



## To the Administrator Addressed

Commissioner Mike Morath

1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • tea.texas.gov

<b>DATE:</b>	<b>December 17, 2021</b>
<b>SUBJECT:</b>	<b>Reminder of Required Schedules for Charter Schools</b>
<b>CATEGORY:</b>	<b>Annual Financial Report</b>
<b>NEXT STEPS:</b>	<b>Share with business staff</b>

The following is a reminder of the annual financial report (AFR) reporting guidance for open-enrollment charter schools. An email notification was sent out last year on September 17, 2020, notifying open-enrollment charter schools of the requirement. Please share with appropriate personnel, including chief financial officers, business managers, finance staff, and your external CPA firm.

Beginning with the fiscal year 2021 AFR submission, charter schools are required to report the information detailed below consistently in their AFR in PDF format and in the data feed submitted through the Audit application in Texas Education Agency Login (TEAL). The attached Excel workbook displays a layout of the new reporting requirements, which are also included in the financial data feed templates in the Audit application in TEAL.

### **Senate Bill 1454 AFR Reporting Requirements**

Senate Bill 1454, 86th Texas Legislature, 2019, addresses changes made to reporting requirements for open-enrollment charter schools' financial statement notes and schedules. The reporting requirements of Senate Bill 1454 are effective for the fiscal years beginning after June 30, 2019. The Texas Education Agency (TEA) delayed the verification of these reporting requirements until the fiscal year 2021 AFR review cycle. **TEA's Financial Compliance Division will be reviewing AFRs for this requirement and noting any deficiencies in charter schools' AFR review letters during the current fiscal year 2021 AFR review cycle.**

### **Real Property Ownership Interest**

Open-enrollment charter schools should include a schedule of real property ownership interest in the AFR. This schedule provides an accounting of each parcel of the school's real property, including identifying the amount of local, state, and federal funds used to purchase or improve each parcel of property, as described by the Texas Education Code (TEC), §44.008(f).

In addition, the TEC, §44.008(g) states that an open-enrollment charter school for which the charter has expired, been revoked, or been surrendered, or an open-enrollment charter school that otherwise ceases to operate should submit a final AFR to the agency. The report should verify that all state property held by the charter holder has been returned or disposed of in accordance with the TEC, §12.128.

### **Related Party Transactions**

The *Financial Accountability System Resource Guide (FASRG)*, Module 3, defines "related party transaction" as "a transaction that an informed observer might reasonably believe reflects considerations other than economic self-interest based upon the relationship that exists between the parties to the transaction. The term often is used in contrast to an arm's-length transaction."

The TEC, §12.1166, expands the definition, stating that a related party includes: (1) a current or former board member, administrator, or officer who is a board member, administrator, or officer of an open-enrollment charter school, or related within the third degree of consanguinity or affinity, as determined under Chapter 573, Government Code, to a board member, administrator, or officer of an open-enrollment charter school; (2) a charter holder's related organizations, joint ventures, and jointly governed organizations; (3) an open-enrollment charter school's board members, administrators, or officers or a person related to a board member, administrator, or officer within the third degree of consanguinity or affinity, as determined under Chapter 573, Government Code; and (4) any other disqualified person, as that term is defined by 26 U.S.C. §4958(f). A person is a former board member, administrator, or officer if the person served in that capacity within one year of the date on which a financial transaction between the charter holder and a related party occurred.

### **Related Party AFR Reporting Requirements**

Charter holders should disclose a list of all transactions with a related party, as described by the TEC, §12.1166(c). Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, an open-enrollment charter school may receive services from a related party without charge and not record the receipt of the services.

The TEC, §12.1168(b), states that a financial report filed under the TEC, §44.008, by an open-enrollment charter school should include a schedule in the AFR that lists:

- all financial transactions between the open-enrollment charter school and any related party, separately stating the principal, interest, and lease payments; and
- the total compensation and benefits provided by the school and any related party for each member of the governing body and each officer and administrator of the school and the related party.

### **Questions**

If you have any questions, please contact Paul Moreno by phone at (512) 475-2228 or email at [paul.moreno@tea.texas.gov](mailto:paul.moreno@tea.texas.gov).

Sincerely,

David Marx,  
Director, Financial Compliance