



A resource to provide assistance to auditors of charter schools authorized by SUNY

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To Learn To Search To Serve



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Introduction

In New York State, charter schools are defined as "independent and autonomous public schools" [New York Education Law § 2853(1)(c)] and are authorized by the New York Charter Schools Act of 1998 (Article 56 of the Education Law, (the "Act")). New York charter schools are legally organized as not-for-profit education corporations [Education Law § 2853(1)] incorporated by the New York State Board of Regents (the "Board of Regents"), and are subject to the terms of a contractual agreement, or charter, between the school and the chartering entity which approved the school's application for a charter. Charter schools are non-sectarian, tuition-free, open to all students eligible for admission to other public schools, governed by the education corporation's own self-selecting board of trustees, and independent of existing school districts.

The Act authorizes "charter entities" or what are known as "authorizers" that can receive and approve applications for charters and conduct oversight and evaluation of the charter schools that the authorizer has approved. The Act provides two routes to apply for a charter: the State University of New York Board of Trustees (the "SUNY Trustees") and the Board of Regents as statewide chartering entities. Amendments to § 2851(3) in 2010 removed the authority of local boards of education to approve applications for new charters although those boards remain the charter entities for previously authorized charter schools (only the New York City Chancellor, on behalf of the New York City School District (the New York City Department of Education ("NYCDOE")) and the Buffalo Board of Education have exercised the option to approve charter schools in their districts). Local boards of education continue to have the authority to approve applications for the conversion of existing public schools to charter schools within their respective school districts.

The Act requires that a charter school education corporation shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in its charter. Such procedures and standards shall be applied consistent with Generally Accepted Auditing Standards ("GAAS") and Generally Accepted Government Auditing Standards ("GAGAS"). Independent audits of financial statements are required at least once annually. Such audits are required to be comparable in scope to those required of other public schools, keeping in mind that charter schools are required to follow the accounting standards set by the Financial Accounting Standards Board ("FASB") and school districts are required to follow the accounting standards set by the Government Accounting Standards Board ("GASB").

About the Audit Guide

The SUNY Charter Schools Institute (the "Institute") developed this Audit Guide (the "Guide") to provide assistance to auditors of charter schools authorized by SUNY; boards of trustees, their financial committees and officers; and, leadership, and financial and operations staff in education corporations and charter management entities who assist with the preparation of materials for audits. The Institute designed the Guide to assist school leadership and board members in understanding the basic requirements and limitations of the annual audit. Primary goals of the Guide include assisting in ensuring accountability over public funds, and providing a suggested format for the financial statements and supplemental schedules. The Institute encourages school leadership to read the Guide in order to understand the areas upon which independent auditors will focus in addition to routine financial matters. Helping auditors understand the differences between charter schools and other non-profit entities, as well as providing specific guidance to the auditor and school leadership about the form and content of reports, is another focus of the Guide. The Institute encourages other charter entities to adopt the Guide as they see fit.

THE AUDITOR SHOULD NOT CONSIDER THIS DOCUMENT TO BE ALL-INCLUSIVE OR A SUBSTITUTE FOR PROFESSIONAL JUDGEMENT. THE AUDITOR CLEARLY NEEDS TO FOLLOW PROFESSIONAL STANDARDS THAT ARE REFERENCED IN, BUT NOT REPEATED AS PART OF, THIS DOCUMENT.

The Institute would like to acknowledge years of the assistance of the staff of the New York State Education Department ("NYSED"), NYCDOE, school leadership, and several audit practitioners in preparing and updating this document. The Institute welcomes comments and questions regarding, and improvements to, this Guide, which should be directed to charters@suny.edu.

Background and Authoritative Nature

Under the terms of a SUNY charter, the education corporation must follow the audit requirements set forth in the charter agreement. The Institute wrote this Guide to provide standardized guidance to auditors of SUNY authorized charter schools to ensure that audits of those schools are performed in accordance with charter agreement requirements. Additionally, any charter school, regardless of authorizer, currently receiving funding through the NYSED Charter Schools Program federal grant ("CSP") must adhere to the terms of the Agreed-Upon Procedures ("AUP") Report on CSP funds as described in Section 8 and Appendix B of the Guide.

This Guide was developed in response to a variety of factors that affect charter schools in New York State:

- the statutory increase in the "cap" on the number of charters that can be issued education corporations to 460:
- the award of \$697 million under "Race to the Top" funding from the federal government to New York State schools;
- the award of a \$113 million grant to New York State under the CSP, which is overseen by NYSED; and,
- differences found in audit quality and auditor understanding of the charter school environment.

Responsibilities for monitoring the use of public funds including CSP grant funds necessitate a very high level of audit quality. Through the Guide, the Institute intends to enhance the auditor's understanding of the requirements for charter schools, detail certain specific procedures required by SUNY and other authorizers, standardize reporting of audit results and findings, and provide guidance on matters specific to charter schools in New York State.

As a pass-through entity and the State Education Agency under federal law, NYSED is responsible for monitoring the proper use of funds and compliance with CSP grant requirements by each education corporation awarded funds under this grant. NYSED has determined that the most efficient method of monitoring grant compliance in this area is to allow each education corporation's independent auditor, who is already reviewing records of the corporation, to perform additional procedures as part of the audit and to issue a separate report on those procedures. See Section 8 and Appendix B for further information on this requirement.

Section 1: Audit Requirements and Deadlines

In accordance with the charter agreement, the education corporation shall retain an independent Certified Public Accountant ("CPA"), licensed in New York State, to perform an audit of the education corporation's annual financial statements in accordance with GAAS and GAGAS issued by the Comptroller General of the United States as well as any additional requirements and guidelines provided by SUNY and the Board of Regents (with respect to CSP).

Auditor's Reports

Some, and possibly all, of the following reports, prepared by the education corporation's independent CPA will be necessary and are covered in this Guide:

- A. Agreed-upon Procedures Report on Initial Statement of Controls;
- B. Opinion on Audited Financial Statements;
- C. 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 (the "Yellow Book" Report);
- D. Agreed-upon Procedures Report on Charter School Program (CSP) Grant; and,
- E. Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Uniform Guidelines (the "Single Audit Report").

Deadlines

The Agreed-Upon Procedures report on the Initial Statement of Controls is due no later than forty-five days (45) after the commencement of the Agreed-Upon Procedures engagement. Per the charter agreement, the engagement must commence within sixty (60) days after the date on which the education corporation's charter was approved by the Board of Regents or operation of law. As a best practice, once the education corporation has received and disbursed more than \$50,000 in monies received from payments from school districts, under § 2856 of the Education Law, or from grants or other revenue sources, it should initiate the Initial Statement process, regardless of the time since charter approval.

Audited financial statements from the annual audit must be submitted to NYSED (in accordance with the Annual Report requirements) and SUNY, as the charter authorizer, by **November 1** of each fiscal year after the conclusion of the charter school's first year of providing instruction to students. The audit must include any advisory or management letters, if applicable, and other reports required by GAGAS. The education corporation must submit a management letter along with a corrective action plan addressing any weaknesses or problems identified in the report. SUNY does not grant extensions of time past the due date of November 1. In addition, SUNY requires its authorized education corporations to complete an Excel® template of the audited financials to provide data used to upload into the SUNY Fiscal Dashboard.

If an education corporation expends \$750,000 or more in federal funds during a fiscal year, an independent audit as prescribed in the Federal Office of Management and Uniform Guidelines must be completed and filed with the federal government, NYSED and SUNY by **November 1**. (See further details on OMB's Uniform Guidelines (Single Audits) in Section 7.) NYSED can approve an extension of the deadline for completion of the Single Audit no later than the federal due date of nine months after year-end, i.e., March 1 of the following year. Submit such extension approval to the charter authorizer, SUNY.

The Agreed-Upon Procedures report on the CSP grant must be submitted to NYSED by **November 1** of each year it is required (generally, the first three years of planning and operations).

Section 2: Auditor Requirements

An audit conducted in accordance with GAGAS requires the auditor to comply with more stringent independence standards, Continuing Professional Education ("CPE") and peer review requirements, and perform additional procedures beyond those performed in an audit under GAAS. A separate 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 (the "Yellow Book" report) is issued to provide school management and those charged with school governance with the results of the additional procedures. Full details of Generally Accepted Government Auditing Standards and the most recent version of GAGAS are available on the Government Accountability Office ("GAO") website at http://www.gao.gov/yellowbook.

Independence

Audits performed in accordance with GAGAS require the auditor to comply with additional guidelines governing independence and require documentation of the consideration of any threats to independence. The Governmental Audit Quality Center ("GAQC") of the American Institute of Certified Public Accountants ("AICPA") has prepared a comparison of the differences between the AICPA and the Yellow Book or GAGAS independence rules for non-audit services. This comparison is available on the GAQC website (to GAQC members and non-members) http://www.aicpa.org/interestareas/professionalethics/resources/.

Continuing Professional Education ("CPE")

Auditors performed in accordance with GAGAS require the auditor to obtain CPE that directly relates to government auditing, the government environment, or the specific and unique environment in which the audited entity operates. Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, are required to obtain at least 24 hours of CPE every two years that meet the requirements above. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization's two-year CPE period should complete a prorated number of CPE hours.

Peer Review

Audit firms performing audits under GAGAS are required to have an external peer review, performed by reviewers independent of the audit organization being reviewed, at least once every three years.

Section 3: Initial Statement of Controls

Initial Statement of Controls ("Initial Statement") and Agreed Upon Procedures Report on the Initial Statement

In accordance with section 5.1 of a school's charter, SUNY as the charter authorizer along with NYSED require the education corporation to provide an Initial Statement to SUNY as the authorizer and NYSED concerning the status of management and financial controls no later than sixty (60) days from the date the charter was issued by the Board of

Regents. The Initial Statement must address whether the education corporation has documented adequate controls and implemented them, when applicable, relating to:

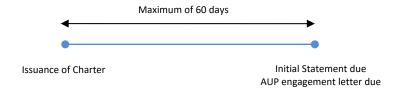
- 1. preparing and maintaining financial statements and records in accordance with Generally Accepted Accounting Principles ("GAAP");
- 2. payroll procedures;
- 3. accounting for contributions and grants;
- 4. procedures for the creation and review of quarterly financial statements, which shall specifically identify the individual(s) who will be responsible for preparing and reviewing such financial statements;
- 5. appropriate internal financial controls and procedures;
- 6. safeguarding of assets including cash and equipment;
- 7. compliance with applicable laws, rules, and regulations;
- 8. ensuring that the purchasing process results in the acquisition of necessary goods and services at the best price;
- 9. following appropriate guidance related to budget development and administration; and,
- 10. following appropriate guidance related to a code of ethics and cash management and investments.

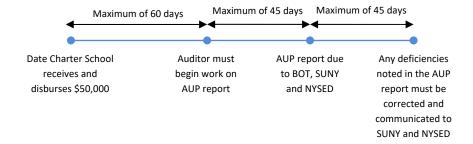
The Initial Statement shall be reviewed and ratified by the education corporation's board of trustees prior to its submission to SUNY and NYSED. A link to the model charter agreement with Section 5.1 dedicated to management and financial controls: http://www.newyorkcharters.org/wp-content/uploads/Model-Charter-July-2017.pdf.

After completing the Initial Statement, the education corporation must thereafter retain an independent CPA licensed in New York State to perform an agreed-upon procedures engagement (the "Independent Accountant's Report") in accordance with attestation standards established by the AICPA. The purpose of the engagement is to assist the education corporation's board of trustees, SUNY, and NYSED in evaluating the Initial Statement and the procedures, policies and practices established thereunder. The engagement shall commence within forty-five (45) days after the date on which the charter school has received its charter, and SUNY recommends that it commence sooner if the education corporation has disbursed more than \$50,000 in monies received from payments from school districts, under § 2856, or from grants or other revenue sources. SUNY and NYSED have a standard format for the Independent Accountant's Report as shown in Appendix A.

The resulting Independent Accountant's Report should be provided to the education corporation's board of trustees no later than forty-five days (45) after the commencement of such engagement with a copy to SUNY and NYSED. In the event that the Independent Accountant's Report reveals that any of the management and financial controls are not in place, the education corporation shall remedy such deficiencies no later than forty-five (45) days from the date the Independent Accountant's Report was received by the board of trustees and shall provide to SUNY and NYSED within that forty-five (45) day period a statement that all deficiencies identified in the Independent Accountant's Report have been corrected including the date they were corrected and who was responsible for implementing the corrections. Such statement shall identify the steps undertaken to correct the identified deficiencies. The school may be required to submit additional evidence to verify the correction of all such deficiencies. All documents required to be submitted shall be submitted electronically in accordance with guidance provided by SUNY and NYSED.

Timeline of Initial Statement of Controls and Related Reports





Section 4: Auditing Charter School Financial Statements

All charter school audits shall be conducted in accordance with GAAS issued by the AICPA and GAGAS issued by the Comptroller General of the United States. The procedures included in the Guide offer additional best practices to provide assistance for independent CPAs conducting an audit of a public charter school education corporation to ensure that the financial statements are presented fairly in all material respects. THE PROCEDURES SHOULD BE VIEWED AS ADDITIONAL PROCEDURES UNIQUE TO CHARTER SCHOOLS AND SHOULD BE CONSIDERED IN ADDITION TO THE AUDIT REQUIREMENTS REQUIRED UNDER GAAS AND GAGAS.

Auditor checklist for audits of SUNY authorized charter schools is included in Appendix C.

Cash

As part of the charter agreement, education corporations agree to establish a dissolution reserve fund account of no less than a set dollar amount as determined by SUNY. This amount is established to pay for legal and audit expenses that would be associated with a dissolution should it occur. The auditor should verify that the segregated or escrow account has been established, separately identify the fund in the financial statement balance sheet as well as document the fund in the notes to the financial statements, and determine that it is funded to at least the minimum level established in Section 8.9 of the charter agreement: http://www.newyorkcharters.org/wp-content/uploads/Model-Charter-July-2017.pdf.

- Seventy-five thousand dollars (\$75,000) per school for each of the first two (2) schools operated by the education corporation to be funded, at a minimum, by reserving twenty-five thousand dollars (\$25,000) per year during the first three (3) years of operation of each school; and,
- Twenty-five thousand dollars (\$25,000) per school for each additional school operated by the education corporation to be reserved in the first year of operation of each school up to a maximum of three hundred and fifty thousand dollars (\$350,000).

Accounts Receivable

In planning and performance of an audit the auditor should consider use of confirmations of accounts receivable balances. AICPA Statement on Auditing Standards AU Section 330, *The Confirmation Process*, requires that the auditor use external confirmation procedures for accounts receivable unless: the overall account balance is immaterial, external confirmations would be ineffective, or the auditor's assessed level of risk of material misstatement at the relevant assertion level is low.

Further guidance of confirmations can be found within AICPA Statement on Auditing Standards AU Section 326 *Audit Evidence* and AU section 505 *External Confirmation at:*

http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx.

An education corporation's primary receivable source is from public funding of charter school basic tuition due from the school district of residence of the students attending the charter school including Individuals with Disabilities Education Act ("IDEA") federal pass-through funding. Other sources of receivables are, but not limited to, food service through USDA, E-Rate, or federal/state grants (see Section 7). See Appendix H for example confirmation that could be used for per-pupil aid receivables from resident districts.

Food service receivable and revenues, if applicable to the charter school, can be obtained through the NYSED Child Nutrition Knowledge Center at http://portal.nysed.gov/pls/cn. The auditor should consider obtaining this free public information to confirm revenue and receivables. The auditor will need the SFA Name and LEA Code to look up the charter school reports that are available to the public (if you click "find" within the search window, a list of all New

York State schools will display). The information can be used to verify existence and completeness of the account balances.

Accrued Payroll and Benefits

Accrued payroll for a charter school education corporation is unique from other not-for-profit organizations as the teachers and many other staff members are 10- or 11-month employees versus typical 12-month employees at other organizations. Auditors must take into consideration that this expense should be fully accrued as of June 30, even if the teachers are being paid over the summer months, if their services have been completed as of June 30. Be aware of the timeframe of teacher contracts. Some contracts may cover the period from July 1 to June 30; therefore, the summer months pay should not be accrued as of June 30. In addition, auditors should consider whether other related expenses such as 401(k) contributions, taxes, and other benefits are expensed over the appropriate period.

Pension

As guidance for multiple employer pension plans in the accounting standards set by FASB is not specific, the disclosures are subject to judgment as to what is informative and valuable to the user of the financial statements. We suggest, at a minimum, the following disclosures be made:

- Plan description;
- Plan benefits;
- Contribution requirements employees;
- Contribution requirements employer; and,
- Pension expense recognized for period(s) presented.

As charter schools are legally organized as not-for-profit education corporations, and they are required to follow the accounting standards set by FASB, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, does not specifically apply. However, information could be included if deemed to be of significance to the users of the financial statements. Those disclosures include:

- Funded status of the plan;
- School's allocable % of asset/liability;
- Plan investment asset allocation;
- Actuarial assumptions; and,
- Discount rate.

<u>Investments</u>

Currently, there are no laws or regulations that govern the ability of a charter school education corporation to hold investments. The board of trustees of the education corporation has the ultimate fiduciary responsibility and should have an approved investment policy that is authorized by the board and included within the board minutes. It is best practice to review this policy regularly, and notation of the review should be included in the board minutes, as well. The investment policy should be included in the school's Financial Policy and Procedures Manual.

If the education corporation holds institutional funds or donor restricted funds, at a minimum, the education corporation should be following the provisions and rules enacted in the September 2010 New York Prudent Management of Institutional Funds Act (NYPMIFA) concerning the expenditure of charitable endowment funds. A guide and information on NYPMIFA can be found at: https://www.charitiesnys.com/.

The auditor should inquire whether an investment policy exists and if the charter school is performing its fiduciary responsibility to oversee the investments. The auditor should obtain the investment policy, verify if it is being followed as outlined and whether it is comprehensive to address fiduciary responsibility. Potential areas to review for inclusion

are: investment philosophy; investment objectives; management (internal or external advisor); risk tolerances; time horizons; allowable or unallowable investment holdings; and, portfolio allocations.

Per-Pupil Funding

Charter school education corporations receive public funding based on the number of students their charter schools serve and the basic charter school tuition rate for the school district of residence of the students attending the charter schools. Calculations must be made of the number of full-time equivalent ("FTE") students from each district of residence. Therefore, it is expected that testing of the revenue associated with student FTEs will comprise a substantial portion of the audit. This testing is generally broken down into two parts:

- 1. Testing of student existence/enrollment and verification of attendance; and,
- 2. Verification of funding rate per student (determined by the student's resident district).

Student existence testing

The auditor should test that the school's internal reporting system reconciles to the FTE roster. The auditor has two methods of testing existence: (1) through sending confirmations to districts of residence to confirm FTE and per-pupil aid (see Appendix H (for example confirmation); or, (2) selecting a sample of students from the FTE roster or similar document, and test for proof of existence by looking through student files. Auditors should also verify the reported dates per the FTE report through review of attendance records, especially for any students who have transferred in or out during the year. Auditors can also consider whether report cards or other evidence of student enrollment for the year can provide the documentation needed. The auditor should also test to be sure the student has valid proof of residency, by looking at documents such as a lease or utility bill, and that the proper district is being billed for the services.

Consideration for Special Education ("SPED") students

All students who are identified to need special education services or settings have an Individualized Education Program ("IEP"), formalized for his or her unique needs. Based on this IEP, the student is categorized into one of three levels of service, as defined by § 3602(19)(b)(1)-(4) of the Education Law as follows; 0-20% service, 20-60% service, or 60% or more service required and provided by the charter school (versus the district). While it is outside the scope of the audit as well as the auditor's expertise to evaluate whether the student has been assessed in the correct tier, auditors should test that the student is being funded at the appropriate level based on the IEP. Although charter schools may provide services to students that go beyond what is required in that student's IEP, it is inappropriate for a charter school education corporation to bill for more services than are provided under the IEP. The auditor should also test to be sure that the proper district is being billed for the services.

Recalculation of rate

To test the calculation of the core pupil aid received, the auditor should first verify the rate used in the calculation. The charter school basic tuition rate is on the NYSED website at https://stateaid.NYSED.gov/charter under tuition by year. Auditors should verify that the charter school is using the student's resident district rate for the correct school year. Auditors should also verify that the appropriate special education funding rate is used. This rate is determined from historical data by school districts on an annual basis. A spreadsheet to determine the rate can be obtained at https://stateaid.NYSED.gov/speced under Special Education Aid Information.

The auditor should obtain the charter school's FTE reconciliation or equivalent which details all students and attendance dates (date admitted, date discharged, and FTE). The auditor should select a sample of students from this report in which to perform existence testing, as discussed above. The auditor should recalculate the FTE which essentially calculates the number of days attended between admission date and discharge date

divided by total length of the school year. There is also an FTE Calculator at https://stateaid.NYSED.gov under State Aid / Attendance and Enrollment / FTE Calculator which can be used to recalculate individual student FTEs. To recalculate the core aid in total, the auditor should multiply the rate by the number of FTEs as determined on the FTE reconciliation form or equivalent by the district and compare to the total core pupil aid for the fiscal year being audited.

Auditors should verify that per pupil billing did not exceed the maximum allowable enrollment. Maximum allowable enrollment can be found within the charter agreement terms of operation contains the actual enrollment chart source document. SUNY charter agreements allow school enrollment to go over (120%) or under (80%) their chartered enrollment within a lower and upper collar of 20%. All charter school education corporations must not bill above maximum allowable chartered enrollment (120%). See Section 3.3 of the charter agreement: http://www.newyorkcharters.org/wp-content/uploads/Model-Charter-July-2017.pdf.

The auditor should consider vouching payments received from the funding source (the local school district typically received bi-monthly during the school year) to the bank statements. This total should be reconciled to the total core pupil aid for the fiscal year being audited. Included in the reconciliation will be any amounts due from the funding source included in accounts receivable at year end or any amounts payable to the funding source included in accounts payable at year end as amounts are trued up to actual based on actual numbers submitted at year end. This year-end FTE reconciliation will be prepared subsequent to the year-end date. The NYCDOE maintains a website: https://www.finance360.org/vendor/vendorportal/ which provides this information for all NYC charter schools. The auditor should consider requesting this information from the charter school.

Auditors should obtain support for additional funding at https://www.oms.NYSED.gov/cafe/reports. The information is arranged by county and school district/charter school and can be obtained for the prior five years. Available information includes a federal and state grant status report, an agency summary report and a federal allocation report. This information should be reconciled to the amounts recognized on the general ledger for the fiscal year being audited. These grants are cost reimbursement grants and therefore revenue should not be recognized in excess of grant funds expended.

Co-Locations

Many charter schools are co-located in NYCDOE space, meaning they are allowed by the local school district to use space in its under-utilized buildings. Clearly, these charter schools are at a distinct financial advantage over those charter schools who must pay private rent or facility payments to maintain their own location. When a charter school is co-located within a local school district building, the district does not charge the education corporation rent but typically has an agreement with the local school district for use of that space. The charter school should disclose in its financial statements any agreement in place with the local school district as well as any rent that is charged, including fees charged for after-school or weekend usage. The charter school's financial statements should also disclose any payments related to utilities and maintenance of these facilities. In addition, the note disclosure should include the square footage of space being used by the charter school.

In some cases, a charter school may be co-located within the same building as another charter school within the same education corporation. In this situation, expenses to maintain the facility should be allocated between the two schools. The auditor should review this allocation to determine that the method of allocation appears reasonable, whether it is based on FTE students, square footage, or some other reasonable method of allocation.

In other cases, a charter management organization ("CMO") or community based organization ("CBO") may be utilizing space within an education corporation owned or leased building. In such cases, rent should be collected or a clear offset to expenses charged by the CMO or CBO should be verified.

Management fees

Many charter school education corporations utilize a third party to provide back office support for such functions as hiring, continuing professional development, accounting, or public relations, and allow the education corporation to take advantage of economies of scale in regard to purchases, etc. These management organizations may either be CMOs, which are non-profit organizations, or education management organizations ("EMOs"), which are for-profit organizations. In either case, these organizations typically charge a management fee for the services provided. As with the majority of long term agreements, the auditor should obtain a copy of the agreement between the education corporation and the management organization, and verify that the authorizer approved the agreement. Auditors should consider the materiality of the expense to determine whether recalculation of the expense is deemed necessary and if disclosure is required in the notes to the financial statements.

Operating Reserves

Auditors should inquire if an education corporation has adopted a policy for operating reserves. If the education corporation has adopted a policy, the auditor should determine if terms of the policy are appropriate and being followed. To be a viable operating reserve there should be a board approved policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds, clearly describe authorization for use of reserves and outline requirements for reporting and monitoring. The written policy should be included in the Financial Policy and Procedures Manual.

Fraud Considerations

The Statements on Auditing Standards and related Clarified Statements require that an auditor obtain knowledge about the entity's business and the industry in which it operates. In obtaining this knowledge, information may come to the auditor's attention which should be considered in identifying risks of material misstatement due to fraud. As part of these procedures, the auditor should perform the following:

- 1. Make inquiries of management and others within the entity to obtain their views about the risks of fraud and how they are being addressed;
- 2. Consider any unusual or unexpected relationships that have been identified in performing analytical procedures in planning the audit;
- 3. Consider whether one or more fraud risk factors exist; and,
- 4. Consider other information that may be helpful in the identification of risks of material misstatement due to fraud.

The United States Government Accountability Office lists the following conditions that might indicate a heightened risk of fraud, which should be considered when identifying potential fraud:

- 1. Economic, programmatic, or entity operating conditions threaten the entity's financial stability, viability or budget;
- 2. The nature of the entity's operations provide opportunities to engage in fraud;
- 3. Management's monitoring of compliance with policies, laws, and regulations is inadequate;
- 4. The organizational structure is unstable or unnecessarily complex;
- 5. Communication and/or support for ethical standards by management is lacking;
- 6. Management is willing to accept unusually high levels of risk in making significant decisions;
- 7. Operating policies and procedures have not been developed or are outdated;
- 8. Key documentation is lacking or does not exist;
- 9. Asset accountability or safeguarding procedures is lacking;
- 10. Improper payments;

- 11. False or misleading information;
- 12. A pattern of large procurements in any budget line with remaining funds at year end, in order to "use up all of the funds available;"
- 13. Unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.

Auditors should consider the following factors that are common areas of fraud risk in charter schools.

- Heightened risk of misappropriation of assets due to the high use of credits card (personal and school issued) by employees of the charter school for charter school expenses. The auditor should be cognizant of this risk and develop audit steps to test appropriateness of expenses, if deemed appropriate. In addition, the auditor should consider additional testing related to expense reimbursements testing for proper approval of expenses and authorized signatures on checks.
- 2. The existence of transactions with related parties. The auditor should inquire regarding same and examine board minutes, agreements, conflict of interest disclosure statements from trustees, officers and key employees, and other underlying documents to ascertain whether there are any material related party transactions not being disclosed. The auditor should test any material related party transactions, including transactions with management companies (CMOs and EMOs) and gain an understanding of the business purpose of such transaction and the reasonableness of the value of goods or services being provided. In the event there are transactions with a related party with which a member of the board of trustees has a conflict of interest, the board minutes should be examined to ascertain whether there was a recusal by such board member in relation to voting on procurement of such goods or services in which the member has a conflict of interest, and whether the board ascertained whether the related transaction was "fair, reasonable, and in the corportion's best interest" as may be required by § 715 of the Not-for-Profit Corporation Law. The auditor should also gain an understanding of purchasing and procurement policies to ascertain dollar thresholds and goods and/or services that are required to be procured through a competitive bidding process. The conflict of interest policy as well as the approval authorization levels should be included in the school's Financial Policy and Procedures Manual.

Section 5: Presentation of Charter School Financial Statements

The charter school shall maintain financial statements that are prepared in accordance with GAAP. All statements required by FASB Accounting Standards Codification ("ASC") 958, Not-for-Profit Entities, should be presented including a Statement of Financial Position as of the end of the reporting period, Statement of Activities for the reporting period, and Statement of Cash Flows for the reporting period. In addition, the statements shall include the required note disclosures and a supplemental Schedule of Functional Expenses. The Schedule of Functional Expenses must be in the format provided in Appendix D and subject to the auditing procedures applied in the audit of the financial statements. Such supplemental schedule is not a required part of the financial statements and should be included for the purposes of additional analysis. Alternatively, the Schedule of Functional Expenses can be included as part of the basic financial statements.

Statement of Cash Flow

Beginning with 2014-15 audits, the direct method for the Statement of Cash Flow is strongly encouraged. While the direct and the indirect methods of preparing the statement of cash flow are allowable under accounting standards, the direct method is proposed under the FASB not for profit reporting model.

Schedule of Functional Expenses

The Schedule of Functional Expenses must present the nature of the expenses incurred in each category of program and supporting services reported in the Statement of Activities, and follow the format provided in Appendix D. Classifications not applicable to the charter school may be eliminated.

If not otherwise presented, charter school education corporations contracting with management entities should obtain and provide in note disclosure a breakdown of contracted services in a similar format to the Schedule of Functional Expenses to facilitate comparisons among SUNY authorized schools.

Refer to Section 10: SUNY Required –Excel Template of Audited Financials to see discussion regarding the reporting of each individual school's functional expenses and if a merged education corporation the reporting of each individual school as well as the combined educational corporation functional expenses.

Note on allocation of expenses: Charter schools must use allocation methods that are fair and reasonable to allocate costs for the Schedule of Functional Expenses. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, should be documented and retained for review upon audit. Salaries of employees who perform tasks for more than one program (or school within the education corporation) must be allocated among all programs for which they work. The cost of supplies that are purchased for distribution among multiple programs must be allocated among these programs if direct charges are not possible. Allocation percentages and methodology should be reviewed, at a minimum, on an annual basis by both management and the board of trustees and adjusted as necessary.

Pre-K is a Program not a Chartered Grade

The charter agreement covers the authorized charter grades within the K-12 range. A pre-K program is permissible under the charter agreement and separately approved by NYSED as part of a district (NYCDOE) application, or an individual application. A separate contract between the charter school education corporation and NYCDOE to operate a pre-K program has been the norm. Notes to the financial statements should identify the existence of the pre-K program contract with the NYCDOE within the charter school.

Education Corporations

Education Corporations - One School

Upon issuance of a charter by the Board of Regents, the charter school is incorporated as an education corporation and issued a provisional charter/certificate of incorporation (see Education Law § 2853(1)(a)).

Education Corporations - Multiple Schools

The Act also permits an education corporation to operate more than one charter school (Education Law § 2853(1)(b-1)). In those cases, each individual charter school is not a separate education corporation; the entity to which the provisional charter/certificate of incorporation is granted is the governing education corporation with the authority to operate multiple charter schools for which charter applications were approved by the authorizer. The Terms of Operation of the charter agreement likely has common terms for all schools within the education corporation, in addition to individual schedules showing individual terms for each school including enrollment, staffing plan, etc. For education corporations that operate more than one charter school, combining schedules (not consolidated statements) must be issued with one statement of financial position (balance sheet), one combined statement of activities and changes in net assets, one combined statement of functional expenses and one statement of cash flows. In addition, as supplemental information provide information by charter school, specifically a statement of activities and changes in net assets by charter school, which will identify the operating surplus or deficit by charter school to make it easily identifiable as to the historical financial standing of each school. An education corporation with the authority to operate more than one charter school can maintain one balance sheet or continue to maintain separate balance sheets by charter school. However, the

education corporation must submit one combined balance sheet and statement of cash flow for audit reporting and for submission to SUNY for its Fiscal Dashboard.

Education Corporations- Mergers

Mergers of education corporations have an effective date that is the first day of a fiscal year or aligned with a quarterly financial date. The preference is for the effective date to be the first day of a fiscal year. For effective dates that fall on a quarterly date, a full accounting must be maintained for each education corporation on the closing date as individual entities. Beginning with the effective date, combined opening financials must be maintained as the merged education corporation. Financials are required the day prior to the effective date to ensure that everything is accounted for and moved into the merged entity. For education corporations that have merged, combining schedules (not consolidated statements) must be issued with one statement of financial position (balance sheet), one combined statement of activities and changes in net assets, one combined statement of functional expenses and one statement of cash flows. In addition, as supplemental information, provide information by charter, specifically a statement of activities and changes in net assets, which will identify the operating surplus or deficit by charter to make it easily identifiable as to the historical financial standing of each charter. A merged education corporation should only maintain one balance sheet. The Institute will report one balance sheet for the education corporation within the SUNY Fiscal Dashboard.

The Institute has issued a Guide to Merging Education Corporations that contains details of the merger process, benefits to merger, timing and effective date, future operations and fiscal responsibilities that is included in its entirety at Appendix N.

OMB Single Audit Clarification for Education Corporations that Operate More Than One Charter School

- If the education corporation has received and passed through to its schools \$750,000 or more in federal funds, the Education corporation would be required to have an audit in accordance with the Uniform Grants Guidance.
- Any separate corporation that expends over \$750,000 or more in federal funds in total (whether received directly or through a pass-through entity) during the fiscal year would be required to have an audit in accordance with the Uniform Grants Guidance.
- If a consolidated financial statement is being audited (more than one corporation is being consolidated in accordance with GAAP), a consolidated single audit must be conducted if the parent corporation expends \$750,000 or more in federal funds.

Related Parties

According to FASB ASC 958-810 Reporting of Related Entities by Not-for-Profit Organizations, not-for-profit organizations with a controlling financial interest in another not-for-profit organization through direct or indirect ownership of a majority voting interest in that other not-for-profit organization should consolidate with that other organization, unless control does not rest with the majority owner, in which case consolidation is prohibited. Auditors should consider whether the related party and the charter school have the same board members, overlapping members of management, etc. and whether those charged with governance are similar between the two organizations. Auditors need to also consider whether the entities are operating with a shared economic interest. If the answer is yes, then the related party may need to be consolidated with the charter school for financial statement purposes. When there are consolidated statements, a statement of activities broken down by related parties should be included as supplementary information.

Contributed Goods, Services and Other Assets

Charter schools often receive contributions of cash, other assets, and certain services. Other assets contributed to a charter school may include securities, use of facilities, materials and supplies and curriculum materials. In accordance with FASB ASC 958-605, contributions must be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form and type of contribution.

Donated Space in School District Facilities

Many charter schools, especially those located in New York City, are provided space in a building owned by the school district at minimal or no charge to the charter school. The value of this space is often very difficult for the charter school to determine and therefore is often not recorded in the financial statements. In order to aid in comparison of financial statements of district-located and non-district located charter schools, the audited financial statements should include a note disclosure describing the current facility arrangement and if any amount has been recorded in the financial statements for donated district space. The note should include the current square footage in use by the charter school. For charter schools located in shared facilities, appropriate allocations of square footage should be made for shared space such as a gymnasium, cafeteria or auditorium. Allocations should be made based on a reasonable allocation methodology, such as a percentage of each school's enrollment to the total enrollment at the shared facility.

Other Services Provided by a School District

Similar to donated district space as described above, often the local school district will provide transportation or other services, such as food service or special education services, at no cost to the charter school. To the extent which the charter school can determine the value, these items should be recorded in the financial statements as in-kind revenues and expenses. To aid in comparison, charter schools recording values for donated transportation or other district-provided services should disclose the amount recorded or the fact that services were received but the charter school was unable to determine a value.

A sample note disclosure for contributions of space and other services is as follows:

The Charter School is located in a New York City Department of Education facility and utilizes approximately ______ square feet at no charge. In addition, the Charter School received donated transportation, food service and special education services from the local district. The Charter School was unable to determine a value for these services.

Section 6: 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 (the "Yellow Book" Report)

Audits performed under GAGAS require issuance of a separate report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the financial statements (the "Yellow Book" report). The Yellow Book report should be issued for any audit performed in accordance with GAGAS, regardless of the results of the audit and whether or not there are any findings to report.

Internal Control over Financial Reporting

The auditor must describe the scope of their consideration of internal control over financial reporting as part of the audit of the financial statements. The auditor need not provide an opinion on internal control over financial reporting. Any material weaknesses or significant deficiencies in internal control over financial reporting identified during the audit, or continuing from a previous year, must be included in the Yellow Book report. These may include lack of controls in place over financial reporting such that significant audit entries were required or concerns regarding segregation of duties.

When deficiencies in internal control that are not significant are not included in the audit report the written communication to those charged with governance **must be referred** to within the Independent Auditor's Report on

Internal Controls Over Financial Reporting. Government Auditing Standards under section 7.19, Deficiencies in Internal Control, states:

When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. Auditors should refer to that written communication in the audit report if the written communication is separate from the audit report. When auditors detect deficiencies that do warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to audited entity officials is a matter of professional judgment.

(Emphasis added.)

Compliance with Provisions of Laws, Regulations, Contracts and Grant Agreements

As part of the financial statement audit, the auditor will determine whether the audited entity is in compliance with material provisions of laws, regulations, contracts, and grant agreements that could impact the financial statements. Any evidence of fraud or noncompliance found throughout the audit should be evaluated to determine if a finding is necessary in the Yellow Book report. "Standards for Internal Control in the Federal Government," known as the Green Book, contains the federal standards for an effective internal control system. Examples of audit findings to be evaluated include:

- Indications of fraud;
- Noncompliance with provisions of laws or regulations (such as the charter contract or New York State laws) –
 see further detail below;
- Noncompliance with provisions of contracts or grants that could have a material effect on the financial statements (such as federal or foundation grants or contracts); and,
- Abuse that is material, either quantitatively or qualitatively.

Reporting Findings

If, based on the results of the audit and the above guidance, as well as relevant GAGAS standards, the auditor determines that findings should be reported to management and those charged with governance, the auditor should follow the guidance included in GAGAS in developing written communication of the findings. See the flowchart at Appendix F.

Findings should include the following elements:

- 1. Criteria;
- 2. Condition;
- 3. Cause;
- 4. Effect or Potential Effect;
- 5. Recommendation; and,
- 6. Management Response.

Corrective Action Plan

The auditee's response to the finding(s) should be included in the report unless the auditee refuses to provide comments or is unable to provide them in a reasonable period of time. The auditee's response should include what actions will be taken to correct the finding, the date the actions were or will be implemented, and who is responsible for implementation. If auditee comments are not provided, the auditor should indicate in the report that the auditee did

not provide a response. In addition, the charter school is responsible for providing a copy of the corrective action plan to both SUNY and NYSED along with the audited financial statements and required reports.

Sample Yellow Book reports are included in Appendix E for reference. These reports have been modified to conform to the presentation applicable to charter schools.

Requirements of Laws, Regulations, Contracts and Grant Agreements to be Tested as Part of the Audit

General Requirements as Detailed in the Charter School's Charter Agreement

Each charter school education corporation signs a charter agreement between the education corporation and its charter authorizer to establish a charter school under the New York Charter Schools Act of 1998 (as amended). The auditor should obtain the charter agreement and consider the education corporation's compliance with the requirements as established in the agreement. Many of the specific requirements of all schools are discussed in more detail below. Some general requirements include the following:

- 1. Operate under the mission statement as set forth in the application.
- 2. Abide by a code of ethics nad/or conflicts of interest policy (also required by N.Y. Not-For-Profit Corporation Law §715-a).
- 3. Establish a board of trustees, which does not consist of teachers, school administrators, school employees, or persons with an interest in a for-profit contract with the charter school, except to the extent permitted by N.Y. General Municipal Law.
- 4. Operate board meetings pursuant to the by-laws of the education corporation set forth in the application and as amended to date, which shall be in accordance with the N.Y. Open Meetings Law.
- 5. Establish, implement, and disseminate a school disciplinary code, which may be found in the student handbook.
- 6. Obtain authorizer approval for material programmatic changes to the operation of the school and/or the charter, and obtain final Regents approval or approval by operation of law for such changes.

The auditor shall obtain the charter agreement and inquire of management if there are policies and procedures in place to ensure the education corporation is abiding by the requirements established in the charter agreement. If the auditor determines that the education corporation is not in compliance with these requirements, the auditor should consider including such a finding in the Yellow Book report and the communication to those charged with governance (the education corporation board of trustees).

Age, Grade Range, Number of Students

In the charter school application, the charter school is required to establish grade levels and enrollment. As defined by the charter agreement section 3.3 http://www.newyorkcharters.org/wp-content/uploads/Model-Charter-July-2017.pdf the charter school must make all reasonable efforts to recruit students but is allowed to enroll a lesser or greater number of students in each grade or from one year to the next without being deemed in material breach of the charter as long as enrollment variation does not substantially alter the charter school's educational design as described in the application. However, the charter school must obtain written approval from its authorizer prior to the following:

- 1. Enrolling any student, who, if enrolled, would cause the charter school's enrollment to exceed the total maximum allowable enrollment of the charter school as set forth in the application for a charter (as amended to date).
- 2. Commencing or continuing instruction where the total number of students enrolled is less than eighty percent (80%) or more than one-hundred twenty percent (120%) of the chartered enrollment for a given year as set forth in the application (as amended) or if the total enrollment is less than fifty (50) students.

The charter school should demonstrate good-faith efforts to attract and retain a comparable or greater enrollment of students with disabilities, English language learners and students eligible for the federal Free or Reduced-Price Lunch Program when compared to the enrollment figure for such students in the school district in which the charter school is located (Education Law § 2854(2)(a)). Depending on whether a charter school is in its initial charter term, (Education Law § 2852(9-a)(b)(i), or in a renewal charter term, Education Law § 2851(4), SUNY prescribes enrollment and retention targets for the foregoing categories of students that the school must try to meet or exceed based on the size of the school, grades served, and the school district or in New York City, the Community School District ("CSD")of location. See guidance on enrollment and retention targets at http://www.p12.nysed.gov/psc/enrollment-retention-targets.html.

Lottery system

In accordance with § 2854(2) of the Education Law, charter schools must enroll each eligible student who submits a timely application by the first day of April each year, unless the number of applications exceeds the capacity of the grade level or building. In such cases, students shall be accepted from among applicants by a random selection process, i.e., a lottery.

When a lottery is conducted, the school is required to provide an enrollment preference to pupils returning to the charter school in the second or any subsequent year of operation, pupils residing in the school district in which the charter school is located (or, in New York City, the CSD), and siblings of pupils already enrolled in the charter school. In conducting its lottery, a charter school may not discriminate on the basis of ethnicity, national origin, gender, or disability or any other ground that would be unlawful if done by a traditional public school. Likewise, admission of students shall not be limited on the basis of intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion, or ancestry. However, the Education Law permits the establishment of a single-sex charter school or a charter school designed to provide expanded learning opportunities for students at-risk of academic failure, students with disabilities, or English language learners.

The State Education Commissioner has established regulations detailing the requirements of the charter school lottery process. See 8 NYCRR 119.5. The independent auditor should obtain a copy of the charter school's approved lottery procedures, and should review documentation evidencing the school's actual lottery process to ensure that it complies with the approved procedures and all applicable laws and regulations. If the auditor finds that the charter school has not developed adequate procedures, or believes the procedures in place are not being followed or are unlawful, the auditor should consider observing the next live lottery or comparing the applications received with the applications selected in the lottery. See Appendix G for procedures to consider during a live lottery observation. If there is concern regarding a school's lottery procedures, the auditor should also consider including such a finding in the Yellow Book report and in a communication to those charged with governance (i.e., the education corporation's board).

Weighted Lottery

Education corporations receiving CSP funds for a specific charter schools are allowed to have the schools weight their lotteries to favor a specific at-risk student subgroup. Schools receiving CSP funds must request permission from the NYSED Charter School Office to conduct a weighted lottery, regardless of authorizer.

Education corporations receiving CSP funds must use the NYSED Weighted Lottery Generator (WLG), for those specific schools for the purpose of weighting for an at-risk subgroup, and must retain a copy of the lottery PDF. This PDF is generated after the WLG process is complete. See Appendix G for guidance on using the NYSED WLG. This information can also be found at http://www.p12.nysed.gov/psc/documents/WeightedLotteryGuidance.pdf. Other schools in the education corporation that are not receiving CSP funds may have different lottery weights or preferences, and do not need NYSED permission to conduct such lotteries so long as approved by SUNY.

Hiring Procedures of the School

According to § 2854 (3)(a-2) of the Education Law, the board of trustees of a charter school shall require, for purposes of a criminal history record check, the fingerprinting of all prospective employees as well as consent to a criminal history records search. Results from fingerprint checks must be obtained to ensure clearance for employment. In addition, the employee responsible for obtaining background checks on prospective employees should not perform his/her own background check. The auditor should ensure that this policy is in place at the charter school and is being followed for all potential employees of the charter school. The auditor should consider testing that this evidence is obtained in conjunction with other payroll testing done as part of the audit. If these procedures are not in place or not being followed, the auditor should include such a finding in the Yellow Book report and the communication to those charged with governance.

Insurance Coverage

According to § 2851(2)(o) of the Education Law, the charter school shall obtain insurance which shall include adequate insurance for liability, property loss and personal injury of students. The auditor should obtain evidence that such insurance is in place for each school or site being used by the education corporation.

Section 7: OMB Uniform Guidance (Single Audits)

An education corporation that expends \$750,000 or more in federal awards during the fiscal year must have a single audit conducted for that year in accordance with the provisions of Uniform Guidance and GAGAS. The single audit must be submitted to the federal government, SUNY, and NYSED. Federal awards are subject to a single audit whether expended as a direct recipient or a subrecipient. Payments received for goods or services provided as a contractor are not considered federal awards. Subrecipient and contractor determinations set forth the considerations used to determine whether payments are considered federal awards or a payment for contractor goods or services.

Characteristics that support the classification of the entity as a subrecipient or a contractor are as follows:

<u>Subrecipient</u>: (1) Determines who is eligible to receive what federal assistance; (2) Has its performance measured in relation to whether objectives of a federal program were met; (3) Has responsibility for programmatic decision making; (4) Is responsible for adherence to applicable federal program requirements specified in the federal award; and, (5) In accordance with its agreement, uses the federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

<u>Contractor</u>: (1) Provides the goods and services within normal business operations; (2) Provides similar goods or services to many different purchasers; (3) Normally operates in a competitive environment; (4) Provides goods or services that are secondary to the operation of the Federal program; and, (5) Is not subject to compliance requirements of the federal program as a result of the agreement, though similar requirements may apply for other reasons.

Federal awards typically expended by a charter school may include, but are not limited to, the following:

- CSP, including replication and expansion grants;
- Title I, Part A;
- Title II, Part A
- Title III, Part A;
- National School Breakfast, Lunch and Snack Program; and,
- Summer Food Service Program.

Funding received from the Universal Service Administrative Co. Schools & Libraries Program (E-Rate) is not listed in the Catalog of Federal Domestic Assistance, and is exempt from single audit requirements; therefore, revenue recorded from discounts or reimbursements received under E-Rate should not count towards the \$750,000 threshold in determining the need for a single audit. Funding received from IDEA (special education) grants or flow-through per pupil funds awarded or paid by a school district are considered a vendor/contractor relationship and, therefore, do not count towards reaching the \$750,000 threshold. A memo regarding vendor status of IDEA funding is available at http://www.p12.nysed.gov/specialed/finance/2011-12-ASEP-flowthrough.htm.

Criteria for a Low-Risk Auditee

A charter school education corporation that meets all of the following conditions for each of the preceding two audit periods must qualify as a low-risk auditee and is eligible for reduced audit coverage:

- a) Single audits were performed on an annual basis. The data collection form and the reporting package was submitted to the FAC within 30 days after receipt of the audit report, or 9 months after the end of the audit period.
- b) The auditor's opinion on whether the financial statements were prepared in accordance with GAAP, or a basis of accounting required by state law, and the auditor's in relation to opinion on the schedule of expenditures of federal awards were unmodified.
- c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS.
- d) The auditor did not report a substantial doubt about the charter school's ability to continue as a going concern.
- e) None of the federal programs had audit findings from any of the following in either of the preceding two audit periods in which they were classified as Type A programs:
 - 1. Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs;
 - 2. A modified opinion on a major program in the auditor's report on major programs; or,
 - 3. Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the audit period.

If the education corporation meets the criteria to be considered a low-risk auditee, the auditor need only audit the major programs and such additional federal programs with federal awards expended that, in aggregate, all major programs encompass at least 20 percent of total federal awards expended. Otherwise, the auditor must audit the major programs and such additional federal programs with federal awards expended that, in aggregate, all major programs encompass at least 40 percent of total federal awards expended.

Major Program Determination

The auditor must use a risk-based approach to determine which federal programs are major programs. This risk-based approach must include consideration of current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. A major program can be identified by performing the following steps:

Step 1: The auditor must identify the larger federal programs, which must be labeled Type A programs. Type A programs are defined as federal programs with federal awards expended during the audit period exceeding the levels outlined in the table below:

Total Federal awards expended	Type A/B threshold		
Equal to or exceed \$750,000 but less than or equal to \$25 million	\$750,000.00		
Exceed \$25 million but less than or equal to \$100 million	Total federal awards expended times .03		
Exceed \$100 million but less than or equal to \$1 billion	\$3 million		
Exceed \$1 billion but less than or equal to \$10 billion	Total federal awards expended times .003		
Exceed \$10 billion but less than or equal to \$20 billion	\$30 million.		
Exceed \$20 billion	Total federal awards expended times .0015		

Federal programs not considered Type A above must be classified as Type B programs. All Type A programs classified as high risk must be tested as a major program regardless of the percentage of coverage obtained over federal awards expended.

Step 2: The auditor must identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it must have been audited as a major program in at least one of the two most recent audit periods, and, in the most recent audit period, the program must have not had: (1) internal control deficiencies which were identified as material weaknesses in the auditors' report on internal control for major programs; (2) a modified opinion on the program in the auditors' report on major programs; and, (3) known or likely questioned costs that exceed 5% of the total federal awards expended by the program.

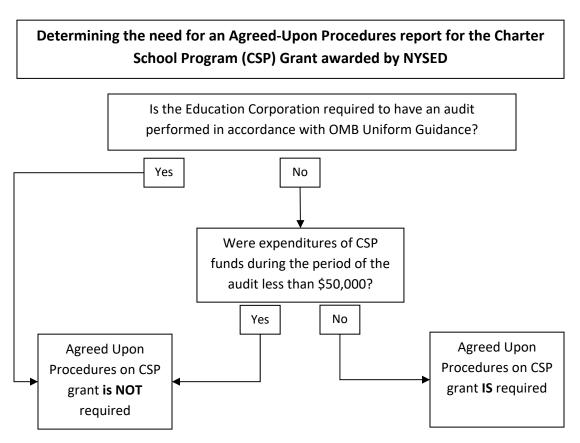
Step 3: The auditor must identify Type B programs which are high-risk using professional judgment and the criteria in for federal program risk. However, the auditor is not required to identify more high-risk Type B programs than at least one fourth (1/4) the number of low-risk Type A programs identified as low-risk under Step 2. The auditor is not expected to perform risk assessments on relatively small federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed 25 of the Type A threshold determined in Step 1.

At the conclusion of the single audit, the auditor must issue a report on (1) 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, (2) compliance for each major federal program and report on internal control over compliance in accordance with Uniform Guidance, and (3) an opinion on the Schedule of Federal Expenditures ("SEFA"). Issuance of the opinion on compliance requires the auditor to determine whether the charter school education corporation complied with the direct and material compliance requirements for the major program(s) tested in the single audit. Gaining an understanding of internal control over compliance as it relates to each direct and material compliance requirement is necessary as part of the risk assessment process to determine where controls may not be adequate or further procedures are needed in order to determine compliance. If the auditor finds the entity is lacking controls over maintaining compliance with the direct and material requirements of the program, or controls in place are not operating effectively, this must be reported as a finding in the schedule of finding and questioned costs. The auditor must also disclose any questioned costs greater than \$25,000. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs).

Auditors should refer to OMB Uniform Guidance and the most recent Compliance Supplement (available at www.whitehouse.gov/omb/circulars) for further guidance in performing and reporting on a single audit.

Section 8: Agreed-Upon Procedures Report on CSP Funding

NYSED was awarded a significant CSP grant to pass through to charter schools. This grant is separate from network or CMO grants directly awarded by the U.S. Department of Education. To ensure adequate monitoring of CSP funding when expenditures of all federal awards are less than the \$750,000 threshold for a single audit, NYSED has set forth guidance on specific procedures that are required for charter school education corporations receiving CSP funding through NYSED. If CSP funding is received directly from the U.S Department of Education or through a different source than NYSED, the Agreed-Upon Procedures ("AUP") report on the CSP grant is not required. Please refer to the following flowchart to determine if the education corporation is required to have its auditor perform the additional procedures and submit the specified report to NYSED.



If the AUP report is required, the report is due by November 1 of each fiscal year, corresponding to the date the audited financial statements must be submitted to SUNY and NYSED. The period of the AUP report should correspond to the period of the audit. For example, in the initial year of audit, the audit period may cover more than 12 months. In this case, the AUP report should cover the same period as the audit, even if it is more than 12 months. In subsequent years, this will typically be the fiscal year.

If a single audit is required for the first year the school is in operation, an AUP report on the CSP grant would not be required; however, the single audit only covers the 12-month period ending with the education corporation's fiscal

year end. If the education corporation expended \$50,000 or more of CSP funds in its interim period (from inception until the year in which the charter school(s) opened), an AUP report on the CSP grant may be required. If the single audit for the 12-month period of the charter school's first year of operations reported no findings, the AUP report on the CSP grant for the interim period is not required. If any findings are reported as a result of the single audit, an AUP report on the CSP grant is required for the period from inception through the end of its interim period.

Required Agreed-Upon Procedures Report for CSP Funding

If the charter school is subject to the above requirements for the AUP report on the CSP grant, the following procedures must be performed by the charter school's independent auditor.

- a. Obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the education corporation's accounting software and reconcile to the grant revenue recorded by the education corporation. If the CSP grant revenue does not equal the grant expenditures, investigate the difference.
- b. Obtain the NYSED-approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.
- c. Select a sample of expenditures from the detail obtained above.
 - 1. Payroll Select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
 - 2. Other expenses Select 10 items or 10% of the total number of items charged to the grant, whichever is less.
 - 3. Using the above selected items:
 - i. Determine if the expenditure is in accordance with the purpose of the grant and that preopening expenditures are charged to pre-opening periods. (See non-regulatory guidance on the CSP grant at http://www.p12.nysed.gov/psc/grants.html);
 - ii. Determine if the expenditure falls into an approved budget category; and,
 - iii. Determine if the expenditure was charged to the appropriate fiscal period.
- d. Obtain FS-25 form(s) submitted to NYSED during the period under review.
 - Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items
 requested for reimbursement had previously been expended or were expended within a month
 following the request for reimbursement. If items have not yet been requested for reimbursement,
 inquire of responsible charter school officials as to the plan for requesting reimbursement, and
 determine if a receivable is recorded, if appropriate.
 - 2. If FS-25 forms include amounts on Line 4 of the FS-25 (Cash Expenditures Anticipated During Next Month), determine if the total of funds expended within one month following the date of the request is at least the amount shown on Line 4.
- e. Subgrantees who wish to weight their lotteries for specific at-risk subgroups must conduct their lottery using the NYSED Weighted Lottery Generator. For schools requiring an Agreed-Upon Procedure Report, the auditor must determine that:
 - The school received permission from the NYSED Charter School Office for the weighted lottery; and,
 - Documentation to support that a weighted lottery was held and adhered to the NYSED Weighted Lottery Guidance (see Appendix G).

See sample report in Appendix B.

Section 9: SUNY Fiscal Dashboard

The Institute maintains a fiscal dashboard of the portfolio of SUNY authorized charter schools as shown in Appendix I, which is publically accessible at: http://www.newyorkcharters.org/fiscal-dashboard/.

The SUNY Fiscal Dashboard provides a five year historical view of the financial condition of stand-alone charter schools as well as education corporations with the authority to operate multiple charter schools and merged education corporations based upon the audited financial statements. The dashboard displays the balance sheet, revenues and expenses, surplus/(deficit) from operations, other revenues, unrestricted and temporarily restricted revenue, change in net assets, and net assets at the beginning and end of each year. In addition, functional expenses breakdown, historical enrollment and grades served, per pupil aid, ratios of student-to-faculty and faculty-to-administration. The dashboard provides five fiscal benchmarks that SUNY uses to analyze fiscal condition of a charter school:

- 1. **Financial Responsibility Composite Score** a weighted average of reserves, equity and net income;
- 2. Working Capital Total Current Assets / Total Current Liabilities;
- 3. Quick (Acid Test) Ratio Total Current Assets Prepaids / Total Current Liabilities;
- 4. **Debt to Asset Ratio** Total Liabilities / Total Assets; and,
- 5. **Months of Cash** Unrestricted Cash on Hand / (Total Expenditures/12) or Unrestricted Cash on Hand / (Total Expenditures/365).

The Financial Responsibility Composite Score is ranked as follows:

Fiscally Strong; Fiscally Adequate; and, Fiscally Needs Monitoring; and, the other four benchmarks indicate risk as HIGH, MEDIUM, and LOW and provide ratings of Excellent, Good, and Poor.

Calculations of each benchmark are detailed at: http://www.newyorkcharters.org/wp-content/uploads/Fiscal-Dashboard-Ratios.pdf and also contained in <a href="http://www.newyorkcharters.org/wp-content/uploads/Piscal-Dashboard-Ra

The SUNY Fiscal Dashboard provides charts comparing the charter school to other schools, combined education corporations and region of the state where the school is located.

A sample SUNY Fiscal Dashboard is contained in Appendix I of this guide and reflects a newer charter school that opened in 2013-14 with four years of audited financial data. The dashboard reflects that the school started out fiscally adequate with some benchmarks in poor condition, progressed into the 2016-17 audited financial reporting fiscally strong and low risk and excellent conditions on each of the other four benchmarks.

Section 10: SUNY Required - Excel Template of Audited Financials

On November 1 of each year, SUNY authorized charter schools must submit the audited financial statements prepared by an independent auditor and all related management and/or advisory letters from the auditor. In addition, the schools must complete and submit to the Institute an Excel® template of the audited financial

statements. The template is available in Appendix K and for download from the Institute website: http://www.newyorkcharters.org/fiscal/.

The completed template of the audited financial statements is cross-checked and verified to ensure that it accurately reports the audited balances. Data from each schools' templates are uploaded into the SUNY Fiscal Dashboard for use by the Institute to report on charter schools financial condition in renewal and other reports. The SUNY Fiscal Dashboard is also made available on the Institute's website for general viewing.

The template contains a transmittal form, statement of financial position, statement of activities, statement of cash flows, and statement of functional expenses. The schools are responsible for cross-checking the completed template to the audited financial statements to ensure completeness and accuracy in reporting.

For a stand-alone school the following is required:

- Tab 1 Transmittal Form for the School, select name from dropdown
- Tab 2 Statement of Financial Position
- Tab 3 Statement of Activities
- Tab 4 Statement of Cash Flows
- Tab 5 Statement of Functional Expenses

For an education corporation with the authority to operate multiple schools ("combined") and/or for a merged education corporation with more than one operating school under the education corporation ("merged") the following is required:

For each individual school within the education corporation complete:

- Tab 1 Transmittal Form for each individual school, select name from dropdown
- Tab 3 Statement of Activities for each individual school
- Tab 5 Statement of Functional Expenses for each individual school

For the merged education corporation as a whole:

- Tab 1 Transmittal Form for the Merged Education Corporation, select name from dropdown
- Tab 2 Combined Statement of Financial Position
- Tab 3 Combined Statement of Activities
- Tab 4 Combined Statement of Cash Flows
- Tab 5 Combined Statement of Functional Expenses

Appendix A – Template for Independent Accountant's Report on the Initial Statement

CPA letterhead

INDEPENDENT ACCOUNTANT'S REPORT ON AGREED UPON PROCEDURES

To the Board of Trustees of ABC Charter School:

We have performed the procedures enumerated below, which were agreed to by the management of ABC Charter School and the State University of New York ("SUNY") and the New York State Education Department solely to assist the specified parties in evaluating the Education Corporation's assertion to SUNY that it has financial controls in place for transactions outlined below. The school's management is responsible for these procedures. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose:

- 1. Preparing and maintaining financial statements and records in accordance with generally accepted accounting principles ("GAAP");
- 2. Payroll procedures;
- 3. Accounting for contributions and grants;
- 4. Procedures for the creation and review of quarterly and annual financial statements, which procedures shall specifically identify the individual(s) who will be responsible for preparing and reviewing such financial statements;
- 5. Appropriate internal financial controls and procedures;
- 6. Safeguarding of assets including cash and equipment;
- 7. Compliance with applicable laws and regulations;
- 8. Ensuring that the purchasing process results in the acquisition of necessary goods and services at the best price;
- 9. Following appropriate guidance relating to budget development and administration; and,
- 10. Following appropriate guidance relating to a code of ethics, and cash management and investments.

The procedures we performed and the related results are as follows:

<u>Procedure #1</u>: We will obtain a copy of the Financial Policies and Procedures Manual ("FPPM") of the Education Corporation and read it to ascertain whether it includes accounting procedures for the preparation of the Education Corporation's financial statements in conformity with accounting principles generally accepted in the United States of America.

Result: We observed that...

<u>Procedure #2:</u> We will read the FPPM to ascertain whether it includes payroll procedures for the Education Corporation and determine whether the Education Corporation has hired an outside vendor to process the payroll.

Result: We observed that...

<u>Procedure #3:</u> We will read the FPPM to ascertain whether it includes procedures for accounting for contributions and grants.

Result: We observed that...

<u>Procedure #4:</u> We will identify and interview the person(s) responsible for financial management of the Education Corporation regarding the existence and understanding of procedures for the creation and review of interim and annual financial statements.

<u>Result:</u> We identified *(name, title)* as the person(s) responsible for financial management of the Education Corporation, and (s)he represented that...

<u>Procedure #5:</u> We will read the available trial balance and documentation supporting cash receipts, cash disbursements and payroll expenses on a sample basis to observe the status of implementation of the accounting procedures.

Result: We observed that...

<u>Procedure #6:</u> We will interview the person(s) responsible for financial management of the Education Corporation regarding the existence and understanding of appropriate internal financial controls and procedures, including procedures related to ensuring that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported.

<u>Result:</u> We identified *(name, title)* as the person(s) responsible for financial management of the Education Corporation and (s)he represented that ...

<u>Procedure #7:</u> We will interview the person(s) responsible for financial management of the Education Corporation regarding compliance with applicable laws and regulations and how they stay current with all laws and regulations. We will also obtain and review a copy of the Education Corporation's code of ethics.

<u>Result:</u> We identified *(name, title)* as the person(s) responsible for financial management of the Education Corporation and (s)he represented that ...

<u>Procedure #8:</u> We will review the FPPM to ascertain whether it includes procedures for ensuring the purchasing process results in the acquisition of necessary goods and services at the best price.

Result: We observed that...

<u>Procedure #9:</u> We will interview the person(s) responsible for financial management of the Education Corporation regarding the existence of procedures for budget development and administration to determine if the Education Corporation is following appropriate guidance. We will obtain a copy of the most recent budget to determine if the budget was approved by the Board of Trustees of the Education Corporation.

<u>Result:</u> We identified *(name, title)* as the person(s) responsible for financial management of the Education Corporation and (s)he represented that ... We observed that...

<u>Procedure #10:</u> We will read the FPPM to ascertain whether it includes procedures for ensuring the Education Corporation has procedures for cash management and investments, if applicable.

Result: We observed that...

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, on these procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of ABC Charter School, SUNY and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

CPA Signature Date

Appendix B – Template for Independent Accountant's Report on CSP Funding

CPA letterhead

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of ABC Charter School:

We have performed the procedures enumerated below, which were agreed to by the management of ABC Charter School, the SUNY, and the New York State Education Department ("NYSED") solely to assist the specified parties in evaluating the School's assertion to NYSED that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

<u>Procedure #1:</u> We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the Education Corporation's accounting software and reconcile to the grant revenue recorded by the Charter School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result:

<u>Procedure #2:</u> We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result:

<u>Procedure #3:</u> We will select a sample of expenditures from the detail obtained in Procedure #1.

- a. Payroll We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less
- c. Using the above selected items, we will:
 - i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods. (See non-regulatory guidance on the CSP grant at http://www.p12.nysed.gov/psc/funding/201820csppinewapp.html
 - Determine if the expenditure falls into an approved budget category; and,
 - iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result:

<u>Procedure #4:</u> We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following.

- a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible charter school officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within one (1) month following the date of the request.

Result:

Procedure #5: For schools with a weighted lottery during the period under review we will:

- a. Obtain documentation that the school received permission from the NYSED Charter School Office for the weighted lottery.
- b. Obtain the results of the weighted lottery.
 - Note that weighted lotteries must be conducted using the NYSED Weighted Lottery Generator (WLG). When the WLG is used, a copy of the 'lottery PDF' should be observed. (This PDF is generated after the WLG has conducted the lottery.)

Result:

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on ABC Charter School's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of ABC Charter School, SUNY, and NYSED, and is not intended to be and should not be used by anyone other than the specified parties.

CPA Signature and Date

Appendix C – Auditor Checklist for Audits of SUNY Authorized Charter Schools

SUNY- Authorized Charter School Audit Compliance Practice Aid			
Charter School:			

		Compliance Practice Aid	Yes	No	N/A	Explanation
1.	Ар	plicable for schools in their first year of operations:		ı		
	a.	Has the education corporation provided the initial statement of controls to SUNY and NYSED?				
	b.	Was the initial statement of controls ratified by the Board prior to submission to SUNY and NYSED?				
	c.	Has the auditor prepared and submitted the Agreed-Upon Procedures (AUP) report on the initial statement of controls to the education corporation?				
	d.	If there were any findings, has the education corporation remedied the findings within 45 days of the auditors' report?				
2.	Ар	plicable for both new and continuing schools:				
	a.	Have the financial statements been prepared on the accrual basis in accordance with GAAP?				
	b.	Has the audit been conducted in accordance with GAAS, GAGAS, and, if applicable, OMB Uniform Guidance?				
		b (1). Have the independence considerations been documented?				
		b (2). Has the CPA firm had an independent peer review within the last 3 years?				
		b (3). Are all engagement team members compliant with the CPE requirements?				
	C.	Do the financial statements include a statement of functional expenses that follows Appendix D of the Guide?				
	d.	Have expense allocations been included as part of the audit, and have the auditors concluded they are reasonable?				
	e.	Do the financial statements disclose any facilities (including square footage), transportation services, or other services provided by the local district?				
	f.	Has the required report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts and grant agreements been prepared?				
	g.	If the education corporation has expended over \$750,000 in Federal Funds, has a Single Audit been completed?				
		g (1). Has the required report on compliance and internal control over compliance of major programs and the SEFA been prepared?				

Appendix C – Auditor Checklist for Audits of SUNY Authorized Charter Schools, Cont'd

SUNY- Authorized Charter School Audit Compliance Practice Aid

Charter School:		
Year Ended:		

	Compliance Practice Aid	Yes	No	N/A	Explanation
3.	Areas of compliance with the Charter Agreement, applicable for both new and continuing education corporations:				
	a. Does the school operate within the mission as set forth in the application?				
	b. Does the education corporation abide by the Code of Ethics?				
	c. Has the education corporation established a board of trustees?				
	d. Does the education corporation operate pursuant to its by-laws as set forth in the application (as amended)?				
	e. Has the education corporation established grade level and enrollment goals and is the education corporation making all reasonable efforts to recruit students to meet these goals?				
	e (1). If necessary, has the education corporation obtained written approval from the charter authorizer, SUNY, if enrollment levels are outside of charter parameters?				
	f. Has the school established adequate procedures for its lottery system for enrollment?				
	g. Has the education corporation established adequate procedures for its personnel hiring system including criminal history record check and fingerprinting in accordance with the New York Charter Schools Act of 1998 (as amended)?				
	h. Has the education corporation obtained adequate insurance for liability, property loss and personal injury of students?				
	i. Has the education corporation established and funded the dissolution reserve fund account in accordance with Section 8.9 of the Charter Agreement?				
4.	Has an Agreed Upon Procedures Report been prepared for the Charter School Program ("CSP") Grant awarded by NYSED if expenditures of CSP funds during the period of audit were above \$50,000 and the charter school is not required to have an audit performed with OMB Uniform Guidance?				
5. 6.	If the school weights its lottery and receives CSP funds, was the NYSED Weighted Lottery Generator used?				

Appendix D – Sample Schedule of Functional Expenses

Statement of Functional Expenses as of June 30, 20xx

						0хх-хх (С	Current Yr	-			20xx-xx (<i>Prior Yr</i>)
				Program S				pporting Servic	es		
		No. of	Regular	Special	Other		Fund-	Management			
		Positions	Education	Education	Education	Total	raising	and General	Total	Total	Total
*12	Personnel Services Costs		\$	\$	\$	\$	\$	\$	\$	\$	\$
	Administrative Staff Personnel	-	-	-	-	-	-	-	-	-	-
	Instructional Personnel	-	-	-	-	-	-	-	-	-	-
	Non-Instructional Personnel	-	-	-	-	-	-	-	-	-	-
	Total Salaries and Staff	-	-	-	-	-	-	-	-	-	-
*1	Fringe Benefits & Payroll Taxes		-	-	-	-	-	-	-	-	-
	Retirement		-	-	-	-	-	-	-	-	-
	Management Company Fees		-	-	-	-	-	-	-	-	-
	Legal Service		-	-	-	-	-	-	-	-	-
	Accounting / Audit Services		-	-	-	-	-	-	-	-	-
*2	Other Purchased / Professional / Consu	_	-	-	-	-	-	-	-	-	-
	Building and Land Rent / Lease / Facility	Finance Interest	-	-	-	-	-	-	-	-	-
*3	Repairs & Maintenance		-	-	-	-	-	-	-	-	-
	Insurance		-	-	-	-	-	-	-	-	-
*4	Utilities		-	-	-	-	-	-	-	-	-
*5	Supplies / Materials		-	-	-	-	-	-	-	-	-
*6	Equipment / Furnishings		-	-	-	-	-	-	-	-	-
	Staff Development		-	-	-	-	-	-	-	-	-
*7	Marketing / Recruitment		-	-	-	-	-	-	-	-	-
*8	Technology		-	-	-	-	-	-	-	-	-
	Food Service		-	-	-	-	-	-	-	-	-
*9	Student Services		-	-	-	-	-	-	-	-	-
*10	Office Expense		-	-	-	-	-	-	-	-	-
	Depreciation		-	-	-	-	-	-	-	-	-
*11	OTHER		-								-
	Total Expenses		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The following detail ties to Statement of Functional Expense line items on prior page:

- 1. Fringe Benefits & Payroll Taxes: Health and Dental, Social Security, Medicare, Unemployment, Other;
- 2. *Other Purchased/Professional /Consulting Services:* Professional Development, SPED Services, Nurse Consultants (Assessment, Technology, Other), Payroll, Security, Background, Public Relations;
- 3. Repairs and Maintenance: Facility, Equipment;
- 4. *Utilities:* Electric, Gas, Telephone;
- 5. Supplies: Teaching Supplies, Textbooks/Workbooks, Curriculum, Classroom, Maintenance Instruction;
- 6. Equipment /Furnishings: Instructional, Non-Instructional, Athletic, Music, Office Equipment;
- 7. Marketing/Recruitment: Student, Staff;
- 8. *Technology:* Hardware, Software, Internet, Wiring, Other;
- 9. Student Services: Field Trips, Assessment Testing, Transportation, Special Events, Uniforms;
- 10. Office Expense: Leases (i.e. copier), Printing, Postage, Copying;
- 11. Other: Interest, Board Development, Bad Debt, Misc. Fees (e.g., Licensing), Uniforms, All Other (If you have questions contact school authorizer); and,
- 12. Personnel Services Costs Guidance (see below).

Administrative Staff Personnel

CEO, Executive Director, Head of School, Founder

Principal, Vice-Principal, Assistant Principal, Deans

Director of Curriculum, Instruction, Development, Special Projects

CFO, Controller, Director of Finance, Accountant, Bookkeeper

Operations, Business, and HR Managers

Office Manager, Secretary, Receptionist, Clerk

Technology, Data, Assessment and Accountability Managers

Parent Coordinator, School Culture, Family Engagement

Instructional Personnel

Teachers-Regular and specialists

Teachers-SPED, and specialists

Substitute Teachers

Teaching Assistants and Aides

Specialty Teachers

Social Worker, Therapist, and Counselor

Other

Non-Instructional Personnel

Nurse

Librarian

Security

Custodian

Food Service Worker

Bus Matron, Monitor

Definitions

Administrative Staff Personnel

Staff involved in establishing and administering policy for operations and business support services. Activities include planning, evaluating and supervising staff, and coordinating instructional activities.

Instructional Personnel

Staff involved in the direct instruction of students and other duties related to the instructional program such as teaching, lesson planning, evaluating student work, monitoring and supervising students.

Non-Instructional Personnel

Positions that do not require a teaching license and are not directly involved with instructional programs and supervision of students.

Appendix E —From the AICPA Audit Guide, Government Auditing Standards and OMB Uniform Guidance (Singe Audits)

Please refer to the AICPA Audit Guide for further guidance

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.

Example 1

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 (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1.¹

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Example Entity'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity'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

¹ If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue, as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

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^{2 3}

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from 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*.

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.

[Auditor's signature]
[Auditor's city and state]
[Date of the auditor's report]⁴

² Other matters are certain findings of fraud or abuse. As per industry practice, the reference to "other matters" in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

³ Paragraph 4.26 of *Government Auditing Standards* notes that when auditors detect instances of noncompliance with violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials.

⁴ Because this report relates to the audit of the financial statements, and is based on the generally accepted auditing standards audit procedures performed, it is subject to the provisions of <u>AU-C section 700</u>. Therefore, it should be dated the same date as the auditor's report on the financial statements, which according to paragraph .41 of AU-C section 700 is "no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements."

Example 2

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 (No Material Weaknesses Identified; Significant Deficiencies Identified; and Reportable Instances of Noncompliance and Other Matters Identified)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1.⁵

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Example Entity'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity'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.

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⁵ If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue, as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] that we consider to be significant deficiencies. [List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4].

[NOTE: This guide recommends identifying each finding with a reference number. This report can, as an alternative, describe findings rather than refer to a separate schedule. Further, in an audit in accordance with Office of Management Uniform Guidance findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards should be reported in the schedule of findings and questioned costs.]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* ⁶ and which are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] as items [list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5].

[**NOTE:** The referenced findings in this section include those that are instances of noncompliance and those that are fraud or abuse that are not significant deficiencies.]

Example Entity's Response to Findings

Example Entity's response to the findings identified in our audit are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report].

⁶ An audit conducted in accordance with OMB Uniform Guidance, the auditor should apply a financial statement materiality consideration in reporting in the *Government Auditing Standards* report fraud and illegal acts involving federal awards that are subject to Uniform Guidance reporting. That is because those findings already are reported in the Uniform Guidance (Single Audit) report and reporting findings that are not material to the financial statements again in the *Government Auditing Standards* report would be unnecessarily duplicative.

Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.⁷

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 result 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.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]⁴

⁷ Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 4.33 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

Example 3

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 (Material Weaknesses and Significant Deficiencies Identified; and Reportable Instances of Noncompliance and Other Matters Identified)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1.⁸

Internal Control Over Financial Reporting

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)], we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

⁸ If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue, as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

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. We consider the deficiencies described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] to be material weaknesses. [List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4].

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. We consider the deficiencies described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] to be significant deficiencies. [List the reference numbers of the related findings, for example, 20X1-2, and 20X1-5].

[NOTE: This guide recommends identifying each finding with a reference number. This report can, as an alternative, describe findings rather than refer to a separate schedule. Further, in an audit in accordance with Office of Management Uniform Guidance, findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards should be reported in the schedule of findings and questioned costs.]

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Example Entity's Response to Findings

Example Entity's response to the findings identified in our audit are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report]. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.¹⁰

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 result 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.

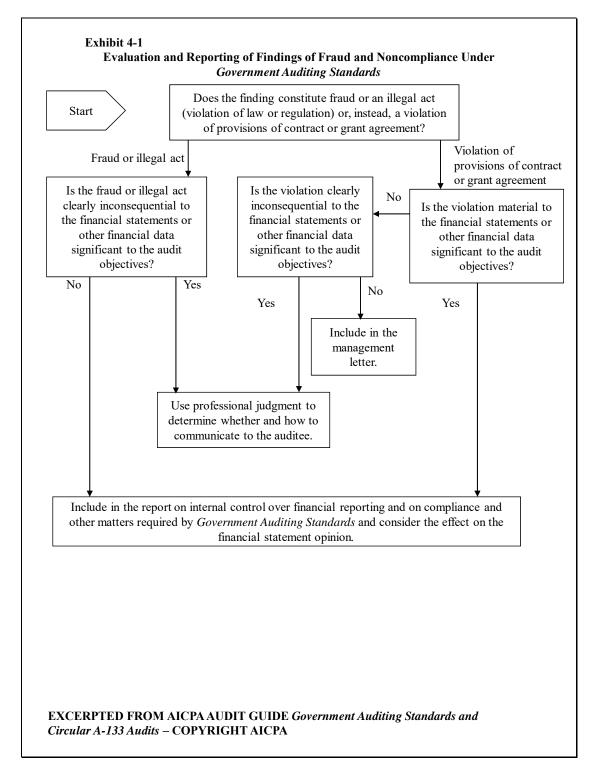
[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]⁴

¹⁰ Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under Government Auditing Standards. As noted in paragraph 4.33 of Government Auditing Standards, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

Appendix F — <u>Finding Flowchart</u> - From the AICPA Audit Guide, *Government Auditing Standards and Uniform Guidance (Single Audits)*



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Appendix G –

A. Procedures to Consider During Lottery Observations

Auditors should consider performing some of the following procedures when observing a Charter School's lottery. These are not required procedures. Not all procedures may be applicable to all lotteries.

Possible Procedures:

Obtain a copy of the Charter School's documented lottery procedures.

Discuss with responsible school personnel if the procedures as documented are in place and will be utilized in the lottery drawing.

Determine if lottery preferences are in alignment with NYS laws and regulations and the Charter School's Charter Agreement.

Determine if management has appropriately grouped applicants according to preferences, including order of preferences. Select a sample of applications to test.

Determine method of lottery (i.e., drawing balls or cards, random number generator, etc.).

Attend and observe actual lottery drawing to determine procedures are followed and no personal preferences affect the random nature of the lottery.

Make sure all applicants are given a number (and a waiting list is generated if more students apply than seats are available).

Determine method of communication of lottery results to families.

Make sure confidential information remains confidential during the lottery process (for example, preferences for free/reduced price lunch).

B. NYSED Weighted Lottery Guidance

(also located at: http://www.p12.nysed.gov/psc/documents/WeightedLotteryGuidance.pdf)

Introduction

Prior to amendments made to the 2014 Federal Non-Regulatory Charter Schools Program (CSP) Guidance, charter schools receiving CSP funds were not permitted to weight admissions lotteries to favor certain student subgroups.¹¹

¹¹ A charter school with fewer applicants than spaces available does not need to conduct a lottery pursuant to Section 5210(1)(H) of the ESEA. NYS Education Law § 2854(2)(b) requires that charter schools conduct a lottery if applications exceed capacity at the grade level or building.

With the approval of the US Department of Education, New York State charter schools may weight admissions through the use of the Weighted Lottery Generator created by NYSED's Charter School Office.

Please review the guidelines set forth below for use of the NYSED Weighted Lottery Generator. To avoid jeopardizing a CSP award, schools receiving CSP funds must <u>not</u> use weighted lotteries until they obtain permission from the NYSED Charter School Office.

Purpose of the NYSED Weighted Lottery Generator

Consistent with Section 5204(a)(1) of ESEA, the NYSED Weighted Lottery Generator is designed to give slightly better chances for admission to a subset of educationally disadvantaged students.¹² The NYSED Weighted Lottery Generator does not reserve or set aside seats for individual students or sets of students, and may not be used for the purpose of creating schools to exclusively serve a particular subset of students.¹³

All charter schools, including those which use the NYSED Weighted Lottery Generator, must continue to fulfill their existing legal responsibilities related to outreach, recruitment, and retention of students with disabilities, English language learners, and students who are eligible for free or reduced-price lunch.

Guidelines for use of the NYSED Weighted Lottery Generator

PRIOR TO USING THE NYSED WEIGHTED LOTTERY GENERATOR ALL SCHOOLS MUST:

- 1. Modify the existing enrollment policy, or develop an enrollment policy that specifically refers to the use of the NYSED Weighted Lottery Generator. In addition to items currently required by the school's authorizer, the enrollment policy must:
 - Identify the order in which the school will enroll returning students, students who live in the district of location, students who are siblings of currently enrolled students, and children of employees;¹⁴
 - b. Explain the rationale for using the NYSED Weighted Lottery Generator;
 - Articulate a plan that evidences the school's outreach, recruitment and retention of economically disadvantaged students, English language learners, or students with disabilities;
 - d. Identify only ONE at-risk subgroup of educationally disadvantaged students to be weighted (i.e., choose economically disadvantaged students, English language learners, or students with disabilities);

¹² Section 1115(b)(2) of the ESEA describes educationally disadvantaged students as those who are economically disadvantaged, students with disabilities, migrant students, limited English proficient students (English language learners), neglected or delinquent students, and homeless students.

¹³ See Section 5204(a)(1) of the ESEA.

¹⁴ Education Law § 2854 was amended to allow charter schools to admit children of employees provided the total enrollment of this subgroup may not comprise more than 15% of their overall school population. Schools must not exceed the statutory threshold for children of employees, regardless of their position in the lottery.

- e. State that the school will only run the NYSED Weighted Lottery Generator once each
 academic year, and will obtain NYSED approval to use the Generator should the school's
 enrollment policy change in any way;
- f. State that the school will not rollover the lottery waitlist from year to year.
- 2. Obtain authorizer approval of the school's enrollment policy, which may require charter revision. Prior approval by the education corporation board of trustees may be required.
- Submit the policy approved by the authorizer to the NYSED Charter School Office by email to <u>CHARTERSCHOOLS@nysed.gov</u> with the subject heading "NYSED Weighted Lottery Generator Approval."
- 4. All approval requests must be received no later than December 15th of the year prior to the intended lottery.

Use of the NYSED Weighted Lottery Generator

USING THE NYSED WEIGHTED LOTTERY GENERATOR

- 1. Develop a list of all student applicants including the following information: student first and last name, at-risk identification and grade level in the upcoming school year.
- 2. Upon opening the NYSED Weighted Lottery Generator, read the tabs entitled Introduction, Purpose, Guidelines and Use. Click "Confirm."
- 3. Select ONE at-risk weighting category to weight educationally disadvantaged students: economically disadvantaged, English language learners, or students with disabilities.¹⁵
- 5. Enter or copy and paste student information into the Applicant Information Worksheet and identify those students who are eligible for weighting criteria (enter "1" for at-risk identification).
- 6. Submit the applicant information worksheet to run the lottery. NOTE: Schools <u>cannot</u> run the lottery more than once to preference for more than one category of at-risk student.
- 7. Weighting proportions for educationally disadvantaged enrollment will appear.
- 8. Each weighting strata is given an applied weight based on selected criteria and the composition of the applicant pool.

-

¹⁵ Schools that wish to weight for different subgroup in subsequent years categories must revise their enrollment policy to reflect the subgroup being weighted. The policy must then be submitted to the authorizer for approval. Upon receiving authorizer approval the policy must be submitted to the NYSED Charter School Office for review.

- 9. Students are randomly assigned a number which is multiplied by the associated strata weight; the product is linked to the students' information and ranked in a new admissions list in lottery results generated in a PDF. Information linking students to each weighting strata is removed from the PDF for the purposes of public lottery display.
- 10. Schools must save detailed lottery records, including but not limited to printed and electronic documentation of the process, inputs and results for a period of no less than 3 years after the date of the lottery. Again, lotteries may only be run once for each academic year.
- 11. Schools should have readily available copies of the saved PDF generated from the lottery as required by the Commissioner's regulations.
- 12. If the enrollment policy changes in any way schools must obtain approval from its authorizer and the NYSED Charter School Office before using the NYSED Weighted Lottery Generator in future CSP years.

PLEASE NOTE: Failure to strictly follow the procedures set forth above may jeopardize CSP funding.

Appendix H – Accounts Receivable and Per-Pupil Aid Confirmation Template

[Date]
[NAME OF CONTACT] [RESIDENT SCHOOL] [ADDRESS]
Our auditors, [CPA FIRM NAME AND ADDRESS] are conducting an audit of our financial statements for the year ended June 30, 20X2. Please confirm or correct the following understanding of information:
(1) Cash payments received by the [NAME OF Charter School] from the [RESIDENT SCHOOLS] for the period of July 1, 20X1 to June 30, 20X2 and FTE for such period:
\$ 20X2 Total per pupil aid \$ 20X2 Sp. Ed Revenue \$ 20X2 IDEA, part B
FTE's for per pupil aid: FTE's for Sp. Education per pupil aid:
(2) Also, please confirm the amount paid per student for: per pupil aid and per special education aid:
Per Pupil: \$ Sp. Education per Pupil: \$
Sp. Education per Pupil: \$
(3) Balance due to the [NAME OF Charter School] from
the [RESIDENT SCHOOLS] as of June 30, 20X2: \$
(4) Balance due from the [NAME OF Charter School] to the [RESIDENT SCHOOLS] as of June 30, 20X2: \$
Please confirm any amounts charged to [NAME OF Charter School] for the year ended June 30, 20X2: \$ What were the charges for:
Upon completion, please return this letter directly to our auditors at the address listed above. Thank you for your time and cooperation.
Sincerely,
[BUSINESS OFFICIAL] [NAME OF CHARTER SCHOOL]
The amount shown is in agreement with our records, with the following exceptions:
Name and Title
Name and Title
Signature
Date

Appendix I — SUNY Fiscal Dashboard EXEMPLI GRATIA CHARTER SCHOOL

SCHOOL INFORMATION

BALANCE SHEET Assets				Ор	ened 2013-14
Current Assets	2012-13	2013-14	2014-15	2015-16	2016-17
Cash and Cash Equivalents - GRAPH 1	-	170,362	430,210	2,293,116	4,282,329
Grants and Contracts Receivable		113,034	102,920	180,518	188,24
Accounts Receivable	-				15.50
Prepaid Expenses		11,599	33,958	33,424	46,62
Contributions and Other Receivables otal Current Assets - GRAPH 1	-	294,995	567,088	2,507,058	4,517,19
roperty, Building and Equipment, net	-	742,096	894,081	732,620	499,26
Other Assets	-	25,000	50,001	75,032	
otal Assets - GRAPH 1	-	1,062,091	1,511,170	3,314,710	5,016,45
iabilities and Net Assets					
Current Liabilities	1	200000	202.001		267.65
Accounts Payable and Accrued Expenses		266,090	267,394	461,019	367,65
Accrued Payroll and Benefits Deferred Revenue	-	30,774	2,067	101	4,00
Current Maturities of Long-Term Debt		30,774	2,007	523	-1,00
Short Term Debt - Bonds, Notes Payable	8.	·	447,026	526	
Other		50,000		921	
otal Current Liabilities - GRAPH 1	-)	346,864	716,487	461,019	371,66
-T Debt and Notes Payable, net current maturities		409,913	- 1	res (
Total Liabilities - GRAPH 1	+	756,777	716,487	461,019	371,66
Net Assets			-0. cos I		
Unrestricted		305,314	794,683	2,853,691	4,644,79
Temporarily restricted Fotal Net Assets		305,314	794,683	2,853,691	4,644,79
Total Liabilities and Net Assets		1,062,091	1,511,170	3,314,710	5,016,45
otal tradifices and Net Assets		1,002,091	1,311,170	3,314,710	3,010,43
ACTIVITIES					
Operating Revenue			2 F64 270 T	F 064 000	F 060 00
Resident Student Enrollment Students with Disabilities	-	1,603,288 96,976	3,564,279	5,964,922	5,263,28 905,21
Grants and Contracts	-	90,970	-31	17.1	903,21
State and local		113,309	-1	1,120,008	160,95
Federal - Title and IDEA	9	27,945	- 2	-,,	99,98
Federal - Other	E ¹	633,591	190,096	526	2000
Other		120	164,231	189,958	
NYC DoE Rental Assistance	-	120	-	120	645,38
Food Service/Child Nutrition Program	-	41,888	-	721	199,43
otal Operating Revenue	7,	2,516,997	3,918,606	7,274,888	7,274,24
xpenses	ř		2 - 10 220 T		5.056.43
Regular Education	-	1,607,857	2,548,339	4,116,803	3,056,17
SPED Regular Education & SPED (combined)	-	174,233	429,857	676,278	1,822,09
Other			-		
otal Program Services	_	1,782,090	2,978,196	4,793,081	4,878,27
Management and General		432,460	451,041	422,799	617,75
Fundraising	A S	978	-	153	-
otal Expenses - GRAPHS 2, 3 & 4	-	2,214,550	3,429,237	5,215,880	5,496,03
urplus / (Deficit) From School Operations		302,447	489,369	2,059,008	1,778,21
upport and Other Revenue	7 N				
Contributions	-	545	- 1	280	1,00
Fundraising		(9)	-	(9)	
Miscellaneous Income	-	2,322	-	(1 4)	11,89
Net assets released from restriction	0.0	:=:	9, 1	(+)	
otal Support and Other Revenue	-	2,867			12,89
otal Unrestricted Revenue		2,519,864	3,918,606	7,274,888	7,287,13
otal Temporally Restricted Revenue	-	182	-	552	
otal Revenue - GRAPHS 2 & 3	-	2,519,864	3,918,606	7,274,888	7,287,13
Change in Net Assets	-	305,314	489,369	2,059,008	1,791,10
Net Assets - Beginning of Year - GRAPH 2		-	305,314	794,683	2,853,69
Prior Year Adjustment(s)	-	150		554	-
Vet Assets - End of Year - GRAPH 2		305,314	794,683	2,853,691	4,644,79

EXEMPLI GRATIA CHARTER SCHOOL

SCHOOL INFORMATION - (Continued)

Functional Expense Breakdown

Personnel Service

Administrative Staff Personnel Instructional Personnel Non-Instructional Personnel

Personnel Services (Combined) **Total Salaries and Staff**

Fringe Benefits & Payroll Taxes

Retirement

Management Company Fees Building and Land Rent / Lease

Staff Development

Professional Fees, Consultant & Purchased Services

Marketing / Recruitment

Student Supplies, Materials & Services

Depreciation

Other

Total Expenses

SCHOOL ANALYSIS

ENROLLMENT

Chartered Enroll Revised Enroll Actual Enroll - GRAPH 4 Chartered Grades Revised Grades

Primary School District: NYC CHANCELLOR'S OFFICE

Per Pupil Funding (Weighted Avg of All Districts)

Increase over prior year

2012-13	2013-14	2014-15	2015-16	2016-17
=	120	240	360	360
-	121	229	369	375
Planning Year	6.00	6-7	6-8	6-8
20	U.S.	2		120

356,686

444,000

60,000

118,731

21,025

266,668

13,794

80,310

19.335

210.299

173.742

449,960

2.214.550

347,050

985,847

1,335,937

200,116

37,083

480,000

6,039

80,301

16.028

322.075

258.176

693,482

3.429.237

3,040

530,159

1,751,178

2,281,337

342,990

52,070

720,000

12,524

75,212

13.512

349,085

337,066

1,032,084

5.215.880

692,560

67,435

1,765,146

2,525,141

385,827

64,015

720,000 21,813

115,345

36,600

275.869

299,655

1,051,767

Г	="	13,877	13,877	13,877	14,027
	0.0%	100.0%	0.0%	0.0%	1.1%

PER STUDENT BREAKDOWN

Revenue

Operating

Other Revenue and Support

TOTAL - GRAPH 3

Expenses

Program Services

Management and General, Fundraising

TOTAL - GRAPH 3 % of Program Services % of Management and Other

% of Revenue Exceeding Expenses - GRAPH 5

Student to Faculty Ratio

Faculty to Admin Ratio

Financial Responsibility Composite Scores - GRAPH 6

Fiscally Strong 1.5 - 3.0 / Fiscally Adequate 1.0 - 1.4 / Fiscally Needs Monitoring < 1.0

Working Capital - GRAPH 7

Net Working Capital As % of Unrestricted Revenue Working Capital (Current) Ratio Score Risk (Low ≥ 3.0 / Medium 1.4 - 2.9 / High < 1.4) Rating (Excellent ≥ 3.0 / Good 1.4 - 2.9 / Poor < 1.4)

Quick (Acid Test) Ratio

Risk (Low ≥ 2.5 / Medium 1.0 - 2.4 / High < 1.0) Rating (Excellent \geq 2.5 / Good 1.0 - 2.4 / Poor < 1.0)

Debt to Asset Ratio - GRAPH 7

Score

Risk (Low < 0.50 / Medium 0.51 - .95 / High > 1.0) Rating (Excellent < 0.50 / Good 0.51 - .95 / Poor > 1.0)

Months of Cash - GRAPH 8

Score

Risk (Low > 3 mo. / Medium 1 - 3 mo. / High < 1 mo.) Rating (Excellent > 3 mo. / Good 1 - 3 mo. / Poor < 1 mo.)

2	1.6	1.6	2.5	4.4
-	15.1	28.7	24.6	8.5
0.0%	13.8%	14.3%	39.5%	32.69
0.0%	19.5%	13.2%	8.1%	11.29
0.0%	80.5%	86.8%	91.9%	88.89
-	18,332	14,947	14,122	14,64
-	3,580	1,966	1,145	1,64
-	14,752	12,981	12,977	12,99
	20,860	17,080	19,696	19,413
-	24	-	-	34
7	20,836	17,080	19,696	19,379

0.0	1.2	2.2	3.0	3.0
N/A	Fiscally Adequate	Fiscally Strong	Fiscally Strong	Fiscally Strong

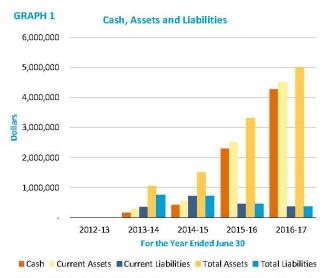
0	(51,869)	(149,399)	2,046,039	4,145,536
0.0%	-2.1%	-3.8%	28.1%	56.9%
0.0	0.9	0.8	5.4	12.2
N/A	HIGH	HIGH	LOW	LOW
n 16	Daniel	Down .	From II was	Propellance

0.0	0.8	0.7	5.4	12.0
N/A	HIGH	HIGH	LOW	LOW
N/A	Poor	Poor	Excellent	Excellent

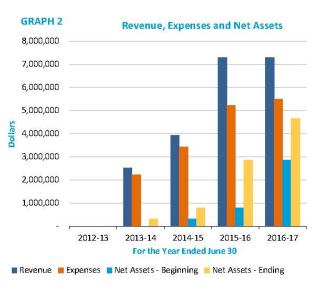
0.0	0.7	0.5	0.1	0.1
N/A	MEDIUM	MEDIUM	LOW	LOW
N/A	Good	Good	Excellent	Excellent

0.0	0.9	1.5	5.3	9.4
N/A	HIGH	MEDIUM	LOW	LOW
N/A	Poor	Good	Excellent	Excellent

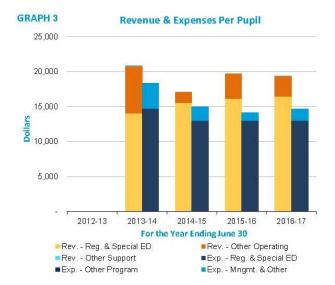
EXEMPLI GRATIA CHARTER SCHOOL



This chart illustrates the relationship between assets and liabilities and to what extent cash reserves makes up current assets. Ideally for each subset, subsets 2 through 4, (i.e. current assets vs. current liabilities), the column on the left is taller than the immediate column on the right; and, generally speaking, the bigger that gap, the better.



This chart illustrates total revenue and expenses each year and the relationship those subsets have on the increase/decrease of net assets on a year-to-year basis. Ideally subset 1, revenue, will be taller than subset 2, expenses, and as a result subset 3, net assets - beginning, will increase each year, building a more fiscally viable school.

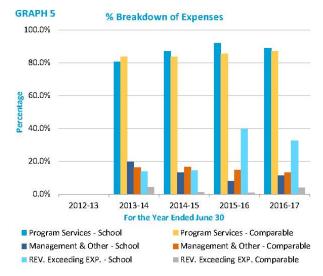


This chart illustrates the breakdown of revenue and expenses on a per pupil basis. Caution should be exercised in making school-by-school comparisons since schools serving different missions or student populations are likely to have substantially different educational cost bases. Comparisons with similar schools with similar dynamics are most valid.

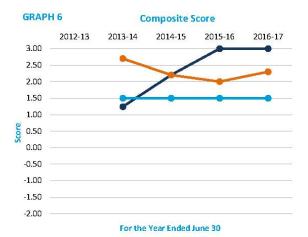


This chart illustrates to what extent the school's operating expenses have followed its student enrollment pattern. A baseline assumption that this data tests is that operating expenses increase with each additional student served. This chart also compares and contrasts growth trends of both, giving insight into what a reasonable expectation might be in terms of economies of scale.

Comparable School, Region or Network: All SUNY Authorized Charter Schools (Including Closed Schools)



This chart illustrates the percentage expense breakdown between program services and management & others as well as the percentage of revenues exceeding expenses. Ideally the percentage expense for program services will far exceed that of the management & other expense. The percentage of revenues exceeding expenses should not be negative. Similar caution, as mentioned on GRAPH 3, should be used in comparing schools.



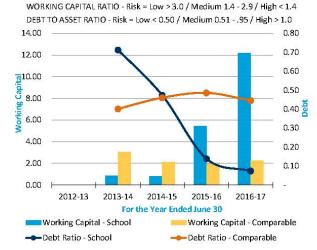
Fiscally: Strong = 1.5 - 3.0 / Adequate = 1.0 - 1.4 / Needs Monitoring < 1.0

Composite Score - School

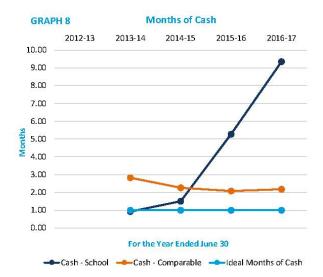
Composite Score - Comparable

This chart illustrates a school's composite score based on the methodology developed by the United States Department of Education (USDOE) to determine whether private not-for-profit colleges and universities are financially strong enough to participate in federal loan programs. These scores can be valid for observing the fiscal trends of a particular school and used as a tool to compare the results of different schools.

GRAPH 7 Working Capital & Debt to Asset Ratios



This chart illustrates working capital and debt to asset ratios. The working capital ratio indicates if a school has enough short-term assets to cover its immediate liabilities/short term debt. The debt to asset ratio indicates what proportion of debt a school has relative to its assets. The measure gives an idea to the leverage of the school along with the potential risks the school faces in terms of its debt-load.



This chart illustrates how many months of cash the school has in reserves. This metric is to measure solvency – the school's ability to pay debts and claims as they come due. This gives some idea of how long a school could continue its ongoing operating costs without tapping into some other, non-cash form of financing in the event that revenues were to cease flowing to the school.

Appendix J – SUNY Fiscal Benchmarks



Renewal Fiscal Benchmarks: The education corporation accumulates unrestricted net assets that are equal to or exceed two percent (2%) of the operating budget for the upcoming year.

Unqualified Audit Opinion

Quick (Acid Test) Ratio: Total Current Assets - Prepaids / Total Current Liabilities

Score: Risk (Low>=2.5 / Medium 1.0 - 2.4 / Poor < 1.0)

Rating: (Excellent \geq 2.5 / Good 1.0 – 2.4 / Poor \leq 1.0)

Working Capital: Total Current Assets / Total Current Liabilities

Score: Risk (Low > = 3.0 / Medium 1.4 - 2.9 / High < 1.4)

Rating: (Excellent \geq 3.0 / Good 1.4 – 2.9 / Poor \leq 1.4)

Debt to Asset Ratio: Total Liabilities / Total Assets

Score: (Low < 0.50 / Medium 0.51 - 0.99 / High > 1.00)

Rating: $\{\text{Excellent} < 0.50 / \text{Good } 0.51 - 0.99 / \text{Poor} > 1.00\}$

Months or Days of Cash: Unrestricted Cash on Hand / (Total Expenditures/12) or Unrestricted Cash on Hand / (Total Expenditures/365)

Risk: (Low > 3 months / Medium 1 – 3 months / Poor < 1 month)

Rating: (Excellent > 3 months / Good 1 – 3 months / Poor < 1 month)

Composite Score: Weighted Average of Reserves, Equity and Net Income

Risk: (Low 1.5 – 3.0 / Medium 1.0 – 1.4 / High -1.0 – 0.9)

Rating: (Fiscally Strong 1.5 – 3.0 / Fiscally Adequate 1.0 – 1.4 / Fiscally Needs Monitoring -1.0 – 0.9)

Audit Guide for SUNY Authorized Charter Schools

Charter Schools Composite Score

Ratio Methodology for Nonprofits in New York State

	Ratio	Strength Factor (cannot be <-1 or >3)	Weight	Result
Primary Reserve	Expendable Net Assets Total Expenses	× 10	× 0.4	
Equity	Modified Net Assets Modified Assets	× 6	× 0.4	
Net Income	Change in Unrestricted Net Assets Total Unrestricted Revenue	If Net Income Ratio result is: $<0 \ then = 1 + (25 \times \text{Net Income Ratio result})$ $= 0 \ then = 1$ $> 0 \ then = 1 + (50 \times \text{Net Income Ratio result})$	× 0.2	

Composite Score (round to one digit after the decimal point):

Definitions

Expendable Net Assets	(unrestricted net assets) + (temporarily restricted net assets) - (intangible assets) - (net property, plant, and equipment)* + (post-employment and retirement liabilities) + (all debt obtained for long-term purposes)** - (unsecured related-party receivables) *The value of property, plant, and equipment is net of accumulated depreciation, including capitalized lease assets. **The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant, and equipment.		
Total Expenses	total unrestricted expenses taken directly from the audited financial statement		
Modified Net Assets	(unrestricted net assets) + (temporarily restricted net assets) + (permanently restricted net assets) – (intangible assets) – (unsecured related-party receivables)		
Modified Assets	(total assets) – (intangible assets) – (unsecured related-party receivables)		
Change in Unrestricted Net Assets	taken directly from the audited financial statement		
Total Unrestricted Revenue	taken directly from the audited financial statement (this amount includes net assets released from restriction during the fiscal year)		

Financial Responsibility Score Scale

1.5 – 3.0	Institution demonstrates overall financial health
1.0 – 1.4	Institution demonstrates minimal financial health; additional monitoring is needed in the areas of viability, liquidity, and/or profitability
-1.0 – 0.9	Institution demonstrates relative weakness in fundamental elements of financial health; i.e., viability, liquidity, and/or profitability

Appendix K – SUNY Fiscal Template for Audited Financials



Transmittal Form

Annual Financial Statement Audit Report

for SUNY Authorized Charter Schools

Charter School Name:	Select from drop-down list →	
Audit Period:	Select from drop-down list →	
Prior Period:	Select from drop-down list →	
Report Due Date:	11/1/20XX	
Date Submitted:	Select from drop-down list →	
School Fiscal Contact Name:	enter name	5
School Fiscal Contact Email:	enter email address	
School Fiscal Contact Phone:	enter phone number	8
School Audit Firm Name:	enter firm name	
School Audit Contact Name:	enter name	Ü
School Audit Contact Email:	enter email address	
School Audit Contact Phone:	enter phone number	

Please submit the following items to the SUNY Charter Schools Institute via email or online portal:

Email: charters@suny.edu

Online Portal: http://www.newyorkcharters.org/operate/existing-schools/reporting-deadlines

Required Items:

- 1) The independent auditor's report on financial statements and notes;
- Excel template file containing the Financial Position, Statement of Activities, Cash Flow and Functional Expenses worksheets; and
- 3) Reports on internal controls over financial reporting and on compliance.

The additional items listed below should be included if applicable. Please explain the reason(s) if the items are not included. Examples might include: a written management letter was not issued; the school did not expend federal funds in excess of the Single Audit Threshold of \$750,000; the management letter response will be submitted by the following date (should be no later than 30 days from the submission of the report); etc. If not applicable enter "N/A."

And, if applicable

Item	If not included, state the reason(s) below. Or, if not applicable fill in "N/A"):
Management Letter	
Management Letter Response	
Form 990	
Federal Single Audit (A-133) ¹	
Corrective Action Plan	

Please <u>also</u> submit the following items to the <u>New York State Education Department</u> via online portal:

Online Portal: https://nysed-cso.fluidreview.com

Required Items:

- 1) This transmital form (a copy of the Excel file containing the four schedules Does NOT need to be included);
- 2) Audited Financial Report;

And, if applicable:

- 3) Management Letter and Response;
- 4) Federal Single Audit (A-133).
- ¹ A copy of the Federal Single Audit must be filed with the Federal Audit Clearinghouse. Please refer to the current "OMB Circular A-133" for the federal filing requirements which can be found on the Office of Management and Budget website: www.whitehouse.gov/omb/information-for-agencies/circulars

Statement of Financial Position as of June 30, 20XX

<u>ASSETS</u>	20xx-xx (Current Yr)	20xx-xx (Prior Yr)
CURRENT ASSETS	ć	ć
Cash and cash equivalents Grants and contracts receivable	\$	\$ -
Accounts receivables	(
Prepaid expenses	*** -	
Contributions and other receivables	** -	-
TOTAL CURRENT ASSETS	-	
PROPERTY, BUILDING AND EQUIPMENT, net	-	-
OTHER ASSETS	-	-
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$	\$ -
Accrued payroll and benefits	2	Ψ.
Deferred Revenue	2	5 <u>2</u> 8
Current maturities of long-term debt	<u>s</u>	(=)
Short Term Debt - Bonds, Notes Payable Other		-
TOTAL CURRENT LIABILITIES	=	140
LONG-TERM DEBT and NOTES PAYABLE, net current maturities	-	-
TOTAL LIABILITIES		<u> </u>
NET ASSETS Unrestricted Temporarily restricted	2	ω ω
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS	<u> </u>	

Statement of Activities as of June 30, 20XX

		20xx-xx (Current Yr)) .	20xx-xx (Prior Yr)
	Unrestricted	Temporarily Restricted	Total	Total
	Offiestricted	Restricted	Total	Total
REVENUE, GAINS AND OTHER SUPPORT				
Public School District				
Resident Student Enrollment	\$ -	- \$	\$ -	\$ -
Students with disabilities		-		-
Grants and Contracts				
State and local				S.E.
Federal - Title and IDEA	-	-		-
Federal - Other	-	-		-
Other		-		-
NYC DoE Rental Assistance				
Food Service/Child Nutrition Program				-
TOTAL REVENUE, GAINS AND OTHER SUPPORT			-	
EXPENSES				
Program Services				
Regular Education	Ś .	· \$ -	\$ -	\$ -
Special Education	•		,	-
Other Programs		-		-
Total Program Services	,			-
Management and general		-		
Fundraising		•		-
TOTAL OPERATING EXPENSES	-			
SURPLUS / (DEFICIT) FROM SCHOOL OPERATIONS				
SURPLUS / (DEFICIT) FROM SCHOOL OPERATIONS	-	-		,
SUPPORT AND OTHER REVENUE				
Contributions	4			
Foundations	\$ -	- \$	\$ -	\$
Individuals	_	•		
Corporations		•		×-
Fundraising		•		-
Interest income	-	•		-
Miscellaneous income	•	•		-
Net assets released from restriction				
TOTAL SUPPORT AND OTHER REVENUE	-	-	-	-
CHANGE IN NET ASSETS	-			-
NET ASSETS BEGINNING OF YEAR				
PRIOR YEAR/PERIOD ADJUSTMENTS		-		
NET ASSETS END OF YEAR	Ś .	\$ -	\$ -	\$ -
NET ASSETS END OF TEAM	м .	· ·	У	<u> </u>

Statement of Cash Flows as of June 30, 20XX

	20xx-xx (Current Yr)		20xx-xx (Prior Yr)
CASH FLOWS - OPERATING ACTIVITIES			
Increase (decrease) in net assets	\$	- \$	-
Revenues from School Districts		-	
Accounts Receivable		-	-
Due from School Districts		-	v a n
Depreciation			ी <u>च</u> ्
Grants Receivable		-	3 (
Due from NYS		-	88
Grant revenues			-
Prepaid Expenses		-	-
Accounts Payable		-	~
Accrued Expenses		120	-
Accrued Liabilities		-	-
Contributions and fund-raising activities		-	-
Miscellaneous sources		-	-
Deferred Revenue		-	-
Interest payments		-	: .
Other		-	
Other		-	
NET CASH PROVIDED FROM OPERATING ACTIVITIES	\$	- \$	=1
CASH FLOWS - INVESTING ACTIVITIES	\$	\$	
Purchase of equipment		- 1	-
Other		-	-
NET CASH PROVIDED FROM INVESTING ACTIVITIES	\$	- \$	-
CASH FLOWS - FINANCING ACTIVITIES	\$	\$	
Principal payments on long-term debt		-	
Other		-	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	\$	- \$	<u>-</u> _
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$	- \$	_
Cash at beginning of year		- 1	
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	- \$	
			0

Statement of Functional Expenses as of June 30, 20XX

					20хх-х	x (Current Yr)			20xx-xx (Prior Yr)
			Program	Services		S	upporting Servic	es		-
	an form	Regular	Special	Other		Fund-	Management	5.		<u>.</u>
	No. of Positions	Education	Education	Education	Total	raising	and General	Total	Total	
Personnel Services Costs		\$	\$	\$	\$	\$	\$	\$	\$	\$
Administrative Staff Personnel	. 	=	=	-	15-1	=	-	-	-	=
Instructional Personnel	724	7		T.	8 <u>74</u>				277.0	·
Non-Instructional Personnel		-	-	=	69 75 1		-		678	
Total Salaries and Staff			itti	=	6 75)	, ,	(A)(Th)		17.5	6 5 1
Fringe Benefits & Payroll Taxes		=	-	=	4元	57		==	137	·=
Retirement			=	-	10-	=	5 	-	-	·=
Management Company Fees		=	=	-	10-	=	5 -	-	-	·=
Legal Service		=	=	-	15=1	=	·=	5.0	-	=
Accounting / Audit Services		=		-	5 00	-		7 0 0	-	.
Other Purchased / Professional / Consult	ting Services	=	-	-	500	-	-	3=3	(-)	-
Building and Land Rent / Lease / Facility	Finance Interest	=	-	-	10-	-		7=0	-	, -
Repairs & Maintenance		-	-	-	200	=	-	1=1	-	N=
Insurance		-	-	-		-	-	1=1	(-)	-
Utilities		-	-	-	p=	-	-	1=1	0-0	-
Supplies / Materials		Θ.	=	2	12=1	=	0=	(=)	-	=
Equipment / Furnishings		ω.	=	-	1944	2	:=	(=1	-	
Staff Development		2	=	_	5-	-	°=	(21)		
Marketing / Recruitment		=		2	92	얼		128	=	×2
Technology		ω.	140	2	020	2		121	(2)	×2
Food Service		2		2	92	일		<u>~</u> **	(2)	12
Student Services		2	4	<u>~</u>	92	M.	14	428	922	/4
Office Expense		2		2	62	<u></u>	/42	-	323	/4
Depreciation			(7)	-	857	-		-	200	-
OTHER			·	-	27	14.0	-	-	277	-
Total Expenses		<u>s</u> -	\$ -	\$ -	<u>\$</u> -	Š -	Š -	<u> </u>	<u>s</u> -	\$ -
		To	100	Τ	e T te	Τ.	5 1. 17	т	200	TO

Appendix L - Additional Resources

SUNY Charter Schools Institute Website: http://www.newyorkcharters.org/.

SUNY Guide to Board Governance: http://www.newyorkcharters.org/wp-content/uploads/Guide-to-Board-Governance-1.pdf.

SUNY Charter Schools Institute Fiscal Dashboard: http://www.newyorkcharters.org/fiscal-dashboard/.

SUNY Charter Schools Institute Fiscal Resources: http://www.newyorkcharters.org/fiscal/.

SUNY Model Charter Agreement Template for Charter Schools Authorized by SUNY:

http://www.newyorkcharters.org/wp-content/uploads/Model-Charter-July-2017.pdf.

New York State Education Department Charter School Office: http://www.p12.nysed.gov/psc/.

Generally Accepted Governmental Auditing Standards (GAGAS): http://www.gao.gov/yellowbook.

AICPA Governmental Audit Quality Center (GAQC):

http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx.

AICPA Governmental Audit Quality Center (GAQC) Independence Comparison:

http://www.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/2012mayaicpa gaocomparision.pdf.

OMB Uniform Guidelines:

https://www.whitehouse.gov/sites/default/files/omb/financial/grant_reform/proposed-omb-uniform-guidance-for-federal-financial-assistance.pdf.

CSP Budget categories and approved expenditures:

http://www.p12.nysed.gov/psc/funding/201820csppinewapp.html

NYS Education Law Article 56 (The New York Charter Schools Act of 1998, as amended in 2007 and 2010): http://www.newyorkcharters.org/wp-content/uploads/NY-Charter-Schools-Act-Jan-2017-3.pdf.

Charter school basic tuition rates by district: https://stateaid.NYSED.gov/charter.

Charter school special education tuition rate – spreadsheet to calculate by district: https://stateaid.NYSED.gov/speced.

Student Full-time Equivalent (FTE) Calculator https://stateaid.NYSED.gov under State Aid / Attendance and Enrollment / FTE Calculator.

New York City Department of Education enrollment and tuition payment website (accessible to charter school personnel): https://vendorportal.nycenet.edu/vendorportal/Login.aspx.

New York State Education Funding (Title grants, CSP, IDEA) reports by school: http://www.oms.nysed.gov/cafe/reports/.

New York State Education Department enrollment and retention targets: http://www.p12.nysed.gov/psc/enrollment-retention-targets.html.

Appendix M – Definition of Terms

AICPA - American Institute of Certified Public Accountants

ASC - Accounting Standards Codification

AUP - Agreed-Upon Procedures – Specific set of procedures performed by an independent accountant – typically referred to as the *AUP on the Initial Statement* or *AUP on CSP Grant*

BOT – Board of Trustees

CMO - Charter Management Organization - organized as a non-profit (similar to an EMO)

Compliance Supplement – Issued annually by the GAO, provides guidance in performing a Single Audit

CPA – Certified Public Accountant

CPE - Continuing Professional Education

CSP – Charter Schools Program

EMO - Education Management Organization - organized as a for-profit (similar to a CMO)

FASB - Financial Accounting Standards Board

FTE - Full Time Equivalent

GAAP - Generally Accepted Accounting Principles

GAAS - Generally Accepted Auditing Standards

GAGAS - Generally Accepted Government Auditing Standards

GAO - United States Government Accountability Office

GAQC - Governmental Audit Quality Center – section of the AICPA which provides guidance to auditors in performing Governmental and Single Audits

IEP - Individualized Education Program – prepared for each special education student

Initial Statement – Initial Statement of Controls provided by the Education Corporation to SUNY and NYSED concerning the status of management and financial controls

NYCDOE – New York City Department of Education

NYSED – New York State Education Department

SEFA - Schedule of Federal Expenditures – included in financial statements audited in accordance with OMB Uniform Guidance

Single Audit – Audit conducted in accordance with OMB Uniform Guidance

SPED – Special Education

WLG – NYSED Weighted Lottery Generator

Appendix N – Guide to Merging Education Corporation	tions	Corpora ⁻	lucation (Edu	Merging	to	Guide	N -	pendix	Αp
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(SEE COMPLETE GUIDE FOLLOWING)



Guide to Merging Education Corporations

For Charter Schools Authorized by the State University of New York Board of Trustees

July 9, 2018

SUNY Charter Schools Institute SUNY Plaza 353 Broadway Albany, New York 12246 (518) 445-4250 www.newyorkcharters.org

INTRODUCTION

Amendments to the New York Charter Schools Act of 1998 (as amended, the "Act") in 2010, permit charter school education corporations to operate more than one charter school. Two or more existing education corporations may elect to merge into one education corporation with the authority to operate multiple charter schools pursuant to New York Education Law §§ 2852(7) and 2853(1)(b-1), and Article 9 of the New York Not-For Profit Corporation Law. Merger can benefit the schools involved by allowing common governance, common oversight, common financial accounting, shared educational programming and resources, and improved student access to the schools under the education corporation. The following guidance discusses the documents and procedures necessary to prepare for merger of education corporations, the documents required and guidance as to operations after merger has become effective.

Schools authorized by the State University of New York Board of Trustees (the "SUNY Trustees") may merge with other SUNY authorized schools or schools authorized by the New York State Board of Regents (the "Board of Regents"), the New York City Schools Chancellor (the "NYCDOE") or any school district (e.g., Buffalo City School District). A SUNY authorized education corporation may be the one remaining (successor) corporation or may be one of the corporations that merges into another authorizer's education corporation. In the latter case, the SUNY authorized school would be a constituent corporation.

All SUNY authorized charter schools involved in a merger should submit revision materials to the SUNY Charter Schools Institute (the "Institute"). When a non-SUNY school would merge with a SUNY school, a revision request must also be submitted to the other authorizer. Ultimately, all mergers must be submitted to the Board of Regents for final approval. In the case of all-SUNY merger, the merger may be approved by operation of law¹⁷ without Board of Regents' approval. Please note, the request for merger of charter school education corporations is made directly to the authorizer(s). There is no requirement to seek permission from the New York State Attorney General. This Guidance is largely written from the perspective that a SUNY authorized school will be the surviving corporation.

The Institute recommends consulting legal counsel to assist in drafting the appropriate documents for merger and to ensure the proper procedures are followed. A request for merger, complete with all supporting documents, should be submitted approximately six months prior to the proposed date the schools wish the merger to become effective. For financial audit purposes, the most common effective date for merger is July 1.

¹⁶ Portions applicable to education corporations per N.Y. Educ. Law § 216-a.

¹⁷ Education Law § 2852(5-a).

¹⁸ This time frame is a recommendation only based on the following. Pursuant to the Act, the school district(s) in which each charter school is located must hold a public hearing to solicit comments from the community. The school district(s) must then be given an opportunity to comment on the proposed merger to the charter authorizer for consideration. Educ. Law § 2857. In addition, the Act grants the Board of Regents 90 days to respond to the proposed merger. See Educ. Law §§ 2852(5-a), (5-b).

A. Applicable Laws and Regulations

- New York Education Law § 2853(1)(b-1)
- New York Not-for-Profit Corporation Law §§ 901-904
- Education Law § 2852(7)
- Charter Agreement §§ 5.1, 8.9

I. <u>BENEFITS TO MERGER</u>

Once a merger is complete the schools under the one education corporation may enjoy the following benefits:

- Common governance. A sole board of trustees can govern two or more schools eliminating the need to have multiple education corporations formed with the same board members. Paperwork and compliance burdens are reduced when one board can make decisions across a number of schools.
- Common oversight and handling of finances. The resources of the several schools can be pooled and directed to appropriately oversee the finances of all the schools in the one successor education corporation. Smaller and newer schools are not restricted by their enrollment in access to resources for programs, financial oversight, etc. because of reduced income. In addition, the education corporation can have one outside audit performed on the financial statements of the sole education corporation with supplemental audited financial schedules for each chartered school. This is a key cost savings over having an audit for each separate charter school, especially when the financial policies, reporting systems and internal controls may have been intentionally designed to be the same. A common education corporation budget can be developed each year with schedules for each school that would allow the education corporation to direct and share resources amongst schools in a way that was previously difficult or impossible. The single education corporation with more employees also has increased buying power in purchasing employee benefits, insurance, technology, educational materials, services and commodities, and may be better positioned for financing charter school facilities. The single education corporation will have only one EIN (employer identification number), one federal and one state tax exemption letter/certificate, and file one Form 990 each year with the Internal Revenue Service.
- Shared educational programming and resources. Merger allows several schools the ability to share programs and staff between schools, which may be the most significant educational advantage of merger. Students with disabilities or English language learners can now be integrated from different schools into classes at one site and receive the appropriate setting, resources and instructors. Merged schools can locate a specific students with disabilities or other class in any one of the schools and serve at-risk students from across all of its schools. Similarly, teachers who previously may have taught part-time at more than one school, or were shared by contract between schools,

can be hired full time by the education corporation and be deployed as needed.

- Improved student access. As students must be admitted to a charter school through a lottery, access to charter schools has always been limited even for schools in the same "networks" or under common management through a charter management organization. Charter schools students receive a returning student statutory preference under the Act that allows them to return each year, but does not allow any admissions preference for another charter school. Merger allows schools within an education corporation to share certain preferences across schools. For example, a sibling preference for an all-boys school may be used by a female sibling to gain admission to an all-girls school within the same corporation. In addition, an education corporation operating multiple schools can accept students into any one of their schools so long as there are seats without the parents having to apply to multiple schools, or can have parents rank top choices. The result is greater access to charter school education.
- Enrollment pattern flexibility. Middle and high schools require greater resources than
 many single site charter schools can afford. Merger allows separate schools to legally
 combine to found middle and high schools where the existing elementary schools can
 legally direct students with the returning student preference. Similarly, an education
 corporation operating multiple schools with higher grades may provide parents choice
 options for middle or high school that were not previously permitted.

II. TIMING OF EFFECTIVE DATE AND LETTER OF INTENT FOR MERGER

While there is no specific timeline under the law for submitting documents in order to merge education corporations, the Institute strongly suggests the following timeline. The merger documents normally state that the merger will become effective on July 1st or, if approval comes after July 1st, the first of the next fiscal quarter. For accounting and other corporate purposes, many corporations wish to have a July 1st start date to coincide with the fiscal year as well as school year. This timeline was created to best allow for a July 1st merger effective date.

November 30 th	Letter of Intent for Merger Due

December 31st Plan of Merger Due

January Review of Submission Documents by Institute

February – March Plan of Merger voted on by SUNY Trustees

March 31st Documents submitted to New York State Education

Department ("NYSED") for Action by Board of Regents

July 1st Effective date of Merged Education Corporation/start of

fiscal year

III. LETTER OF INTENT

To allow the Institute to appropriately plan for and allocate resources for merger review, the Institute requests the education corporations seeking to merge submit a Letter of Intent by November 30th to the attention of the Institute's Associate Counsel. The Letter of Intent should include the following:

- names of each education corporation to merge;
- authorizer of each education corporation;
- charter management organization and/or partner organization(s) (if applicable);
- name and contact information for the person handling the submission of the merger documents; and
- name of counsel for each education corporation, if counsel is not submitting documents.

IV. REQUEST FOR MERGER

Once the education corporations seeking to merge have completed the appropriate steps (outlined below), the education corporations must submit the request for merger to the Institute for review. Appendix A provides a checklist for items that must be submitted that will evidence the appropriate process for merger adoption. In the case where only one corporation is SUNY authorized, that corporation submits to SUNY and the other corporation(s) submit to the other authorizer(s). (See section V, below).

a. Rationale for Merger

Please submit a rationale as to why the education corporations seek to merge. The rationale, in addition to stating the reason(s) why merger is sought, should include an explanation regarding how students from the affected schools will benefit from the proposed merger. For example, the schools can create more self-contained classrooms for students with disabilities.

b. Plan of Merger (also referred to as a "Merger Agreement")

Please submit a Plan of Merger. A Plan of Merger is a written, legal document that expressly lays out the agreement of the education corporations to merge into one education corporation, known as the successor, surviving, resulting or merged education corporation. The Plan of Merger includes the process to be undertaken during the merger proceedings including the right of an education corporation to back out of the agreement prior to its official approval, as well as the terms under which the resulting education corporation will exist and operate.

A Plan of Merger must be drafted, and executed by a representative from each education corporation (known as "constituent corporations") that is a party to the merger. The education corporations must decide which one education corporation will survive the merger. The resultant education corporation is referred to as the "surviving corporation" in the N.Y. Not-For-Profit

Corporation Law ("N-PCL"). The constituent corporations will cease corporate existence on the effective date of the merger while the surviving corporation continues.

The Plan of Merger must provide the following:

- the name of each constituent corporation with the name under which the constituent corporation was originally formed, if different;¹⁹
- the date that each constituent corporation received its provisional charter from the Board of Regents;
- a statement that each school was chartered pursuant to the N.Y. Charter Schools Act of 1998, as amended, Chapter 4 of the Laws of 1998;²⁰
- the name and address of the surviving corporation.²¹ The new name may be the same or different from any of the constituent corporations' names or school names but must still include the words "charter" and "school." Commonly, the surviving corporation's name indicates it has the authority to operate multiple schools, i.e., "Sunshine Charter Schools" or "Sunshine Charter School Academies;"
- the terms and conditions of the proposed merger including the manner and basis of
 converting membership or any other interest in each constituent corporation into
 membership or interest in the surviving corporation. Usually, there are no
 corporate members, or each school has the same corporate member. If any of the
 schools to merge are membership corporations, the membership including their
 number, classification, and voting rights should be described in the Plan of Merger;
- the number of trustees of the surviving corporation as well as the time of the annual election. This will typically be indicated in the by-laws of the surviving corporation which may be the by-laws of a constituent corporation or newly adopted as part of the merger. The Plan of Merger must indicate or provide the applicable by-laws;
- the proposed trustees of the surviving corporation;
- a requirement that all property, assets, and liabilities of each education corporation vest in and transfer to the surviving corporation;
- an effective date that coincides with the beginning of a fiscal quarter or the fiscal year;²²

¹⁹ This information is available on each corporation's provisional charter (certificate of incorporation) issued by the Board of Regents. Please see Appendix B for a sample provisional charter.

²⁰ The Not-for-Profit Corporation Law requires a statement be made when a merging corporation was formed under "special law." N-PCL § 904(a)(4). Charter schools are authorized, and their revision permitted, under the special authority of the Act, Educ. Law, Art. 56. As such, the language must be included.

²¹ The address is for corporate purposes. It is not necessary to include the address of each school.

²² Having an effective date as of the beginning of a fiscal year is the most efficient for corporate and financial purposes. As previously stated, the education corporations should take into account the timeline for submission and approval. If approval by the Board of Regents or by operation of law is after the effective date(s) in the Plan of Merger, the later date will be the official effective date.

- a statement identifying any proposed amendments or changes to the provisional charter of the surviving corporation to be affected by the merger. At minimum, this will include the authority for the surviving corporation to operate multiple charter schools as will be set forth in the amended and restated charter agreement drafted by the Institute; and,
- an abandonment clause to allow any constituent corporation to abandon the merger prior to the filing of the Certificate of Merger by the Board of Regents.

c. The Certificate of Merger

Please submit a Certificate of Merger. A Certificate of Merger is the legal instrument under which the terms of the merger are formalized and deemed in effect.²³ The Certificate of Merger must include the following information (some of which is similar to that included in the Plan of Merger):

- the name of each constituent corporation, with the name under which the constituent corporation was originally formed, if different, along with the name of the surviving corporation;
- the date each constituent corporation received its provisional charter from the Board of Regents;
- the effective date of the merger which may not be sooner than the approval by the Board of Regents or by operation of law.²⁴ This date is typically the beginning of a new fiscal year or at least a fiscal quarter. The language of this portion of the certificate might read as follows: "The merger shall be effective at 12:01 A.M. Eastern Standard Time on July 1, 20__ or the first of the next fiscal quarter;"
- a statement that each school was chartered pursuant to the N.Y. Charter Schools Act of 1998, as amended, Chapter 4 of the Laws of 1998;
- a description of the membership and holders of any certificates evidencing capital contributions or subventions for each constituent corporation must be given including their number, classification, and voting rights; and,
- a statement of any amendments or changes in the certificate of incorporation of the surviving corporation to be effected by the merger. This would automatically include a statement that amends the legal authority of the surviving education corporation to operate more than one school (or teach the same grades at more than one site) under the Act. The language of this portion of the certificate might read as follows: "The Merger has been authorized, as to each Constituent Corporation, pursuant to Education Law Subdivision 2853(1)(b-1), as amended by Section 14 of Chapter 101 of the Laws of 2010."

²³ Similar to a charter agreement, which formalizes the by-laws, code of ethics, and other provisions of operation of a charter school, but only executed by the corporations.

²⁴ Pursuant to Education Law § 2852(5-a), if the Board of Regents does not respond within 90 days after submission by SUNY, the merger will be deemed to have been approved. However, if the Board of Regents returns the Plan of Merger to SUNY, the timeframe will shift. *See* Educ. Law § 2852(5-b).

d. Public and School Trustee Notice

Please submit evidence the constituent corporations provided the appropriate notice to their trustees and the public. The constituent corporations must provide notice of the meeting to every trustee and member of the constituent corporations, regardless of whether that trustee or member is entitled to vote. The notice to trustees must include a copy of the proposed merger. The trustee/member notice must conform to the by-laws and Education Law § 226(3) (mailed not less than five nor more than 10 days prior to the meeting to the usual address of each trustee). In addition, notice of the meetings must be provided to the public in accordance with the notice provision for all public meetings in the N.Y. Open Meeting Law.²⁵

e. Corporate Resolution and Verification

Please provide evidence of the constituent corporations' board approval. Per N-PCL § 903, the Plan of Merger must be approved by the board of each corporation at an open meeting with quorum present called separately and specifically for the purpose of seeking merger approval. While SUNY does not believe Education Law § 223 is strictly applicable to charter school mergers, the Board of Regents requires a three-quarters (3/4) vote of the trustees present at each board meeting; and SUNY has agreed to this requirement. Resolutions from each constituent corporation must clearly evidence approval and delegate a single trustee or officer from each constituent corporation the responsibility to execute the Plan of Merger and accompanying documents. In addition, each constituent corporation must provide verification of the approval of the Plan of Merger. Verification must be execute by each constituent corporation's current chairperson and secretary.

f. Student Enrollment Tables

Please provide a five year, student enrollment table for the surviving education corporation including the student enrollment of all schools the surviving education corporation will have the authority to operate as well as five year, student enrollment table for each individual school. The individual enrollment tables should be consistent with the overall education corporation's enrollment table. A student enrollment table template may be found at http://www.newyorkcharters.org/merger-replication-policy/.

g. Five Year Budget

Please provide a five year budget for the surviving education corporation showing all schools it will have the authority to operate. A template may be found www.newyorkcharters.org/charter-revision-template/.

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²⁵ N.Y. Pub. Off. Law § 104.

h. Revisions

Merger is an opportune time to align procedures, programming and policies across schools. The education corporation will have terms of operation that will apply across the schools it has the authority to operate. Through merger there will be one set of by-laws and one code of ethics. The education corporation may indicate other policies it would like as a term of operation to apply across all schools. For instance, the schools may operate under the same admissions or discipline policies. Some education corporations may find this convenient as there will not be multiple policies to keep track of and update. Another common update is done to the Financial Policy and Procedures Manual to detail the effects of merger on the financial reporting systems and authorization and approval structures. The education corporations should indicate and provide any such materials at the time of the merger submission.

III. PROCESSING OF MERGER

Once the education corporations submit the request(s) for merger, the Institute will check the requests for completeness and make a determination as to whether it will recommend the merger to the SUNY Trustees or requires additional information. A request for merger is a material revision, therefore, the Institute will provide notice to the public and all school districts for which schools of the proposed merger are located.

The Institute conducts a legal, fiscal and academic performance review of the constituent corporations when a SUNY authorized school would be the surviving corporation, which may include site visits. The Institute will ask non-SUNY schools to provide student academic performance, disciplinary and enrollment and retention targets information as well as fiscal information. Based on SUNY's Replication Policies, ²⁶ the Institute will not recommend for merger any school that is facing non-renewal. A merger which would cause a SUNY school to not be fiscally viable will also not be recommended by the Institute. The Institute will forward positive recommendations to the SUNY Trustees' Charter Schools Committee, which shall vote on the matter. If the Charter Schools Committee approves the merger, the Institute will process and submit to the Board of Regents.

The Institute provides a new charter agreement (designated "amended and restated"), executed by the Institute and the current board chair of the surviving corporation. If the merger occurs during the current charter term of the surviving corporation, the Institute will issue a charter agreement providing the surviving corporation with the authority to operate all constituent schools. The authority to operate each individual school, with the dates through which the authority runs, will be stated in Schedule 1 of the charter agreement. If the merger coincides with the renewal of the surviving corporation, then the merger will be incorporated into the new renewal charter. The new charter agreement will include the complete Terms of Operation for the surviving education corporation as a whole, as well as the Terms of Operation of each constituent school. Corporate / governance related terms may be included in the corporate Terms of Operation, such as

²⁶ A Policy Framework for Charter School Replication available at: www.newyorkcharters.org/wp-content/uploads/SUNY-Replication-Policy.pdf.

organization charts, overall enrollment, and fiscal policies. The merged entity can choose what other terms will apply to all schools and what terms may still differ. The education corporations can provide this information with the submission as an amendment. (See above). For instance, one merged education corporation may provide a sole admissions policy, while another may provide a different admissions policy for each constituent school. This is an opportunity for the education corporation to choose to standardize certain terms, and that should be made clear to SUNY upon submission of the merger documents.

The Institute may provide other amendments to the existing charter agreement of the surviving education corporation such as additional assurances and terms for the education corporation as a whole or for individual schools (as appropriate), special education assurances for each school in the education corporation (typically found in a single document), and any other amendments as required by the authorizer. For compliance, SUNY uses only one monitoring plan for all the schools of the surviving corporation.

V. DIFFERENT AUTHORIZERS

If one or more of the education corporations seeking to merge is authorized by a charter authorizer other than SUNY, then a merger revision application must be submitted to the other authorizer as well. Basically, the same information would be provided, but less information is needed by the outgoing authorizer. The non-SUNY merger revision must be approved by both the authorizer and (if the authorizer is not the Board of Regents) by the Board of Regents. Such revisions cannot be approved by operation of law under SUNY's authority in the Act. Please contact the authorizer for timelines and content necessary for the approval of a merger revision. Questions regarding such mergers can be directed to the Institute.

VI. FUTURE OPERATIONS

a. Accountability

Per SUNY policy, accountability resides at the school level, not at the education corporation level. The merger will not change the accountability requirements of any individual SUNY authorized school the education corporation has the authority to operate. Each school will continue with its current accountability plan in terms of content and timing. An education corporation can only be granted the authority to operate each school for up to five years. Therefore, each school must still apply for renewal under its accountability plan on the same schedule.

Any Board of Regents or NYCDOE-authorized charter school that is merging with a SUNY-authorized charter school will be required to adopt SUNY's accountability plan as a part of the merger.²⁷ The timing of renewal decisions will, however, still take place on the prior authorizer's schedule. As schools that merge into SUNY authorized schools are new to SUNY oversight, such

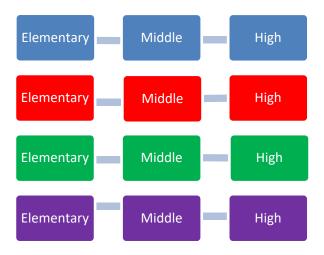
²⁷ For more information about SUNY accountability plans see www.newyorkcharters.org/category/operational-resources/accountability/.

schools will be treated as schools coming to renewal for the first time under the SUNY Renewal Policies,²⁸ even if they have been previously renewed. This means they will be eligible for a short-term or a full-term renewal.

That said the education corporation may wish to rethink its accountability pathways upon merger. An accountability pathway is the enrollment growth and students the individual school is responsible for upon renewal. Typically, there are three types of accountability pathways: (1) Straight Pathways with Separate Sites; (2) Straight Pathways with Combined Sites; and, (3) Feeder Pathways.

1. Straight Pathways with Separate Sites

Four stand-alone education corporations may each operate a school serving grades K-12. Each school may operate an elementary, middle and high school at its own sites giving each school three physical sites. Each school has an accountability plan for its K-12 grades. Upon renewal, each school is accountable for its own K-12 grades. Upon merger, the four schools may continue to operate separately and be accountable separately. The chart below shows schools with straight accountability pathways.²⁹



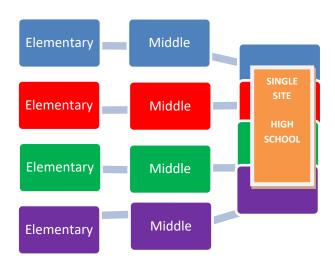
2. Straight Pathways with Combined Sites

Four stand-alone education corporations may each operate schools with grades K-12. Each school may operate its own elementary and middle school site, but due to cost, share its high school site and operate the high school as one site by contract. (Please note that this is not colocation of the high school students but all schools' students attending the same high school program). Each school still has a separate accountability plan for its K-12 grades. In other words,

²⁸ Policies for the Renewal of Not-for-Profit Charter School Education Corporations and Charter Schools Authorized by the Board of Trustees of the State University of New York, available at: www.newyorkcharters.org/wp-content/uploads/SUNY-Renewal-Policies.pdf.

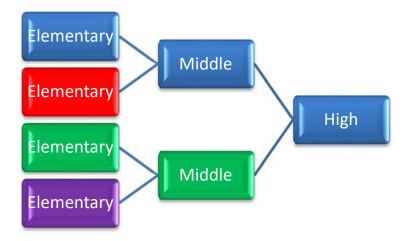
²⁹ Colors represent an individual school. Therefore, each color represents an individual Accountability Plan for which the individual school will be renewed.

the high school program would have four separate accountability plans tied to it. Upon renewal, each school is accountability for its own K-12 grades as measured by individual student performance. Upon merger, the four schools may continue this arrangement without the need for a contract (or change it to have one school "own" the high school for purposes of accountability (see below)). The chart below shows straight pathways with combined sites.



3. Feeder Pathways

Four stand-alone education corporations may each operate schools serving grades K-12. Once merged, the surviving corporation may wish to combine schools and feed into larger programs. Upon merger, the education corporation may operate a number of elementary schools that feed a lesser number of middle schools that feed one (or a lesser number of) high school(s). Instead of any one site having multiple accountability plans attached to it, each school can take responsibility for different sets of students at different sites. The chart below shows feeder pathways with separate sites. One school may be accountable for a set of grades K-12 while another is accountable for a set of grades K-8 while the remaining two schools are only accountable for an elementary school each. Note that a new charter is not required for the combined middle or high schools.



b. Fiscal Responsibility of Merged Education Corporation

1. Close Out Financial Statements

After the merger, each education corporation is required to provide to the Institute a close out financial statement showing the final balances on the close out date of each constituent corporation and the related opening balances on the effective date for the surviving corporation. The combined totals of the individual education corporation close out balances must equal the opening balances on the effective date of the surviving corporation. Auditor prepared work papers containing the close out balances and related surviving corporation opening balances is sufficient documentation to provide to the Institute.

2. Initial Statement Process

The Initial Statement process is an accountant review process where the education corporation engages outside professionals to review internal controls and fiscal policies and procedures. Each newly chartered school generally meets the Initial Statement requirements in the charter agreement.³⁰ Education corporations with the authority to operate multiple schools that have already undertaken the Initial Statement process do not have to repeat the process for each new school, per § 5.1(f) of the Charter Agreement, so long as the education corporation provides an assurance to the Institute as follows.

- The education corporation's board must specifically delegate authority to its Treasurer, or an employee or agent of the education corporation (as documented in a resolution or minutes of a board meeting) to provide an assurance to the Institute regarding managerial and financial controls.
- The assurance must certify to SUNY that substantially similar financial controls have been instituted by the education corporation for the new school in accordance with § 5.1(f) of the Charter Agreement.

³⁰ Charter Agreement § 5.1, available at: www.newyorkcharters.org/model-charter-agreement/.

If the education corporation cannot or does not provide such a certification, then the education corporation will have to undergo the Initial Statement process for each new school.

3. Quarterly Interim Reports

All financial statements that the merged education corporation is required to prepare shall be in accordance with generally accepted accounting principles (GAAP) then in effect for not-for-profit corporations. During each year of operation, the merged education corporation shall prepare and submit to the Institute within forty-five (45) days of the end of each quarter of its fiscal year an unaudited statement of income and expenses for that preceding quarter in such form and electronic format as prescribed and disseminated by the Institute and currently available through the website of the Institute to include, but not be limited to, the aggregated statements for the merged education corporation as determined by the Institute. In addition, the merged education corporation must submit a separate statement of income and expenses for each school included under the merged entity.

4. Audits

The merged education corporation shall retain an independent certified public accountant or certified public accounting firm licensed in New York to perform annually an audit of the merged education corporation's annual financial statements. The independent audit of the merged education corporation's financial statements must be performed in accordance with generally accepted auditing standards (GAAS) and Government Auditing Standards (GAS) issued by the Comptroller General of the United States, as well as any additional requirements and guidelines provided by the Institute to include certain information, schedules and testing related to each school operated by the merged education corporation. The audited financial statements must be submitted to the Institute by November 1 of each year. In addition, and pursuant to the same timetable, the merged education corporation must require its independent certified public accountant to issue a report on compliance with laws, regulations, contracts and grants and internal controls over financial reporting, based on its audit of the financial statements. The merged education corporation must submit this report to the Institute together with a corrective plan addressing any weakness or problems identified in the planning and performance of the audit. The corrective plan must address each suggestion for consideration of management contained in the compliance report and include a timetable that identifies the date by which each corrective step will have been completed. All documents required to be submitted shall be submitted electronically in accordance with guidance published on the website of the Institute.

On an annual basis the merged education corporation must submit one audit report containing a combined balance sheet and combined statement of income and expenses. The audit report must include a separate statement of income and expenses for each school within the merged education corporation; the purpose is to show individual school's operating income or loss for each year. In addition, the audit report must include in the notes to the financial statements detail regarding any payment of monies from the education corporation to any school in excess of the income from that school, and detail the reason. A benefit of a merged education corporation is the flexibility of having the education corporation or one school pay expenses of another but those

transactions need to be identified in the notes to the financial statements. The Institute requires that audit reports be submitted in .pdf format and excel templates for the merged education corporation balance sheets and statement of income and expenses. The Institute uploads the excel spreadsheets into the SUNY Fiscal Dashboard for financial analysis.³¹ Each school within the merged education corporation will need to submit a completed excel spreadsheet template for each individual school's statement of income and expenses only.

Annual Budgets

The merged education corporation shall prepare and provide to the SUNY Trustees a copy of its annual budgets and cash flow projections for (i) the merged education corporation as a whole, and (ii) each school, each fiscal year by no later than June 30 of the immediately preceding fiscal year. All annual budgets and cash flow projections shall be in such form and electronic format as prescribed and disseminated by the SUNY Trustees, which will be available on the website of the Institute.

For a new school within the merged education corporation that is entering its first year of instruction, the annual budget shall be provided by August 1 of such year in the event that the budget or projection differs in any material respect from that set forth in the Terms of Operation for that school in the Charter Agreement.

5. Dissolution Funds

Per Charter Agreement § 8.9, the merged education corporation must create a dissolution reserve fund or account for purposes of school closure and/or dissolution of the education corporation in an amount to be determined as follows:

- seventy-five thousand dollars (\$75,000) per school for each of the first two (2) schools operated by the education corporation to be funded, at a minimum, by reserving twenty-five thousand dollars (\$25,000) per year during the first three (3) years of operation of each school;
- twenty-five thousand dollars (\$25,000) per school for each additional school operated by the education corporation to be reserved in the first year of operation of each school up to a maximum of three hundred and fifty thousand dollars (\$350,000).

The amended and restated charter agreement will clearly detail this requirement.

c. School Operations

While there is only one education corporation post merger, each school the education corporation has the authority to operate will still have its own Basic Educational Data System ("BEDS") number with the New York State Department of Education.

³¹ Institute Fiscal Resources are available at: www.newyorkcharters.org/category/operational-resources/fiscal-operations/.

The merged education corporation will bill districts for all schools it operates under the surviving education corporation's EIN. Just as before the merger, each school's projected enrollment and billing must be provided unaggregated to the district. In New York City, billing may still be under each individual school name but the vendor EIN number would be that of the merged education corporation.

d. Future Agreements

Please note that once the merger takes effect, there is only one education corporation. Therefore, there is only one legal entity. The constituent corporations cease to exist. After the merger, the surviving corporation is the only legal entity that may enter into legal agreements. The surviving corporation has only one EIN. There is only one corporation with federal and state tax exemption. Please note this distinction when applying for or entering into agreements on behalf of any school the education corporation is granted authority to operate.

e. Replication

SUNY's Request for Proposals (RFP) presents a pathway for an existing charter school education corporation (whether merged or not) to operate a new school and for a new education corporation to be formed that would operate more than one school. The Act states that an "education corporation operating a charter school shall be authorized to operate more than one school . . . provided that a charter must be issued for each such additional school . . . in accordance with the requirement for issuance of a charter pursuant to [Article 56]. . . . "³² This would be completed through a formal application for a charter through the RFP process or the previous application process in the Act.

Please refer to the most current SUNY RFP for further discussion as to these options.

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³² Educ. Law § 2853(1)(b-1).

APPENDIX A Merger Checklist

In the event of a merger of two or more existing education corporations, the following documents will be produced by the merging education corporations with the exception of the Charter Agreement, which is drafted by the Institute and supplemented by the successor education corporation revisions:

Merger Submission Checklist			
Letter of Intent	Letter of Intent	The letter of intent should include the names of each education corporation to merge, the authorizer of each education corporation, the charter management organization and/or partner organization(s) (if applicable), and the name and contact information for the person handling the submission of the merger documents.	
Rationale	Rationale	A statement regarding why the education corporations have decided to merge.	
Plan of Merger (Merger Agreement)	Standard Term	Name of each constituent corporation.	
	Standard Term	Original name of any constituent corporation that has been modified since the charter was approved.	
	Standard Term	Date of each constituent corporation received its provisional charter from the Board of Regents.	
	Standard Term	A statement that each school was chartered pursuant to the N.Y. Charter Schools Act of 1998, as amended, Chapter 4 of the Laws of 1998.	
	Standard Term	Terms and conditions of the merger. This must include the manner and basis of converting membership or any other interest in each constituent corporation into	

		membership or interest in the successor corporation (it is very likely there will be no members).
	Name	Name of Surviving Corporation.
	Name	Ivalle of Surviving Corporation.
	Corporate Address	Place where the resultant education corporation will be principally located.
	Number of Trustees	Number of trustees.
	Time of Election of Trustees	Time of the annual election of directors for the surviving corporation.
	New Trustees	Identifies the trustees of the resultant corporation that will serve such roles until the first annual election.
	Transfer of Assets and	Requires all property, assets, and liabilities of the constituent corporations that will
	Liabilities	be vested in and transferred to the successor corporation.
Membership		Describes, if any of the schools to merge are membership corporations, the
	ep	membership including their number, classification, and voting rights, if any.
		Provides a statement of any amendments or changes to the provisional charter of the
	Revisions	successor corporation to be effected by the merger. NPCL § 902(a)(1). At minimum, this will include the authority for the successor corporation to operate multiple
	Nevisions	charter schools. This same information may be included in the charter revision
		request and SUNY's proposed charter revision for each school.
		Provides an abandonment clause, such that any constituent corporation may
	Escape Provision	abandon the merger until the merger/consolidation is approved by the Board of Regents or by operation of law.

Certificate of Merger	Name	The name of each constituent corporation, and if the name of any of them has been changed, the name under which it was formed, and the name of the successor corporation.
	Members and Financial Holders	A description of the membership and holders of any certificates evidencing capital contributions or subventions including their number, classification, and voting rights, if any, as to each constituent corporation.
	Amendment Statement	A statement of any amendments or changes in the certificate of incorporation of the successor corporation to be effected by such merger.
	Date of Merger	The effective date of the merger, which shall be no sooner than the approval by the Board of Regents (90 days after submission by SUNY) or by operation of law pursuant to N.Y. Education Law § 2852(5-a) or (5-b), as appropriate. This date is typically the beginning of a new fiscal year or at least a fiscal quarter. SUNY has standard language in case we roll over a fiscal year start.
	Incorporation Dates	The date when each constituent corporation was initially awarded a provisional charter by the Board of Regents, and a statement that such provisional charter was issued pursuant to the N.Y. Charter Schools Act of 1998, as amended, Chapter 4 of the Laws of 1998.
	Authorization Statement	A statement that the merger was authorized, as to each constituent corporation, pursuant to Education Law § 2853(1)(b-1), as amended by Section 14 of Chapter 101 of the Laws of 2010.
Public Notices	Public Notices	That the public meeting where the merger agreement was approved, was separately and specifically called for the purpose of approving such agreement.

		Education Law § 223.				
Ed Corp Trustee Notice	Ed. Corp. Trustee Notice	That the notice of the meeting was given to every trustee or member, whether not entitled to vote or able to attend, and that the notice included a copy of the proposed merger agreement. NPCL § 903(a)(1).				
Corporate Resolutions	Corporate Resolutions	That the merger agreement was approved by ¾ of the total number of trustees of each constituent corporation at an open meeting with a quorum present, and that a single trustee from each constituent corporation was delegated the responsibility to sign said agreement.				
Verification	Verification	That the approval of the merger agreement was <u>verified</u> by <u>each</u> constituent corporation's current chairperson and clerk (corporate Secretary). Education Law § 223.				
Student Enrollment Charts	Enrollment	Please submit an overall enrollment chart for the education corporation and individual enrollment charts for each school the education corporation will have the authority to operate.				
Budget	Budget	Please submit a five year budget using the Institute's budget template for the education corporation showing all schools it will have the authority to operate.				
Statistical Overview	Statistics	Please complete the Statistical Overview form for each school. See Appendix C.				
Revisions	Revisions	If applicable, submit any revisions the education corporation may wish to make at this time to consolidate and/or align programming and policies at the schools.				

APPENDIX B

SAMPLE PROVISIONAL CHARTER



Charter School

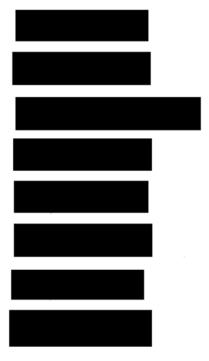
PROVISIONAL CHARTER

This Instrument Witnesseth That, pursuant to subdivision 5-a of section 2852 of the Education Law, the Board of Regents, for and on behalf of the Education Department of the State of New York, on October 15, 2014

Issued,

1.		a term of five years in accordance with §2851 (2)(p)
	of the Education Law is issued	incorporating
	and their succ	cessors as an education corporation under the
	corporate name of	Charter School, located in the City
	of	

- 2. The purpose for which such corporation is formed is to operate a charter school pursuant to Article 56 of the Education Law and in accordance with the charter agreement between Charter School and the Board of Trustees of the State of New York, dated July 17, 2014 and any subsequent authorized revisions or amendments thereto.
- 3. The names and post office addresses of the first trustees are as follows:



- The board shall have power to adopt bylaws not inconsistent with the provisions of Article 56 of the Education Law.
- 5. The corporation hereby created shall be a nonstock corporation organized and operated exclusively for educational purposes as defined in section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law), and no part of its earnings or net income shall inure to the benefit of any individual; and no officer, member, or employee of the corporation shall receive or be entitled to receive any pecuniary profit from the operations thereof, except reasonable compensation for services.
- 6. Notwithstanding any other provision of these articles the corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law) or (b) by a corporation, contributions to which are deductible under section 170(c)(2) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).
- No substantial part of the activities of the corporation shall be devoted to carrying on propaganda, or otherwise attempting to influence legislation (except to the extent authorized by Internal Revenue Code section 501(h) as amended, or the corresponding provision of any future United States Internal Revenue Law, during any fiscal year or years in which the corporation has chosen to utilize the benefits authorized by the statutory provision), and the corporation shall not participate in nor intervene (including the publishing or distribution of statements) in any political campaign on behalf of, or in opposition to, any candidate for public office.
- 8. Upon dissolution of the corporation, the board of trustees shall, after paying or making provision for the payment of all the liabilities of the corporation, dispose of the remaining assets of the corporation to the school district of residence or a charter school located within the school district in which the charter school is located, provided that such charter school shall be exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law), exclusively for one or more exempt purposes within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue Law).
- The principal office of the corporation shall be located at Charter School,
- The Commissioner of Education is designated as the representative of the corporation upon whom process in any action or proceeding against it may be served.
- Such provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education Law.



Issued, October 15, 2014, by the Board of Regents of The University of the State of New York, for and on behalf of the State Education Department, and executed under the seal of said University and recorded as Number 819.

Muyl # Lich Chancellor

President of the University and Commissioner of Education

The University of the State of New York

Charter	Schoo
Charter	Schoo

This Instrument Witnesseth That, pursuant to subdivision 5-b of section 2852 of the Education Law, the Board of Regents, for and on behalf of the Education Department of the State of New York, on October 15, 2014

Issued,

A charter valid for a term of five years in accordance with §2851(2)(p) of the Education Law is issued to the Charter School pursuant to Article 56 of the Education Law and in accordance with the attached charter agreement dated July 17, 2014 between on behalf of Charter School and Board of Trustees of the State University of New York.



Issued, October 15, 2014, by the Board of Regents of The University of the State of New York, for and on behalf of the State Education Department, and executed under the seal of said University and recorded as Number 819.

Muyl & Lich

President of the University and Commissioner of Education

APPENDIX C

STATISTICAL OVERVIEW OF PAST THREE YEARS

	2014-	2015-	2016-
Requested Data	15	16	17
Enrollment ³³			
Total Enrollment			
Number of Students with Disabilities			
Number of English Language Learners			
Number of Economically Disadvantaged Students			
Retention ³⁴			
Total Number of Students Eligible to Return from Previous Year ³⁵			
Total Number of Eligible Students Who Returned from Previous Year			
Number of Students with Disabilities Eligible to Return from Previous Year ³⁶			
Number of Students with Disabilities Who Returned from Previous Year			
Number of English Language Learners Eligible to Return from Previous Year ³⁷			
Number of English Language Learners Who Returned from Previous Year			
Number of Economically Disadvantaged Students Eligible to Return from			
Previous Year			
Number of Economically Disadvantaged Students Who Returned from Previous			
Year			
Average Daily Attendance Rate			
Number of In-School Suspensions (Occurrences)			
Number of Out of School Suspensions (Occurrences)			
Number of Expulsions			
Total Number of Classroom Teachers			
Number of Uncertified Classroom Teachers			
Number of Classroom Teachers Returning from Previous Year			
Number of Other Professional Staff			
Number of Paraprofessionals			
Name(s) of Instructional Leader(s)			

 $^{^{\}rm 33}$ All enrollment data should reflect BEDS day information.

³⁴ All retention data should reflect students enrolled in school on previous BEDS day who remained in the school the following BEDS day.

³⁵ An eligible student is one who has not completed the school's terminal grade, aged out of the program or been expelled.

 $^{^{36}}$ All students who received mandated services at some point of enrollment in the school should be included in this count even if no longer receiving services.

³⁷ Any student identified as an English language learner at any point of enrollment in the school should be included in this count regardless of current English language proficiency status.