

*ANNUAL FINANCIAL REPORT*

of the

**SAM HOUSTON STATE UNIVERSITY  
CHARTER SCHOOL**

(a department of Sam Houston State University,  
an agency of the State of Texas)

For the Year Ended  
August 31, 2018

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# SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL

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August 31, 2018

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**SAM HOUSTON STATE UNIVERSITY  
CHARTER SCHOOL**

*CERTIFICATE OF BOARD*

Sam Houston State University Charter School  
Name of School

Walker  
County

236-802  
School Number

We, the undersigned, certify that the attached annual financial reports of the above named School were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2018 at a meeting of the Board on the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

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

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

If the Board disapproved the auditors' report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

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***FINANCIAL SECTION***

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## ***INDEPENDENT AUDITORS' REPORT***

To the School Board of  
Sam Houston State University Charter School:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sam Houston State University Charter School (the "School") (a department of Sam Houston State University, which is an agency of the State of Texas) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of August 31, 2018, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Department of the University*

As discussed in Note I.A. to the financial statements, the School is a department of Sam Houston State University (SHSU), which is an agency of the State of Texas. The financial statements of the School are intended to present the financial position and the changes in financial position of only that portion of the activities of SHSU and the State of Texas that are attributable to the School. They do not purport to, and do not, present fairly the financial position of SHSU or the State of Texas as of August 31, 2018, or the changes in their financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The introductory section, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
November 16, 2018

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***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended August 31, 2018**

This discussion and analysis of Sam Houston State University Charter School's (the "School") financial performance provides an overview of the School's financial activities for the fiscal year ended August 31, 2018. It should be read in conjunction with the School's financial statements.

The School received start-up grant funding during the 2017 fiscal year but its first year of operation was during the current fiscal year of 2018.

**FINANCIAL HIGHLIGHTS**

- The School's total net position at August 31, 2018 was a deficit of \$733,512.
- For the fiscal year ended August 31, 2018, the School's general fund reported a total deficit fund balance of \$733,512.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic financial statements include two kinds of statements that present different views of the School.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *instructional* services were financed in the *short-term*, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School's assets, liabilities, and deferred outflows/inflows of resources. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The government-wide statements report the School's net position and how it has changed. Net position is the difference between the School's assets, liabilities, and deferred outflows/inflows of resources and is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended August 31, 2018

- To assess the overall health of the School, one needs to consider additional nonfinancial factors such as changes in the School's staffing patterns, enrollment, and attendance.

The government-wide financial statements of the School include the *governmental activities*. The School's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant maintenance and operation are included in *governmental activities*.

#### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The School Board (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the School is properly using certain grants.

The School has the following kinds of funds:

- *Governmental funds* – The School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

#### **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

This is the School's first year of operation and a comparative financial analysis is not available for the 2018 fiscal year. The net position was a deficit \$733,512 at August 31, 2018. The school has recorded a Due To Sam Houston State University in the amount of \$768,076.

#### **FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

At the close of the fiscal year ending August 31, 2018, the School's governmental funds reported a combined deficit fund balance of \$733,512. This is the School's first year of operation. The general fund experienced a decrease in fund balance of \$420,724. The decrease is primarily the result of first year operational expenditures.



**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended August 31, 2018

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with State law and generally accepted accounting principles, the School prepares an annual budget for the general fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2018, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. The general fund's actual revenues were less than budgeted revenues by \$500,499 and the budgeted expenditures exceeded actual expenditures by \$79,775.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The School's Board considered many factors when setting the 2018-2019 budget including:

- Average daily attendance
- State aid
- Federal grants
- Donations and contributions

The School has plans to transition to year-round school for the 2018-2019 school year.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's business office at SHSU Charter School, Box 2119, Huntsville, TX 77341, (936)-294-3347.

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***BASIC FINANCIAL STATEMENTS***

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# SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL

## STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2018

<u>Data Control Codes</u>		1
		<u>Governmental Activities</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 1,647
1240	Due from other governments	44,607
1000	<b>Total Assets</b>	<u>46,254</u>
	<u>Liabilities</u>	
	Current Liabilities	
2110	Accounts payable	\$ 10,043
2310	Deferred revenue	1,647
	Total current liabilities	<u>11,690</u>
	Noncurrent liabilities	
2181	Due to Sam Houston State University	768,076
2500	Total noncurrent liabilities	<u>768,076</u>
2000	<b>Total Liabilities</b>	<u>779,766</u>
	<u>Net Position</u>	
3900	Unrestricted	(733,512)
3000	<b>Total Net Position</b>	<u>(733,512)</u>
	<b>Total Liabilities and Net Position</b>	<u>\$ 46,254</u>

See Notes to Financial Statements.

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**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**

**STATEMENT OF ACTIVITIES - EXHIBIT B-1**

For the Year Ended August 31, 2018

Data Control Codes	Functions/Programs	1	3	4	6
Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
	<b>Primary Government</b>				
	<b>Governmental Activities</b>				
0011	Instruction	\$ 1,436,439	\$ -	\$ 271,845	\$ (1,164,594)
0013	Curriculum and staff development	6,550	-	3,144	(3,406)
0023	School leadership	6,936	-	2,616	(4,320)
0033	Health services	7,196	-	7,196	-
0035	Food services	33,726	14,737	-	(18,989)
0041	General administration	83,438	-	13,650	(69,788)
0051	Plant maintenance and operations	365,879	-	41,658	(324,221)
	<b>Total Governmental Activities</b>	<u>\$ 1,940,164</u>	<u>\$ 14,737</u>	<u>\$ 340,109</u>	<u>(1,585,318)</u>
	<b>General Revenues</b>				
GC	Grants and contributions not restricted				1,164,594
TR				<b>Total General Revenues</b>	<u>1,164,594</u>
CN				<b>Change in Net Position</b>	<u>(420,724)</u>
NB	Beginning net position				<u>(312,788)</u>
NE				<b>Ending Net Position</b>	<u>\$ (733,512)</u>

See Notes to Financial Statements.

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**SAM HOUSTON STATE UNIVERSITY  
CHARTER SCHOOL**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS - EXHIBIT C-1*

August 31, 2018

<b>Data Control Codes</b>	<b>10</b>	<b>Start-Up Grant</b>	<b>Other Nonmajor Governmental</b>	<b>98 Total Governmental Funds</b>
	<b>General</b>			
<b><u>Assets</u></b>				
1110 Cash and cash equivalents	\$ -	\$ -	\$ 1,647	\$ 1,647
1240 Due from other governments	4,232	32,941	7,434	44,607
1000 <b>Total Assets</b>	<b>\$ 4,232</b>	<b>\$ 32,941</b>	<b>\$ 9,081</b>	<b>\$ 46,254</b>
<b><u>Liabilities</u></b>				
2110 Accounts payable	\$ 4,210	\$ 4,724	\$ 1,109	\$ 10,043
2181 Due to Sam Houston State Universtiy	733,534	28,217	6,325	768,076
2310 Deferred revenue	-	-	1,647	1,647
2000 <b>Total Liabilities</b>	<b>737,744</b>	<b>32,941</b>	<b>9,081</b>	<b>779,766</b>
<b><u>Fund Balances</u></b>				
3600 Unassigned	(733,512)	-	-	(733,512)
3000 <b>Total Fund Balances</b>	<b>(733,512)</b>	<b>-</b>	<b>-</b>	<b>(733,512)</b>
4000 <b>Total Liabilities and Fund Balances</b>	<b>\$ 4,232</b>	<b>\$ 32,941</b>	<b>\$ 9,081</b>	<b>46,254</b>
<b>Net Position</b>				<b>\$ (733,512)</b>

See Notes to Financial Statements.

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**SAM HOUSTON STATE UNIVERSITY  
CHARTER SCHOOL**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2**

For the Year Ended August 31, 2018

Data Control Codes	10			98	
	General	Start-Up Grant	Nonmajor Governmental	Total Governmental Funds	
<b>Revenues</b>					
5700	Local and intermediate sources	\$ 14,737	\$ -	\$ -	\$ 14,737
5800	State program revenues	1,164,594	-	78,258	1,242,852
5900	Federal program revenues	-	254,416	7,435	261,851
5000	<b>Total Revenues</b>	<u>1,179,331</u>	<u>254,416</u>	<u>85,693</u>	<u>1,519,440</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	1,122,936	227,810	85,693	1,436,439
0013	Curriculum/instructional staff development	3,406	3,144	-	6,550
0023	School leadership	4,320	2,616	-	6,936
0033	Health services	-	7,196	-	7,196
0035	Food services	33,726	-	-	33,726
0041	General administration	69,788	13,650	-	83,438
0051	Plant maintenance and operations	365,879	-	-	365,879
6000	<b>Total Expenditures</b>	<u>1,600,055</u>	<u>254,416</u>	<u>85,693</u>	<u>1,940,164</u>
1200	<b>Net Change in Fund Balances</b>	(420,724)	-	-	(420,724)
0100	Beginning fund balances	(312,788)	-	-	(312,788)
3000	<b>Ending Fund Balances</b>	<u>\$ (733,512)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (733,512)</u>
<b>Change in Net Position of Governmental Activities</b>				<u>\$ (420,724)</u>	

See Notes to Financial Statements.

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**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
*NOTES TO FINANCIAL STATEMENTS*  
For the Year Ended August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements are prepared in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and they comply with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which funds are received.

**A. Reporting Entity**

Sam Houston State University Charter School (the "School") is a department of Sam Houston State University (SHSU), which is an agency of the State of Texas. These financial statements present financial information that is attributable to the School and do not purport to, and do not, present fairly the financial position of SHSU or the State of Texas.

The School is chartered by the State Board of Education and accredited by the TEA. Courses are developed to comply with the Texas Essential Knowledge and Skills (TEKS) objectives and are compliant. The School's administrators and staff are degreed and certified for the positions to which they are assigned.

The School strives to partner with independent school districts in the greater Houston area to assist in overpopulation of the current school districts and provide an alternative education to families. The School's vision is to provide the highest quality instruction in a safe and motivating learning environment for all students, using a variety of instructional strategies that are research-based best practices in the field to ensure that each student is academically successful in reaching all of his/her learning goals.

The educational philosophy in the School is founded on the strong portfolio of research that shows strong Pre-Kindergarten (Pre-K) programs can help amend current academic gaps and discrepancies in transitions if the Pre-K and elementary environment are contiguously aligned. The trend of universal Pre-K, state-funded preschool programs, and collaborative transition processes are becoming the norm, rather than the exception, across America and in Texas. The ongoing review continues to focus on the quality of these programs and transitions.

As approved in the Charter application, the Chief Administrative Officer of the School is the Superintendent of the School. The Superintendent reports to the School Board (the "Board"), which reports to the President of SHSU, who is ultimately responsible to the Texas State University System (the "System") Board of Regents (the "Regents"), appointed by the Governor of the State of Texas, and confirmed by the Texas Senate. The reporting structure effectively outlines the governing body of the School, with the President and the Regents retaining final oversight. The Board works to ensure effective operation of the School.

The School is supported by SHSU, both directly and indirectly, through revenue, management oversight, services, supplies, and operation.

# SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

### B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the School. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School has no business-type activities.

### C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the School's funds. Separate statements for governmental funds are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The School reports the following governmental funds:

#### General Fund

The general fund is used to account for and report all financial resources of the School not accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

#### Special Revenue Funds

Special revenue funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Start-Up grant is considered a major fund, however the remaining special revenue funds are considered nonmajor funds for reporting purposes.

During the course of operations, the School has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While

# SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenue and interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the School.

### F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

#### 1. Cash and Cash Equivalents

The School's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the School's agent bank approved pledged securities in an amount sufficient to protect School funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. The School's funds are maintained by SHSU.

On a monthly basis, SHSU provides the School with a statement of accounts showing all fund activities for the month and ending monthly balances which is then reconciled to the accounts of the School. Such deposits are insured or collateralized with securities held by SHSU in SHSU's name.

# **SAM HOUSTON STATE UNIVERSITY**

## **CHARTER SCHOOL**

### *NOTES TO FINANCIAL STATEMENTS (Continued)*

For the Year Ended August 31, 2018

The School does not maintain investments of any kind outside the operating bank account since funds available are retained by SHSU, therefore, the only interest accruing to the School is from the operating bank account.

#### **2. Capital Assets**

Since title and ownership of all capital assets are in SHSU's name, no capital assets are reported in the accompanying financial statements.

#### **3. Receivables and Payables**

The School believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided to further disaggregate those balances. All receivables are scheduled for collection within one year from year end.

#### **4. Long-Term Obligations**

The School does not separately issue long-term debt. The School is not currently engaged in any long-term financing transactions.

#### **5. Net Position Flow Assumption**

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### **6. Fund Balance Flow Assumptions**

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### **7. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The School itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Restricted



# **SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)*** **For the Year Ended August 31, 2018**

fund balance represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority. The Board is the highest level of decision-making authority for the School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### **8. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **9. Data Control Codes**

The data control codes refer to the account code structure prescribed by the TEA in the Resource Guide. The TEA requires schools to display these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

### **10. Pensions**

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **G. Revenues and Expenditures/Expenses**

### **1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

# SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued) For the Year Ended August 31, 2018

### II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the School prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

In accordance with State law, the School prepares an annual budget for the general fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

### III. OTHER INFORMATION

#### A. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which SHSU purchases commercial insurance. The School's operations have been incidental to SHSU insurance coverage or settlements for the past three years.

#### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

#### C. Pension Plan

##### Teacher Retirement System

##### Plan Description

The School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the TRS. TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

# **SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended August 31, 2018**

### Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

### Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with five years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in Plan Description above.

### Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a state contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2015 through 2018. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

This is the School's first year of operation and contributions were not available for the 2018 fiscal year due to the measurement period of 2017 for fiscal 2018 reporting of the School's contributions.

Contributors to the plan include members, employers, and the State of Texas as the only (Non-Employer Contributing Entity) NECE. The State is the employer for senior colleges, medical schools, and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the GAA.

# **SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)*** **For the Year Ended August 31, 2018**

As the NECE for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities, or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational, and general or local funds.
- When the employing District is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

### **D. Employee Health Care Coverage**

The School provides health care benefits through the SHSU health coverage plan to all School employees who meet SHSU employment qualifications and requirements.

### **E. Other Post-Employment Benefits (OPEB)**

#### Plan Description

The School participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

# **SAM HOUSTON STATE UNIVERSITY CHARTER SCHOOL**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)*** **For the Year Ended August 31, 2018**

### OPEB Plan Fiduciary Net Position

Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of the plan has been determined using the same basis used by the OPEB plan.

### Benefits Provided

Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

### Contributions

Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

This is the School's first year of operation and contributions were not available for the 2018 fiscal year due to the measurement period of 2017 for fiscal 2018 reporting of the School's contributions.

## **F. School Operations**

The School did not conduct any other charter or noncharter activities.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
*SCHEDULE OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL*  
**GENERAL FUND - EXHIBIT G-1**

For the Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
<b>Revenues</b>					
5700	Local and intermediate sources	\$ -	\$ 230,020	\$ 14,737	\$ (215,283)
5800	State program revenues	1,449,810	1,449,810	1,164,594	(285,216)
5020	<b>Total Revenues</b>	<u>1,449,810</u>	<u>1,679,830</u>	<u>1,179,331</u>	<u>(500,499)</u>
<b>Expenditures</b>					
0011	Instruction	1,034,581	1,145,430	1,122,936	22,494
0013	Curriculum and instructional staff development	4,350	4,995	3,406	1,589
0023	School leadership	-	5,225	4,320	905
0035	Food service	44,000	44,000	33,726	10,274
0041	General administration	64,879	89,787	69,788	19,999
0051	Plant maintenance and operations	302,000	390,393	365,879	24,514
6030	<b>Total Expenditures</b>	<u>1,449,810</u>	<u>1,679,830</u>	<u>1,600,055</u>	<u>79,775</u>
1200	<b>Net Change in Fund Balance</b>	-	-	(420,724)	(420,724)
0100	Beginning fund balance	(312,788)	(312,788)	(312,788)	-
3000	<b>Ending Fund Balance</b>	<u>\$ (312,788)</u>	<u>\$ (312,788)</u>	<u>\$ (733,512)</u>	<u>\$ (420,724)</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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***OTHER SUPPLEMENTARY INFORMATION***

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**SAM HOUSTON STATE UNIVERSITY  
CHARTER SCHOOL**

*SCHEDULE OF EXPENSES - EXHIBIT J-2*

For the Year Ended August 31, 2018

<b>Data Control Codes</b>	<b>Expenses</b>	<b>Amount</b>
6100	Payroll costs	\$ 1,149,695
6200	Professional and contractual services	427,929
6300	Supplies and materials	314,369
6400	Other operating costs	48,171
	<b>Total Expenses</b>	<u><u>\$ 1,940,164</u></u>

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***COMPLIANCE SECTION***

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**INDEPENDENT AUDITORS' 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***

November 16, 2018

To the School Board of  
Sam Houston State University Charter School:

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 the governmental activities, each major fund, and the aggregate remaining fund information of Sam Houston State University Charter School (the "School") (a department of Sam Houston State University, which is an agency of the State of Texas) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 16, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas

**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS – EXHIBIT K-1*  
For the Year Ended August 31, 2018

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of Sam Houston State University Charter School.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.

**B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT**

*None Noted*

**C. FINDINGS – FEDERAL AWARDS**

*None Noted*

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**SAM HOUSTON STATE UNIVERSITY**  
**CHARTER SCHOOL**  
*SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS*  
For the Year Ended August 31, 2018

**A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS**

No prior year findings.

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**SAM HOUSTON STATE UNIVERSITY  
CHARTER SCHOOL**

***SCHEDULE OF REQUIRED RESPONSES TO  
SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1***

**For the Year Ended August 31, 2018**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the School make timely payments to the Teachers Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF8	Did the School <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end.	<u>\$ -</u>
SF11	Net pension asset (1920) at fiscal year end	<u>\$ -</u>
SF12	Net pension liability (2540) at fiscal year end	<u>\$ -</u>

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