

- a reference number
- a description of the source of funds by net asset code and net asset code description
- the criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation
- 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;
- the total dollar amount of questioned costs
- the effect or possible effect of the deficiency(s)
- recommendations to prevent future occurrences of the deficiency(s) identified in the audit finding and how to address past deficiency(s)
- 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

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

See Exhibit B.15 – Sample Schedule of Findings and Questioned Costs.

2.3.2.10 Schedule of Prior Audit Findings

The Schedule of Prior Audit Findings is required if the charter holder is subject to the Single Audit Act and must conform to the requirements discussed in 2 CFR, §200.511(b), Summary schedule of prior audit findings.

See Exhibit B.16 – Sample Schedule of Prior Audit Findings.

2.3.2.11 Corrective Action Plan

The Corrective Action Plan is required if the charter holder is subject to the Single Audit Act and must conform to the requirements discussed in 2 CFR, §200.511(c), Corrective action plan.

2.3.3 Required Audit Disclosures

The commissioner's rules concerning open-enrollment charter schools (19 TAC Chapter 100, Subchapter AA) require certain information to be separately disclosed in the annual audit report.

2.3.3.1 Training Requirements

The commissioner's rules concerning open enrollment charter schools require training for the following charter school officials (19 TAC §100.1115, §100.1117, §100.1119, and §100.1121):

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

19 TAC §100.1117, §100.1119, and §100.1121 contain specifications regarding the timing, course content, exemptions, and number of hours required.

According to 19 TAC §100.1127, the charter holder is required to separately disclose in the annual audit report 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 19 TAC §100.1115, §100.1117, §100.1119, and §100.1121 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.

2.3.3.2 Management Companies

A person may not serve 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, if the person has a substantial interest in a management company that has a contract for management services with the charter holder or a charter school.

Management Company Interest Disclosure

According to 19 TAC §100.1155, 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 should 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.

Management Company Loans and Credit Disclosure

19 TAC §100.1157(c) states that a charter holder must file a copy of each contract for management services, and each amendment, renewal or extension thereto, with the TEA division responsible for legal services for review under this section at least 30 calendar days prior to any performance or payments under the contract.

According to 19 TAC §10.1159, 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:

- that charter school; or
- 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. See 19 TAC §10.1159 for additional requirements regarding management company loans.

2.4 Compliance

The charter holder is responsible for compliance with the federal and state 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 these requirements and must identify any issues regarding compliance.

2.4.1 Federal Compliance

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR, Part 200) streamlines and consolidates government requirements for receiving and using federal awards. It was published in the Federal Register (79 Fed. Reg. 75871) on December 19, 2014, and became effective for new and continuation awards issued on or after December 26, 2014. Title 34 of the CFR, known as Education Department General Administrative Regulations (EDGAR), stipulates the federal administrative responsibilities of the state and its subgrantees.

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.

2.4.1.1 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 31 CFR, Part 205, Rules and Procedures for Efficient Federal-State Funds Transfers.

2.4.1.2 Budget

Federal grant requirements stipulate that the charter holder and/or charter school (the grantee) adhere to the budget approved by TEA included with the grant application submitted by the grantee. Specifically, 34 CFR, §76.770, requires each state to have procedures for reviewing and approving applications for subgrants and amendments to those applications, providing technical assistance, evaluating projects, and performing other administrative responsibilities the state has determined are necessary to ensure compliance with applicable statutes and regulations.

Generally, the grantee may amend the budget without submitting the amendment to 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 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 TEA.

2.4.2 State Compliance

The TEC, Chapter 12, as amended, authorizes the State Board of Education to grant charters. The TEC, Chapter 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 (TEC)
- the Texas Administrative Code (TAC)
- the Financial Accountability System Resource Guide (FASRG)
- the Student Attendance Accounting Handbook (SAAH)
- Texas Education Data Standards (TEDS)

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.

2.4.2.1 Nepotism

The TEC, §12.1055 (Applicability of Nepotism Laws), states that an open-enrollment charter school is subject to a prohibition, restriction, or requirement, as applicable, imposed by state law or by a rule adopted under state law, relating to nepotism under Government Code, Chapter 573.

Independent auditors must perform audit procedures to ascertain the applicability of Chapter 573 of the Government Code and to ensure compliance with its requirements. If 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 Local Government Code, §§171.003-171.007, with respect to a personnel matter as discussed in the 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 the TEC, §12.1055, Government Code, Chapter 573, and Local Government Code, §§171.003-171.007, to ensure that local policies comply with state law.

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

2.4.2.2 Conflicts of Interest

As discussed in the 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 should comply with Local Government Code, §§171.003-171.007.

Charter schools must adopt local policies addressing conflicts of interest. The charter school must refer to the TEC, §12.1054, and Local Government Code, Chapter 171, to ensure that local policies comply with state law. Also, refer to 19 TAC §§100.1143, 100.1145, 100.1147, 100.1149, and 100.1151 for further regulatory requirements.

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

2.4.2.3 Depository Contract

The 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. Also, see 19 TAC §100.1063(b) for rules relating to depository contracts and 19 TAC §100.1003 for rules on filing documents with TEA.

This information is required to be filed annually by December 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:

- the name of the charter holder and its corresponding federal employer identification number (FEIN)
- the name of the charter school and its corresponding county-district number
- the name of the bank and its corresponding FEIN
- the number assigned to the bank account to be used to deposit and disburse public funds;
- the date that the depository contract was executed
- 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 Compliance Division
1701 North Congress Avenue
Austin, TX 78701

According to Government Code, §2257.024, 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.

Government Code, §2257.002, defines the following items as 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
- a security in which a public entity may invest under Subchapter A, Chapter 2256

Additionally, it defines the following items as "eligible security":

- a surety bond
- an investment security
- 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
- a floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security
- a letter of credit issued by a federal home loan bank

Senate Bill 638, 81st Regular Legislative session, added Subchapter F to Chapter 2257 of the Government Code. This allowed for the establishment of a pooled collateral program to begin operations not later than the first business day of April 2010. Financial institutions are required to file reports with the Comptroller's office to ensure compliance with the collateral requirements.

2.4.2.4 Records Retention

Record and records mean any and all written, printed, electronic and/or magnetic material, both originals and copies, 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.

Records

Record and records also include the following types of documents.

- 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
  - 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
  - teacher class and/or work schedules

- 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
  - 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

- 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
  - 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
  - policy manual(s) adopted by the governing body

- 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
- 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 TEA 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.

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:

- 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;
- identify which of the records identified pursuant to 1 above are legally required to be retained and which records are retained for management purposes;
- 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;
- 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;
- identify which of the records identified pursuant to 1 above are deemed confidential, as discussed in Chapter 552 of the Government Code;
- identify the official custodian of records and state their duties and responsibilities;
- 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;
- require the development and maintenance of a records retention schedule;

- discuss the process for safeguarding and preserving records;
- 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
- 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 Sections 100.1161 and 100.1203(a)(3) of Title 19 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.

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 TEA 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 TEA 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 TEA personnel.

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). 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.

Transfer of Records

As discussed in the TEC, §12.1052(d), a charter holder that ceases to operate a charter school must 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).

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.

- an original internal accounting document that includes a notation that:
  - the disbursement was authorized by a charter holder or charter school official
  - the disbursement was authorized pursuant to the budget adopted by the governing body
  - the disbursement was classified in the financial accounting system
  - identifies the business purpose of the disbursement
  - identifies the check number of the account used to disburse the funds
- an original and complete third-party document

2.4.2.5 Texas Grant Management Standards

The Texas Grant Management Standards (TxGMS) replace the Uniform Grant Management Standards (UGMS) and 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 Texas Grant Management Standards are found on the Comptroller of Public Accounts website.

2.5 Budgeting

Charter schools must adopt a budgeting process that is consistent with the requirements discussed in the TEC, Chapter 44, Fiscal Management. Additionally, the Financial Accounting and Reporting (FAR) module of the Financial Accountability System Resource Guide (FASRG) includes information about budgeting.

In addition to the requirements discussed in the section 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 adopted budget must include all expenses and must be prepared in a manner consistent with the account code structure used by the charter school. The accounting code structure is illustrated in the FASRG, Module 3, Exhibit 3.1. 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 nonprofit charter school's adopted budget must be itemized in detail according to the classification and purpose of expenditure, at least at the fund and function level, using the accounting code structure specified in Module 3, Exhibit 3.1. In addition, the charter school's adopted budget must be on a 12-month basis. The adopted budget, as necessarily amended, must be filed with TEA through the TSDS PEIMS in the manner specified in the TEDS.

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.

2.6 Purchasing

The TEC, §12.1053, and federal regulations require that charter schools adhere to certain purchasing and contract statutory provisions.

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

Unless a charter school's charter describes procedures for purchasing and contracting approved by the State Board of Education, the 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.

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.

2.6.1 Real Property Held in Trust

This section is based on statutory requirements discussed in Government Code, Chapter 2252, Subchapter D, and 19 TAC §100.1071. The requirements discussed in Government Code, Chapter 2252, 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.

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 should 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.

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.

Confidentially

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

2.6.2 Competitive Procurement

Charter schools must adopt local policies addressing competitive procurement to ensure compliance with state and federal requirements and that purchases are made using a process that provides the best value for the charter school. Charters schools should refer to the TEC, §§44.031-44.901, for state laws on purchasing.

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 2 CFR, §§200.317-200.326, and Appendix II to 2 CFR, Part 200. Generally, 2 CFR, §200.318, requires the following:

- maintenance of a contract administration system
- maintenance of a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts
- local procedures that provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items
- ensure that awards are made only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement
- maintenance of records sufficient to detail the significant history of a procurement
- good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements, including, but not limited to, source evaluation, protests, disputes, and claims

Noncompliance

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

2.6.3 Competitive Procurement Procedures on Certain Public Works Contracts

This section is based on statutory requirements discussed in Local Government Code, Chapter 271, Subchapter B, as amended, and 19 TAC §1101. The requirements discussed in Local Government Code, Chapter 271, 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.

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 (Local Government Code, §271.024), the bidding on the contract must be accomplished as discussed in Local Government Code, Chapter 271, Subchapter B, 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.

Noncompliance

As discussed in Local Government Code, Chapter 271, Subchapter B, 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.

2.6.4 Professional Services

This section of the supplement is based on statutory requirements discussed in Government Code, Chapter 2254, Subchapter A, and 19 TAC §100.1205. The requirements discussed in Government Code, Chapter 2254, 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.

Professional Services Defined

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

- accounting
- architecture
- landscape architecture
- land surveying
- medicine
- optometry
- professional engineering
- real estate appraising
- professional nursing

This includes services provided by individuals licensed or registered as:

- a certified public accountant;
- an architect;
- a landscape architect;
- a land surveyor;
- a physician, including a surgeon;
- an optometrist;
- a professional engineer;
- a state certified or state licensed real estate appraiser; or
- a registered nurse.

Procedures for the Procurement of Professional Services

The charter school must adopt procedures that identify transactions subject to the requirements discussed in Government Code, Chapter 2254, Subchapter A, and 19 TAC §100.1205 and that discuss the steps that staff must take to ensure compliance with applicable law.

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.

2.6.5 Conflict of Interest Statements

Local Government Code, Chapter 176, provides information regarding conflict of interest statements to be filed by vendors and certain charter school employees. HB 23 passed by the 84th Legislature, 2015, made modifications to the requirements for conflict of interest statements in Local Government Code, Chapter 176, and requires charter schools to follow the requirements. Refer to the Texas Ethics Commission for additional information and sample forms.

2.7 Accountability

Each year, the commissioner of education will determine the accreditation status of each charter school, as determined by the TEC, §39.052. The charter's school's performance under the financial accountability rating system is one of the factors considered in the determination of the accreditation status.

The following laws and rules discuss the financial accountability rating system, determination of the accreditation status, and interventions and sanctions.

- 19 TAC §109.1001 (Financial Integrity Rating System of Texas (FIRST))
- 19 TAC §97.1055 (Accreditation Status)
- TEC, §39.052 (Accreditation Status)
- TEC, §39.082 (FIRST)
- TEC, §39.102 (Interventions and Sanctions)

According to 19 TAC §100.1049, the commissioner of education may either revoke the charter of an open-enrollment charter school or reconstitute the governing body of the charter holder if the commissioner determines that the charter holder:

- committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter, as determined under 19 TAC §100.1051;
- failed to satisfy generally accepted accounting standards of fiscal management, as determined in 19 TAC §100.1051;

- failed to protect the health, safety, or welfare of the students enrolled at the school, as determined in 19 TAC §100.1051 and 19 TAC §100.1047;
- failed to comply with the TEC, Chapter 12, Subchapter D, or another applicable law or rule, as determined in 19 TAC §100.1051;
- failed to satisfy the performance framework standards as set forth in the Charter School Performance Framework Manual established under the TEC, §12.1181, as determined in 19 TAC §100.1051; or
- is imminently insolvent as determined by the commissioner in accordance with 19 TAC §100.1051(c) of this title (relating to Standards to Revoke and Modify the Governance of an Open-Enrollment Charter).

See 19 TAC §100.1051, for the minimum financial performance required.

According to 19 TAC §100.1023, the commissioner of education should temporarily withhold state funds, suspend the authority of an open-enrollment charter school to operate, impose a sanction under the TEC, Chapter 39, Subchapter E, and/or take any other reasonable action the commissioner determines necessary, if the commissioner determines that a charter holder:

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

Additionally, the following laws discuss the criteria for not renewing a charter and revoking a charter.

- TEC, §12.1141 (Renewal, Denial of Renewal, or Expiration of Charter)
- TEC, §12.115 (Revocation or Modification of Governance)

2.8 Other Requirements

Other requirements for charter schools are discussed in this section.

2.8.1 Nonprofit Status

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

Appendix A: List of Acronyms

AFR – Annual Financial and Compliance Report

ALN – Assistance Listings Number

ASC – Accounting Standards Codification

CFR – Code of Federal Regulations

EDGAR – Education Department General Administrative Regulations

FASB – Financial Accounting Standards Board

FASRG – Financial Accountability System Resource Guide

FIRST – Financial Integrity Rating System of Texas

FSP – Foundation School Program

GAAP – Generally Accepted Accounting Principles

GASB – Governmental Accounting Standards Board

OMB – Office of Management and Budget

SAAH – Student Attendance Accounting Handbook

TAC – Texas Administrative Code

TEA – Texas Education Agency

TEC – Texas Education Code

TEDS – Texas Education Data Standards

TRS – Teacher Retirement System

TSDS PEIMS – Texas Student Data System Public Education Information Management System

TxGMS – Texas Grant Management Standards

UGMS – Uniform Grant Management Standards

Appendix B: Sample Financial and Compliance Report

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Exhibit B.2 – Sample Independent Auditor's Report

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Exhibit B.10.a – Sample Schedule of Expenses for Individual Charter School 1

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Exhibit B.11.a – Sample Schedule of Assets for Individual Charter School 1

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Exhibit B.12.a – Sample Budgetary Comparison Schedule for Individual Charter School 1

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Exhibit B.22.b – Sample Use of Funds Report for Individual Charter School 2

SAMPLE

Annual Financial and Compliance Report of Anywhere Charter Holder

For the Years Ended
August 31, 20BB and 20AA

Exhibit B.1 **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 auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

Exhibit B.2 Sample Independent Auditor's Report

JONES AND JONES,CPAs
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:

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Anywhere Charter Holder, which comprise the consolidated financial statements as of August 31, 20BB and 20AA, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements 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 accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Anywhere Charter Holder and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Anywhere Charter Holder's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Anywhere Charter Holder's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Anywhere Charter Holder's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information required by TEA and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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 effectiveness of the Anywhere Charter Holder's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Anywhere Charter Holder's internal control over financial reporting and compliance.

Jones and Jones, CPAs
October 30, 20BB

Financial Statements

Exhibit B.3 **Sample Statement of Financial Position**

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

	20BB	20AA
Assets		
Current Assets		
Cash and cash equivalents	$ x,xxx	$ x,xxx
Accounts receivable	xxx	x,xxx
Prepaid expenses	xxx	xxx
Total current assets	x,xxx	x,xxx
Property and Equipment, net	x,xxx,xxx	x,xxx,xxx
Total Assets	$ x,xxx,xxx	$ x,xxx,xxx
Liabilities and Net Assets		
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	xxx,xxx	xxx,xxx
Long-Term Debt	x,xxx,xxx	x,xxx,xxx
Total Liabilities	$ x,xxx,xxx	$ x,xxx,xxx
Net Assets		
Without Donor Restrictions	xx,xxx	xx,xxx
With Donor Restrictions	x,xxx	–
Total Net Assets	$ xx,xxx	$ xx,xxx
Total Liabilities and Net Assets	$ x,xxx,xxx	$ x,xxx,xxx

Exhibit B.4 Sample Statement of Activities

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

	Without Donor Restrictions	With Donor Restrictions	Totals 20BB	Totals 20AA
Revenues				
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:				
Title I Part A		xx,xxx	xx,xxx	xx,xxx
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
Expenses				
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

Exhibit B.4a Sample Statement of Functional Expenses

Anywhere Charter Holder
Statement of Functional Expenses
For the Year Ended August 31, 20BB
(with comparative totals for 20AA)

	20BB					
	Program Activities		Supporting Activities			
	Program 1	Program 2	General and Administrative	Fund Raising	20BB Total	20AA Total
Expenses						
Salaries and Wages	$ xxx,xxx	$ xxx,xxx	$ xxx,xxx	$ xx,xxx	$ xxx,xxx	$ xxx,xxx
Benefits	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Payroll Taxes	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total Payroll Expenses	xxx,xxx	xxx,xxx	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Rental Expense	xx,xxx	xx,xxx	xx,xxx		xx,xxx	xx,xxx
Contract Labor	xx,xxx	xx,xxx	xx,xxx		xx,xxx	xx,xxx
Maintenance and Repairs	xx,xxx	xx,xxx	xx,xxx		xx,xxx	xx,xxx
Utilities	xx,xxx	xx,xxx	xx,xxx		xx,xxx	xx,xxx
Telecommunications	xx,xxx	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx
Depreciation	x,xxx	x,xxx	x,xxx		x,xxx	x,xxx
Supplies	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Food	xx,xxx	xx,xxx			xx,xxx	xx,xxx
Travel	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Instructional Materials	xx,xxx	xx,xxx			xx,xxx	xx,xxx
Furniture and Equipment	xx,xxx	xx,xxx	xx,xxx		xx,xxx	xx,xxx
Insurance and Bonding	xx,xxx	xx,xxx	xx,xxx		xx,xxx	xx,xxx
Professional Fees and Dues	xx,xxx	xx,xxx	x,xxx		xx,xxx	xx,xxx
Transportation	xx,xxx	xx,xxx			xx,xxx	xx,xxx
Other	xxx	xxx	xxx		xxx	xxx
Total Non-payroll Expenses	$ x,xxx,xxx	$ x,xxx,xxx	$ x,xxx,xxx	$ xx,xxx	$ x,xxx,xxx	$ x,xxx,xxx
Total Expenses	$ x,xxx,xxx	$ x,xxx,xxx	$ x,xxx,xxx	$ xxx,xxx	$ x,xxx,xxx	$ x,xxx,xxx

Exhibit B.5 Sample Statement of Cash Flows

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

	20BB	20AA
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	xx,xxx	xx,xxx
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	(x,xxx)	(x,xxx,xxx)
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	(xx,xxx)	x,xxx,xxx
Net increase in cash	xxx	xxx
Cash at beginning of year	xxx	xxx
Cash at ending of year	$ x,xxx	$ x,xxx
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	$ x,xxx	$ x,xxx

Notes to the Financial Statements

Exhibit B.6 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 20WW 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 20XX, 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, 20YY. Subsequent to the awarding of the charter for Anywhere Charter School, the corporation applied for and received a second charter in 20YY. 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, 20ZZ. 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 or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board-designated.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

Fair Value Measurement of Financial Instruments

The requirements of Fair Value Measurements and Disclosures of the *FASB Accounting Standards Codification* (ASC) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB also establishes a fair value hierarchy that categorizes the inputs used in valuation methodologies into three levels.

Inputs may be observable or unobservable. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. A three-tier hierarchy categorizes the inputs used to measure the fair value as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets for liabilities that the charter holder can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability.

Assets measured at fair value at August 31, 20BB are as follows:

	Level 1	Level 2	Level 3	Total
Bond proceeds held in trust:				
Money market mutual funds	$ xx,xxx	$ 0	$ 0	$ xx,xxx
Total assets measured at fair value	$ xx,xxx	$ 0	$ 0	$ xx,xxx

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: Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of statement of financial position date are as follows:

	20BB	20AA
Financial assets:		
Cash and cash equivalents	$xx,xxx	$xx,xxx
Investments	$xx,xxx	$xx,xxx
Government grant and contributions receivables	$xx,xxx	$xx,xxx
Accounts receivable	$xx,xxx	$xx,xxx
Total financial assets	$xx,xxx	$xx,xxx

Less financial assets not available for general expenditure:		
Cash restricted for long-term purposes	$xx,xxx	$xx,xxx
Donor-restrictions	$xx,xxx	$xx,xxx
Total financial assets available for general expenditure	$xx,xxx	$xx,xxx

Note 3: Capital Assets

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

	20BB	20AA
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	$ x,xxx,xxx	$ x,xxx,xxx

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 Assets for each individual charter school.

Note 4: 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, 20YY. 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	$ x,xxx,xxx

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

Year Ended August 31,	Principal	Interest	Total
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

$ x,xxx,xxx	$ xxx,xxx	$ x,xxx,xxx

Note 5: 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. 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; calling the TRS Communications Department at 1-800-223-8778; or downloading the report from the TRS website, https://www.trs.texas.gov/Pages/Homepage.aspx.

Funding Policy

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's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. Plan members contributed 8.25% in 20BB and 8.0% in 20AA of their annual covered salary. The State of Texas contributes 8.25%. Additionally, the charter school pays a 1.9% Public Education Employer contribution for all TRS eligible employees. The charter school's contributions do not represent more than 5% of the TRS's total contributions. 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 6: 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 7: Deferred Revenue

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

	20BB	20AA
Title I Part A – Improving Basic Programs	$ x,xxx	–
Child Nutrition	x,xxx	–
Total	$ x,xxx	–

Note 8: Net Assets with Donor Restrictions

Net Assets with Donor Restrictions for the years ending August 31, 20BB and 20AA consisted of the following:

	20BB	20AA
Title I Part A – Improving Basic Programs	$ x,xxx	–
Title X – Public Charter School Grant	x,xxx	–
Total	$ x,xxx	–

Note 9: Leases

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

20CC	$ xxx,xxx
20DD	xxx,xxx
20EE	xxx,xxx
20FF	xxx,xxx
	$ x,xxx,xxx

Rent expense was approximately $ xxx,xxx during 20BB.

The following represents lease cost and required information for the year ended August 31, 20BB:

	Operating Leases
Total operating lease cost:	$ x,xxx
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from leases	$(x,xxx)
Weighted-average remaining lease term	x.xx years
Weighted-average discount rate	x%

Note 10: Related Party Transactions

The corporation paid Ms. Jane Doe, an employee of the corporation, $120,000 in rent for each of the years ended August 31, 20BB and 20AA, on a property she owns. The building is a commercial property used as

administrative offices. The corporation pays $10,000 per month on a three-year lease which began in September 20ZZ. Ms. Jane Doe is the human resources supervisor and oversees all human resource functions for the corporation.

Note 11: Commitments and Contingencies

The charter school receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by TEA or the grantor agency.

Specific Purpose Financial Statements

Exhibit B.7.a **Sample Statement of Financial Position for Individual Charter School 1**

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

	20BB	20AA
Assets		
Current Assets		
Cash and cash equivalents	$ x,xxx	$ x,xxx
Accounts receivable	xxx	x,xxx
Prepaid expenses	xxx	xxx
Total current assets	x,xxx	x,xxx
Fixed Assets		
Right of Use Assets: Finance Leases	xx,xxx	xx,xxx
Right of Use Assets: Operating Leases	xx,xxx	xx,xxx
Property and Equipment		
Land	xxx,xxx	xxx,xxx
Buildings and Improvements	x,xxx,xxx	x,xxx,xxx
Vehicles	xxx,xxx	xxx,xxx
Furniture and Equipment	xx,xxx	xx,xxx
Fixed Assets-Charter School Defined	x,xxx	x,xxx
Library Books and Media	xx,xxx	xx,xxx
Construction in Progress	xx,xxx	xx,xxx
Property and Equipment, gross	x,xxx,xxx	x,xxx,xxx
Less: Accumulated depreciation	xxx,xxx	xxx,xxx
Property and Equipment, net	x,xxx,xxx	x,xxx,xxx
Total Fixed Assets	x,xxx,xxx	x,xxx,xxx
Other Assets		
Noncurrent Restricted Cash & Equiv.	xx,xxx	xx,xxx
Other Noncurrent Assets	xx,xxx	xx,xxx
Total Long-term Assets	xx,xxx	xx,xxx
Total Assets	$ x,xxx,xxx	$ x,xxx,xxx
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ xx,xxx	$ xx,xxx

Finance Lease Liability: Current Year	xx,xxx	xx,xxx
Operating Lease Liability: Current Year	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	xxx,xxx	xxx,xxx
Long-Term Liabilities		
Bonds Payable: Long-term	xx,xxx	xx,xxx
Notes Payable: Long-term	xx,xxx	xx,xxx
Other Long-term Debt Payable	x,xxx	x,xxx
Finance Lease Liability: Long-term	xx,xxx	xx,xxx
Operating Lease Liability: Long-term	x,xxx	x,xxx
Total Long-term Liabilities	x,xxx,xxx	x,xxx,xxx
Total Liabilities	$ x,xxx,xxx	$ x,xxx,xxx
Net Assets		
Without Donor Restrictions	xx,xxx	xx,xxx
With Donor Restrictions	x,xxx	–
Total Net Assets	$ xx,xxx	$ xx,xxx
Total Liabilities and Net Assets	$ x,xxx,xxx	$ x,xxx,xxx

Exhibit B.7.b **Sample Statement of Financial Position for Individual Charter School 2**

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

	20BB	20AA
Assets		
Current Assets		
Cash and cash equivalents	$ x,xxx	$ x,xxx
Accounts receivable	xxx	x,xxx
Prepaid expenses	xxx	xxx
Total current assets	x,xxx	x,xxx
Fixed Assets		
Right of Use Assets: Finance Leases	xx,xxx	xx,xxx
Right of Use Assets: Operating Leases	xx,xxx	xx,xxx
Property and Equipment		
Land	xxx,xxx	xxx,xxx
Buildings and Improvements	x,xxx,xxx	x,xxx,xxx
Vehicles	xxx,xxx	xxx,xxx
Furniture and Equipment	xx,xxx	xx,xxx
Fixed Assets-Charter School Defined	x,xxx	x,xxx
Library Books and Media	xx,xxx	xx,xxx
Construction in Progress	xx,xxx	xx,xxx
Property and Equipment, gross	x,xxx,xxx	x,xxx,xxx
Less: Accumulated depreciation	xxx,xxx	xxx,xxx
Property and Equipment, net	x,xxx,xxx	x,xxx,xxx
Total Fixed Assets	x,xxx,xxx	x,xxx,xxx
Other Assets		
Noncurrent Restricted Cash & Equiv.	xx,xxx	xx,xxx
Other Noncurrent Assets	xx,xxx	xx,xxx
Total Long-term Assets	xx,xxx	xx,xxx
Total Assets	$ x,xxx,xxx	$ x,xxx,xxx
Liabilities and Net Assets		
Current Liabilities		

Accounts payable	$ xx,xxx	$ xx,xxx
Finance Lease Liability: Current Year	xx,xxx	xx,xxx
Operating Lease Liability: Current Year	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	xxx,xxx	xxx,xxx
Long-Term Liabilities		
Bonds Payable: Long-term	xx,xxx	xx,xxx
Notes Payable: Long-term	xx,xxx	xx,xxx
Other Long-term Debt Payable	x,xxx	x,xxx
Finance Lease Liability: Long-term	xx,xxx	xx,xxx
Operating Lease Liability: Long-term	x,xxx	x,xxx
Total Long-term Liabilities	x,xxx,xxx	x,xxx,xxx
Total Liabilities	$ x,xxx,xxx	$ x,xxx,xxx
Net Assets		
Without Donor Restrictions	xx,xxx	xx,xxx
With Donor Restrictions	x,xxx	–
Total Net Assets	$ xx,xxx	$ xx,xxx
Total Liabilities and Net Assets	$ x,xxx,xxx	$ x,xxx,xxx

Exhibit B.8.a Sample Statement of Activities for Individual Charter School 1

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

	Without Donor Restrictions	With Donor Restrictions	Totals 20BB	Totals 20AA
Revenues				
Local support:				
5740 Other Revenues from Local Sources	$ xx,xxx		$ xx,xxx	$ xx,xxx
State program revenues:				
5810 Foundation School Program		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 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
Expenses				
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

Exhibit B.8.b Sample Statement of Activities for Individual Charter School 2

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

	Without Donor Restrictions	With Donor Restrictions	Totals 20BB	Totals 20AA
Revenues				
Local support:				
5740 Other Revenues from Local Sources	$ xx,xxx		$ xx,xxx	$ xx,xxx
State program revenues:				
5810 Foundation School Program		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 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
Expenses				
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

Exhibit B.9.a **Sample Statement of Cash Flows for Individual Charter School 1**

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

	20BB	20AA
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	xx,xxx	xx,xxx
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	(x,xxx)	(x,xxx,xxx)
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	(xx,xxx)	x,xxx,xxx
Net increase in cash	xxx	xxx
Cash at beginning of year	x,xxx	x,xxx
Cash at ending of year	$ x,xxx	$ x,xxx
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	$ x,xxx	$ x,xxx

Exhibit B.9.b **Sample Statement of Cash Flows for Individual Charter School 2**

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

	20BB	20AA
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	xx,xxx	xx,xxx
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	(x,xxx)	(x,xxx,xxx)
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	(xx,xxx)	x,xxx,xxx
Net increase in cash	xxx	xxx
Cash at beginning of year	x,xxx	x,xxx
Cash at ending of year	$ x,xxx	$ x,xxx
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	$ x,xxx	$ x,xxx

Exhibit B.10.a **Sample Schedule of Expenses for Individual Charter School 1**

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

	Totals	
	20BB	20AA
Expenses		
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	$ x,xxx,xxx	$ x,xxx,xxx

Exhibit B.10.b **Sample Schedule of Expenses for Individual Charter School 2**

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

	Totals	
	20BB	20AA
Expenses		
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	$ x,xxx,xxx	$ x,xxx,xxx

Exhibit B.11.a Sample Schedule of Assets for Individual Charter School 1

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

	Ownership Interest		
	Local	State	Federal
1110 Cash		$ x,xxx	
1120 Investments		xxx,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
1551 Right of Use Assets: Financing Lease for Buildings		xxx,xxx	
1552 Right of Use Assets: Financing Lease for Vehicles			
1553 Right of Use Assets: Financing Lease for Furniture & Equipment			
1554 Right of Use Assets: Operating Lease for Buildings			
1555 Right of Use Assets: Operating Lease for Vehicles			
1559 Right of Use Assets: Operating Leases for Furniture & Equipment		xxx,xxx	
1580 Construction in Progress		xxx,xxx	
Total	$ xx,xxx	$ xxx,xxx	$ xx,xxx

Exhibit B.11.b Sample Schedule of Assets for Individual Charter School 2

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

	Ownership Interest		
	Local	State	Federal
1110 Cash		$ x,xxx	
1120 Investments		xxx,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
1551 Right of Use Assets: Financing Lease for Buildings		xxx,xxx	
1552 Right of Use Assets: Financing Lease for Vehicles			
1553 Right of Use Assets: Financing Lease for Furniture & Equipment			
1554 Right of Use Assets: Operating Lease for Buildings			
1555 Right of Use Assets: Operating Lease for Vehicles			
1559 Right of Use Assets: Operating Leases for Furniture & Equipment		xxx,xxx	
1580 Construction in Progress		xxx,xxx	
Total	$ xx,xxx	$ xxx,xxx	$ xx,xxx

Exhibit B.12.a Sample Budgetary Comparison Schedule for Individual Charter School 1

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

	Budgeted Amounts		Variance Original to Final	Actual Amounts	Variance from Final Budget
	Original	Final			
Revenues					
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	$ xxx	x,xxx	-
Total state program revenues	xxx,xxx	xxx,xxx		xxx,xxx	-
Federal program revenues:					
5920 Federal Revenues Distributed by Texas Education Agency	xx,xxx	xx,xxx		xx,xxx	-
Total Revenues	$ x,xxx,xxx	$ x,xxx,xxx	$ xxx	$ x,xxx,xxx	-
Expenses					
11 Instruction	$ xxx,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	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	$ 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	$ xxx	$ xx,xxx	$ xxx

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

	Budgeted Amounts				
	Original	Final	Variance Original to Final	Actual Amounts	Variance from Final Budget
Revenues					
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	$ xxx	x,xxx	-
Total state program revenues	xxx,xxx	xxx,xxx		xxx,xxx	-
Federal program revenues:					
5920 Federal Revenues Distributed by Texas Education Agency	xx,xxx	xx,xxx		xx,xxx	-
Total Revenues	$ x,xxx,xxx	$ x,xxx,xxx	$ xxx	$ x,xxx,xxx	-
Expenses					
11 Instruction	$ xxx,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	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	$ 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	$ xxx	$ xx,xxx	$ xxx

Exhibit B.12.b Sample Budgetary Comparison Schedule for Individual Charter School 2

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

	Budgeted Amounts		Variance Original to Final	Actual Amounts	Variance from Final Budget
	Original	Final			
Revenues					
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	$ xxx	x,xxx	-
Total state program revenues	xxx,xxx	xxx,xxx		xxx,xxx	-
Federal program revenues:					
5920 Federal Revenues Distributed by Texas Education Agency	xx,xxx	xx,xxx		xx,xxx	-
Total Revenues	$ x,xxx,xxx	$ x,xxx,xxx	$ xxx	$ x,xxx,xxx	-
Expenses					
11 Instruction	$ xxx,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	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	$ 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	$ xxx	$ xx,xxx	$ xxx

Compliance and Internal Control

Exhibit B.13 **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, in accordance with the 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, the financial statements of Anywhere Charter Holder, as of and for the year ended August 31, 20BB, and the related notes to the financial statements, and have issued our report thereon dated October 30, 20BB.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Anywhere Charter Holder's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Anywhere Charter Holder's internal control. Accordingly, we do not express an opinion on the effectiveness of Anywhere Charter Holder's internal control.

A *deficiency in internal 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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, 20BB.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones and Jones, CPAs
October 30, 20BB

Exhibit B.14 Sample Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited Anywhere Charter Holder's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Anywhere Charter Holder's major federal programs for the year ended August 31, 20BB. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Anywhere Charter Holder's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) . Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Anywhere Charter Holder's compliance.

Opinion on Each Major Federal Program

In our opinion, Anywhere Charter Holder complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 20BB.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 20BB-001 and 20BB-002. Our opinion on each major federal program is not modified with respect to these matters.

Anywhere Charter Holder's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings. Anywhere Charter Holder's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Anywhere Charter Holder is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Anywhere Charter Holder's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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

compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Anywhere Charter Holder as of and for the year ended August 31, 20BB, and have issued our report thereon dated October 30, 20BB, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Jones and Jones, CPAs
October 30, 20BB

Exhibit B.15 Sample Schedule of Findings and Questioned Costs

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?	___Yes ___No
Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)?	___Yes ___None reported
Noncompliance material to financial statements noted?	___Yes ___No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	___Yes ___No
Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)?	___Yes ___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 2 CFR 200.516(a) of the Uniform Guidance?	___Yes ___No
Identification of major programs:	
Program Name (ALN XX.XXXX)	
Dollar threshold used to distinguish between Type A and Type B programs	$ xxx,xxx
Auditee qualified as low-risk auditee?	___Yes ___No

II. Financial Statement Findings

- None identified.

III. Findings and Questioned Costs for Federal Awards

- None identified.

Exhibit B.16 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:

> "Charter holder shall implement a records management system that conforms to the system required of charter schools 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.

Exhibit B.17 Sample Schedule of Expenditure of Federal Awards

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

Grantor/Program Title	Federal ALN Number	Pass Through Entity Identifying Number	Federal Expenditures
United States Department of Education			
Passed through State Department of Education:			
Title I Part A	84.010	xxxxxx	xxx,xxx
Title X	84.206	xxxxxx	x,xxx
Total State Department of Education			xxx,xxx
United States Department of Agriculture			
Passed through State Department of Education:			
National School Lunch	10.555	n/a	xx,xxx
School Breakfast Program	10.553	n/a	xx,xxx
Total State Department of Education			
Total Expenditures of Federal Awards			$ xxx,xxx
Reconciliation to Financial Statements			
Federal Grant Revenues per Statement of Activities			$xxx,xxx
Less:			
Reconciling Item (*specify*)			($xx,xxx)
Reconciling Item (*specify*)			($xx,xxx)
Total Expenditures of Federal Awards			$xxx,xxx

Exhibit B.18 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 *Module 3: Special Supplement—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.

Real Property Ownership
and
Related Party Transactions

Exhibit B.19.a Sample Schedule of Real Property Ownership Interest for Individual Charter School 1

Anywhere Charter School
Schedule of Real Property Ownership Interest
For the Years Ended August 31, 20BB

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal

Exhibit B.19.b Sample Schedule of Real Property Ownership Interest for Individual Charter School 2

Anywhere Charter Academy
Schedule of Real Property Ownership Interest
For the Years Ended August 31, 20BB

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal

Exhibit B.20.a **Sample Schedule of Related Party Transactions for Individual Charter School 1**

Anywhere Charter School
Schedule of Related Party Transactions
For the Years Ended August 31, 20BB

Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid During FY	Principal Balance Due

Exhibit B.20.b Sample Schedule of Related Party Transactions for Individual Charter School 2

Anywhere Charter Academy
Schedule of Related Party Transactions
For the Years Ended August 31, 20BB

Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid During FY	Principal Balance Due

Exhibit B.21.a Sample Schedule of Related Party Compensation and Benefits for Individual Charter School 1

Anywhere Charter School
Schedule of Related Party Compensation and Benefits
For the Years Ended August 31, 20BB

Related Party Name	Name of Relation of the Related Party	Relationship	Compensation or Benefit	Payment Frequency	Description	Source of Funds Used	Total Paid During FY

Exhibit B.21.b Sample Schedule of Related Party Compensation and Benefits for Individual Charter School 2

Anywhere Charter Academy
Schedule of Related Party Compensation and Benefits
For the Years Ended August 31, 20BB

Related Party Name	Name of Relation of the Related Party	Relationship	Compensation or Benefit	Payment Frequency	Description	Source of Funds Used	Total Paid During FY

Other

Exhibit B.22.a Sample Use of Funds Report for Individual Charter School 1

Anywhere Charter School
Use of Funds Report - Select State Allotment Programs
For the Year Ended August 31, 20AA

Data Codes		Responses
	Bilingual Education Allotment Programs	
AP5	Did the charter school expend any bilingual education program state allotment funds during the district's fiscal year?	Yes / No
AP6	Does the charter school have written policies and procedures for its bilingual education allotment program?	Yes / No
AP7	Total state allotment funds received for bilingual education allotment programs during the charter school's fiscal year.	$_____
AP8	Actual direct program expenditures for bilingual education allotment programs during the charter school's fiscal year. (PIC 25)	$_____

Exhibit B.22.b Sample Use of Funds Report for Individual Charter School 2

Anywhere Charter Academy
Use of Funds Report - Select State Allotment Programs
For the Year Ended August 31, 20BB

Data Codes		Responses
	Bilingual Education Allotment Programs	
AP5	Did the charter school expend any bilingual education program state allotment funds during the district's fiscal year?	Yes / No
AP6	Does the charter school have written policies and procedures for its bilingual education allotment program?	Yes / No
AP7	Total state allotment funds received for bilingual education allotment programs during the charter school's fiscal year.	$_____
AP8	Actual direct program expenditures for bilingual education allotment programs during the charter school's fiscal year. (PIC 25)	$_____