

**STEP CHARTER SCHOOL  
FIRST BUDGET FOR FISCAL YEAR 2019**

	<b>Title I Fund 211</b>	<b>Title I 1003 Fund 211</b>	<b>Title II Fund 255</b>	<b>Title III Fund 263</b>	<b>ESSER 28X</b>	<b>Title IV Fund 289</b>
<b>Revenues</b>						
Local - 5700	-	-	-	-	-	-
State - 5800	-	-	-	-	-	-
Federal - 5900	278,639	50,000	31,195	24,395	1,035,000	20,879
<b>Total Revenues</b>	<b>278,639</b>	<b>50,000</b>	<b>31,195</b>	<b>24,395</b>	<b>1,035,000</b>	<b>20,879</b>
<b>Expenses By Function</b>						
11 - Instruction	278,639	-	-	24,395	965,000	-
12 - Media/Library	-	-	-	-	50,000	-
13 - Instr Staff Dev	-	50,000	31,592	-	-	-
23 - School Leader	-	-	-	-	-	-
31 - Counseling	-	-	-	-	-	-
33 - Health Services	-	-	-	-	-	-
35 - Food Service	-	-	-	-	-	-
41 - General Admin	-	-	-	-	-	-
51 - Plant/Facilities	-	-	-	-	20,000	-
52 - Security	-	-	-	-	-	17,769
53 - Data Process	-	-	-	-	-	-
61 - Comm Services	-	-	-	-	-	-
<b>Total Expenses</b>	<b>278,639</b>	<b>50,000</b>	<b>31,592</b>	<b>24,395</b>	<b>1,035,000</b>	<b>17,769</b>
<b>Change in Net Assets</b>	-	-	-	-	-	-
<b>Transfer In</b>	-	-	-	-	-	-
<b>Transfer (Out)</b>	-	-	-	-	-	-
<b>Est Net Assets-Beg of Yr</b>	-	-	-	-	-	-
<b>Est Net Assets-End of Yr</b>	-	-	-	-	-	-

Superintendent's Salary \$170,000

2022

IDEA B	CNP	Materials	FSP	
Fund 224	Fund 240	Fund 410	Fund 420	Total
<hr/>				
-	-	-	4,000	4,000
-	2,000	10,000	6,019,734	6,031,734
77,904	463,750	-	-	1,981,762
<hr/>				
77,904	465,750	10,000	6,023,734	8,017,496
50,000	-	10,000	3,190,230	4,518,264
-	-	-	5,000	55,000
-	-	-	42,500	124,092
-	-	-	629,830	629,830
27,904	-	-	146,295	174,199
-	-	-	11,500	11,500
-	465,750	-	-	465,750
-	-	-	297,320	297,320
-	-	-	1,340,295	1,360,295
-	-	-	64,950	82,719
-	-	-	67,100	67,100
-	-	-	2,500	2,500
<hr/>				
77,904	465,750	10,000	5,797,520	7,788,569
-	-	-	226,214	226,214
-	-	-	-	-
-	-	-	-	-
-	71,913	-	882,813	954,726
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-	71,913	-	1,109,027	1,180,940
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*ANNUAL FINANCIAL REPORT*

of

**STEP CHARTER SCHOOL**

For the Years Ended  
August 31, 2020 and 2019

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# STEP CHARTER SCHOOL

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August 31, 2020 and 2019

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**STEP CHARTER SCHOOL**  
*CERTIFICATE OF BOARD*

STEP Charter School  
Name of Charter Holder

33-1073903  
Federal Employer ID Number

STEP Charter School  
Name of Charter School

Harris  
County

101-859  
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above named Charter Holder was reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2020, at a meeting of the governing body of the Charter Holder on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

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

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

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

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

To the Board of Directors of  
STEP Charter School:

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

We have audited the accompanying financial statements of STEP Charter School (the “Charter Holder”) (a nonprofit organization), which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, statements of functional expenses, and statements of cash flows for the years then ended, and the related notes to the financial statements.

### **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 audits. 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 Charter Holder’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 Charter Holder’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 opinion.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter Holder as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2021 on our consideration of the Charter Holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Holder's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control over financial reporting and compliance.

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ACEK, LLLP

Belt Harris Pechacek, LLLP  
Certified Public Accountants  
Houston, Texas  
January 25, 2021

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## ***FINANCIAL STATEMENTS***

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**STEP CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1**  
**August 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 925,581	\$ 349,908
Due from Texas Education Agency	640,107	393,875
Other receivables	2,488	232
Prepaid expenses	75,152	68,886
Total current assets	<u>1,643,328</u>	<u>812,901</u>
Noncurrent assets:		
Property and equipment, net	425,820	350,662
Total noncurrent assets	<u>425,820</u>	<u>350,662</u>
<b>Total Assets</b>	<u><u>\$ 2,069,148</u></u>	<u><u>\$ 1,163,563</u></u>
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 124,601	\$ 57,329
Accrued liabilities	-	4,359
Deferred revenue	350	-
Due to Texas Educational Agency	406,404	-
Refundable advance	654,980	-
<b>Total Liabilities</b>	<u>1,186,335</u>	<u>61,688</u>
Net assets:		
Without donor restrictions	425,820	350,707
With donor restrictions	456,993	751,168
<b>Total Net Assets</b>	<u>882,813</u>	<u>1,101,875</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,069,148</u></u>	<u><u>\$ 1,163,563</u></u>

See Notes to Financial Statements.

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**STEP CHARTER SCHOOL**  
**STATEMENTS OF ACTIVITIES - EXHIBIT A-2**  
For the Years Ended August 31, 2020 and 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 16,366	\$ -	\$ 16,366	\$ 4,440
Total local support	16,366	-	16,366	4,440
State program revenues:				
5810 Foundation school program act revenues	-	5,325,054	5,325,054	5,011,882
5829 State program revenues distributed by Texas Education Agency	-	115,082	115,082	32,296
Total state program revenue	-	5,440,136	5,440,136	5,044,178
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,103,815	1,103,815	878,829
Net assets released from restrictions:				
Restrictions satisfied by payments	6,838,126	(6,838,126)	-	-
<b>Total Revenues</b>	<b>6,854,492</b>	<b>(294,175)</b>	<b>6,560,317</b>	<b>5,927,447</b>
<b>Expenses</b>				
Program services				
Educational services	5,121,771	-	5,121,771	4,341,483
Support services				
General and administrative services	1,657,608	-	1,657,608	1,443,593
<b>Total Expenses</b>	<b>6,779,379</b>	<b>-</b>	<b>6,779,379</b>	<b>5,785,076</b>
<b>Change in Net Assets</b>	<b>75,113</b>	<b>(294,175)</b>	<b>(219,062)</b>	<b>142,371</b>
Beginning net assets	350,707	751,168	1,101,875	959,504
<b>Ending Net Assets</b>	<b>\$ 425,820</b>	<b>\$ 456,993</b>	<b>\$ 882,813</b>	<b>\$ 1,101,875</b>

See Notes to Financial Statements.

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**STEP CHARTER SCHOOL**  
**STATEMENTS OF FUNCTIONAL EXPENSES - EXHIBIT A-3**  
For the Years Ended August 31, 2020 and 2019

	2020			2019
	Program Activities	Supporting Activities		
	Educational Services	General and Administrative	Total	Total
<b>Expenses</b>				
Salaries and wages	\$ 3,376,936	\$ 277,992	\$ 3,654,928	\$ 3,212,222
Benefits	317,838	20,073	337,911	220,565
Payroll taxes	48,148	4,031	52,179	46,481
<b>Total Payroll Expenses</b>	<b>3,742,922</b>	<b>302,096</b>	<b>4,045,018</b>	<b>3,479,268</b>
Rental expense	535	819,946	820,481	801,687
Contract labor	45,596	119,285	164,881	107,230
Maintenance and repairs	18,845	156,802	175,647	101,096
Utilities	615	102,136	102,751	122,959
Depreciation	8,090	71,720	79,810	63,212
Supplies	410,360	25,683	436,043	393,941
Food	504,726	-	504,726	404,219
Travel	13,614	53	13,667	30,032
Instructional materials	93,534	-	93,534	1,178
Insurance and bonding	-	20,389	20,389	1,588
Professional fees and dues	261,401	-	261,401	202,577
Accounting fees	-	20,853	20,853	10,168
Legal fees	-	-	-	75
Other	21,533	18,645	40,178	65,846
<b>Total Nonpayroll Expenses</b>	<b>1,378,849</b>	<b>1,355,512</b>	<b>2,734,361</b>	<b>2,305,808</b>
<b>Total Expenses</b>	<b>\$ 5,121,771</b>	<b>\$ 1,657,608</b>	<b>\$ 6,779,379</b>	<b>\$ 5,785,076</b>

See Notes to Financial Statements.

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**STEP CHARTER SCHOOL**  
**STATEMENTS OF CASH FLOWS - EXHIBIT A-4**  
For the Years Ended August 31, 2020 and 2019

	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Foundation school program and other payments	\$ 5,598,402	\$ 4,948,974
Grant payments	1,103,815	878,829
Miscellaneous sources	16,366	4,440
Payments to vendors for goods and services rendered	(1,942,924)	(2,252,882)
Payments to charter school personnel for services rendered	(4,045,018)	(3,479,268)
<b>Net Cash Provided by Operating Activities</b>	<b>730,641</b>	<b>100,093</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of capital assets, net	(154,968)	(97,970)
<b>Net Cash (Used) by Investing Activities</b>	<b>(154,968)</b>	<b>(97,970)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>575,673</b>	<b>2,123</b>
Beginning cash and cash equivalents	349,908	347,785
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 925,581</b>	<b>\$ 349,908</b>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>		
<b>Change in net assets</b>	<b>\$ (219,062)</b>	<b>\$ 142,371</b>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,810	63,212
(Increase) decrease in current assets:		
Due from Texas Education Agency	(246,232)	(94,854)
Prepaid expenses	(6,266)	4,063
Other receivables	(2,256)	-
Increase (decrease) in current liabilities:		
Deferred revenue	350	-
Accounts payable	67,272	(2,465)
Accrued liabilities	(4,359)	(11,884)
Due to Texas Education Agency	406,404	(350)
Refundable advance	654,980	-
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 730,641</b>	<b>\$ 100,093</b>

See Notes to Financial Statements.

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**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended August 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements of STEP Charter School (the “Charter Holder”) (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America in conjunction with the Texas Education Agency’s (TEA) Financial Accountability System Resource Guide. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

**Reporting Entity**

The Charter Holder is a not-for-profit organization incorporated in the State of Texas (the “State”) in 2004 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors (the “Board”) comprised of five members. The Board is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the Charter Holder.

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

**Corporate Operations**

In June 2006, the State Board of Education of the State granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Stepping Stones Charter Elementary School was opened for the academic year 2006-2007. Stepping Stones Charter Elementary School was organized to provide educational services to students in kindergarten through eighth grade. The Charter Holder’s Board governs its programs, services, activities, and functions.

The Office of the Secretary of the State filed an assumed name certificate for Stepping Stones Charter Elementary, Inc. as of October 6, 2014, in which the assumed name of the Charter Holder changed to STEP Charter School. This is the assumed name under which business or professional service is to be conducted. On January 16, 2015, the Texas Education Agency approved to change the name of the Charter Holder to STEP Charter School.

Effective July 1, 2016, the Commissioner of Education of the State approved an amendment request to add a campus to be located in the Houston area to serve students in pre-kindergarten through eighth grade.

**Basis of Accounting and Presentation**

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

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Net assets with donor restrictions revenue whose restrictions are met in the same year as received are shown as net assets without donor restrictions revenue.

**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2020 and 2019**

Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Net assets without donor restrictions** – net assets that are not subject to donor-imposed stipulations.

**Net assets with donor restrictions** – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder, the charter school, and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**Contributions**

The Charter Holder accounts for contributions as with donor restrictions and without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from donor restrictions.

**Cash and Cash Equivalents**

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

**Capital Assets**

Capital assets, which include building improvements, furniture and equipment, and vehicles, are reported in the general purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets or lease period for leasehold improvements, which range from five to ten years, using the straight-line method of depreciation. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at acquisition value at the date of donation, which is then treated as cost.

**Use of Estimates**

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

**Income Taxes**

The Charter Holder qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

**Budget**

The official school budget is prepared for adoption for required governmental fund types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board.

**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2020 and 2019**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash is held in noninterest bearing demand accounts and in an interest bearing savings account at three financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limited amount of \$250,000. As of August 31, 2019, the Charter Holder's cash balances were fully insured by FDIC. As of August 31, 2020, the Charter Holder's cash balances exceeded the FDIC insurance.

**NOTE 3 – CAPITAL ASSETS**

Capital assets at August 31, 2020 and 2019 were as follows:

	<b>2020</b>	<b>2019</b>
Leasehold improvements	\$ 780,861	\$ 642,943
Vehicles	49,226	32,176
Furniture and equipment	44,800	44,800
<b>Total Property and Equipment</b>	<b>874,887</b>	<b>719,919</b>
Less accumulated depreciation	449,067	369,257
<b>Property and Equipment, Net</b>	<b>\$ 425,820</b>	<b>\$ 350,662</b>

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Chapter 12 of the Texas Education Code.

Depreciation expense for the 2020 and 2019 fiscal years was \$79,810 and \$63,212, respectively.

**NOTE 4 – PAYCHECK PROTECTION PROGRAM PROCEEDS**

On June 2, 2020 the Charter Holder received Paycheck Protection Program ("PPP") proceeds from Allegiance Bank ("the Lender") in the amount of \$654,980. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("the CARES Act"), provided for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loan and accrued interest are forgivable after the earlier of 24 weeks or submission of the forgiveness application ("the Eligibility Period") provided the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and provided the organization maintains its payroll levels. The amount of loan forgiveness is reduced if the borrower terminates employees or reduces salaries during the Eligibility Period. The unforgiven portion of the PPP loan, if any, is payable over two years at an interest rate of 1%, and payments are deferred until the Small Business Administration ("the SBA") remits the forgiven portion to the lender. The first payment is extended six months automatically so the Charter Holder will make the first payment seven months from the month the loan is dated. The Charter Holder intends to apply for forgiveness as available under the PPP program.

The Charter Holder has accounted for its receipts of the PPP proceeds in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 958-605 Not-for-Profit Entities: Revenue Recognition as a conditional contribution. Consequently, the Charter Holder recorded the initial receipt of the PPP proceeds as a refundable advance on the Statement of Financial Position. The Charter Holder will recognize the contribution on the Statement of Activities when the forgiveness of the loan is received from the Small Business Administration.

**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2020 and 2019

In the event the PPP loan is not forgiven, the payback schedule would be as follows:

Year Ended Aug 31	PPP Loan		
	Principal	Interest	Total
2021	\$ 216,873	\$ 3,735	\$ 220,608
2022	328,032	2,880	330,912
2023	110,075	229	110,304
<b>Total</b>	<b>\$ 654,980</b>	<b>\$ 6,844</b>	<b>\$ 661,824</b>

**NOTE 5 – PENSION PLAN OBLIGATIONS**

**Plan Description**

The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, defined benefit pension plan with one exception: all risks and costs are not shared by the Charter Holder, but are the liability of the State. Based on FASB Statement No. 87, a multi-employer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective bargaining agreements. Although TRS has no collective bargaining agreements, the defined benefit pension plan is considered to be a multi-employer plan for the purposes of a not-for-profit charter holder due to various significant factors. These factors include: 1) charter holders are legally separate entities from the State and each other; 2) assets contributed by one participating entity may be used to provide benefits to employees of other participating employers since assets contributed by one entity are not segregated in a separate account or restricted to provide benefits only to employees of that entity; 3) upon withdrawal from TRS, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to TRS; and 4) there is not a withdrawal penalty for leaving TRS.

TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of TRS and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publication Heading.

**Funding Policy and Funded Status**

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The State funding policy is as follows: (1) the State constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a State contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of TRS; (2) State statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

As of August 31, 2019, TRS' total plan assets were \$157,978,199,075, the accumulated benefit obligation (or total pension liability) was \$209,961,325,288, and TRS was 75.24 percent funded.



**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2020 and 2019**

**Contributions**

State law provides for a member contribution rate of 7.7 percent for fiscal years 2020, 2019, and 2018 and a State contribution rate of 7.5 percent for fiscal year 2020 and 6.8 percent for fiscal years 2019 and 2018. In addition, State law provide for a member contribution rate of 7.7 percent for fiscal year 2021, while maintaining the State contribution rate of 7.5 percent for fiscal year 2021.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2020, 2019, and 2018 were \$278,805, \$245,036, and \$225,474, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the years ending August 31, 2020, 2019, and 2018 were \$52,139, \$10,409, and \$9,385, respectively, equal to the required contributions for each year. These contributions did not represent more than five percent of the total contributions to TRS.

In addition to the Charter Holder's contributions given above, when employing a new member to TRS, the Charter Holder is required to pay the state contribution for the new members in their first 90 days of employment. The Charter Holder's contributions for new members for fiscal years ending August 31, 2020, 2019, and 2018 were \$12,502, \$9,394, and \$8,233, respectively.

The Charter Holder made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amounts contributed for Non-OASDI for fiscal years ending August 31, 2020, 2019, and 2018 were \$54,314, \$47,735, and \$43,924, respectively.

**NOTE 6 – RETIREE HEALTH CARE PLAN**

**Plan Description**

The Charter Holder contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us); by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State and active public school employee contribution rates were 1.25 percent for fiscal years ending August 31, 2020, 2019 and 2018, and 0.65 percent of school payroll, respectively. The Charter Holder is contributing a percentage of payroll set at 0.75 percent for fiscal years ending August 31, 2020, 2019, and 2018. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2020, 2019, and 2018, the State's contributions to TRS-Care were \$8,850, \$2,129, and \$1,856, respectively; the active member contributions were \$23,535, \$20,685, and \$19,034, respectively; and the Charter Holder's contributions were \$27,157, \$23,868, and \$21,962, respectively; which equaled the required contributions each year.

**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2020 and 2019

**NOTE 7 – HEALTH CARE COVERAGE**

During the year ended August 31, 2020, employees of the Charter Holder were covered by TRS Active Employee Insurance Plan (the “Plan”). The Charter Holder contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**NOTE 8 – DUE FROM STATE**

As of August 31, 2020 and 2019, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	<u>2020</u>	<u>2019</u>
State Foundation Program	\$ 395,889	\$ 348,124
ESSER	145,482	-
Title III, Part A, English Language Acquisition	26,602	11,470
Child Nutrition Program	49,224	21,273
Instructional Continuity	10,500	-
Title I, Improving Basic Programs	5,395	-
IDEA B-Formula	2,903	-
Title II, Part A, Supporting Effective Instruction	2,632	-
Title IV, Part A, Subpart 1	1,480	-
Security Grant	-	13,008
<b>Total</b>	<u><u>\$ 640,107</u></u>	<u><u>\$ 393,875</u></u>

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

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

The last three years of informational tax returns, 2019, 2018, and 2017, filed with the IRS remain subject to examination.

**NOTE 10 – OPERATING LEASES**

The Charter Holder entered into a sublease agreement with The Walden School, Inc. (see Note 13) for the building located at 11250 S. Wilcrest, Houston, Texas. The lease became effective September 1, 2009 and extends through August 31, 2029. This is the location of the elementary school operated by the Charter Holder.

The Charter Holder entered into a sublease agreement with Abundmer, Inc. (Wilcrest Center) for the building located at 11001 S. Wilcrest, Houston, Texas. The lease became effective October 1, 2012 and extends through June 30, 2023.

The Charter Holder entered into a sublease agreement with Petereit Investments, Inc. for the building located at 8282 Bissonnet, Houston, Texas. The lease became effective May 1, 2016 and extends through June 30, 2027.

**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2020 and 2019**

Future minimum annual rental payments as of August 31, 2020 are:

<b>Year Ended Aug 31</b>	<b>Walden School</b>	<b>Abundmer</b>	<b>Petereit Investments</b>	<b>Total</b>
2021	\$ 295,200	\$ 108,000	\$ 393,000	\$ 796,200
2022	295,200	108,000	428,750	831,950
2023	295,200	90,000	432,000	817,200
2024	295,200	-	432,000	727,200
2025	295,200	-	432,000	727,200
2026-2029	1,180,800	-	792,000	1,972,800
	<u>\$ 2,656,800</u>	<u>\$ 306,000</u>	<u>\$ 2,909,750</u>	<u>\$ 5,872,550</u>

**NOTE 11 – LIQUIDITY AND AVAILABILITY**

The following represents the Charter Holder's financial assets available for general expenditure within one year of August 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Financial assets, at year end		
Cash and cash equivalents	\$ 925,581	\$ 349,908
Due from Texas Education Agency	640,107	393,875
Other receivable	2,488	232
<b>Total Financial Assets</b>	<u>1,568,176</u>	<u>744,015</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	-	-
<b>Financial Assets Available to Meet General Expenditures Within One Year</b>	<u>\$ 1,568,176</u>	<u>\$ 744,015</u>

**NOTE 12 – STATE FOUNDATION PROGRAM REVENUE**

Charter schools in the State participate in the State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and, at the close of the year, actual attendance is calculated by the TEA. The attendance reports are subject to audit by the TEA and final State Foundation Program earnings may be adjusted as a result of any such audit. During the years ended August 31, 2020 and 2019, the Charter Holder was paid \$5,325,054 and \$5,011,882, respectively, of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

During the year ended August 31, 2020 the Charter Holder had six days of instruction related to the 2020-2021 school year. For the year ended August 31, 2019, the Charter holder had ten days of instruction related to the 2019-2020 school year. Based on the estimated State Foundation Program revenue for the 2019-2020 and 2018-2019 school years as provided by the TEA, the Charter Holder earned \$197,180 and \$308,303, respectively, for these days of instruction. This revenue has been accrued at August 31, 2020 and 2019 and will be received after September 1, 2020 and 2019, respectively.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

The Charter Holder leases one of its facilities from The Walden School, Inc., a Texas Corporation. The president of The Walden School, Inc. is Mary Lynn Randall, mother of William Clark, the Superintendent of STEP Charter School.

**STEP CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2020 and 2019

**NOTE 14 – NET ASSETS WITH DONOR RESTRICTIONS**

At August 31, 2020 and 2019, the Charter Holder’s net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
State Foundation Program	\$ 449,722	\$ 748,061
Child Nutrition Program	7,271	3,107
<b>Total</b>	<u>\$ 456,993</u>	<u>\$ 751,168</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2020</u>	<u>2019</u>
State funds	5,734,311	4,936,610
Federal funds	1,103,815	878,829
<b>Total</b>	<u>\$ 6,838,126</u>	<u>\$ 5,815,439</u>

**NOTE 15 – CHARTER HOLDER OPERATIONS**

The Charter Holder operated one charter school, STEP Charter School, and did not conduct any other charter or noncharter activities.

**NOTE 16 – COVID-19**

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay at home orders going into effect. The Charter suspended in-classroom learning for the remainder of the school year. While the initial event occurred prior to year end, the Charter was, subsequent to year end, continuing to modify its operations to prevent the spread to protect students, staff, and the community as a whole, while balancing the educational needs of students. On August 24, the Charter resumed its 2020-2021 school year beginning with virtual learning only. All students were given school iPads or computer, and internet hotspots, when needed. On October 19, the Charter provided parents and guardians the option for virtual learning or in-classroom learning. Approximately 40% of students elected in-person learning. The Charter has made numerous changes to its operations, including provisions for students and staff to wear masks, more frequent cleanings, desks separated by plexiglass and dividers, touchless bottle filling stations and hand washing stations, and numerous other changes. While such changes cause a significant hardship and have increased expenses, such increases are nominal in comparison to the overall budget. The Charter is continuing to monitor exposure levels with students, staff, and the community as a whole, but to date the overall exposure threat level has been sufficiently low to continue with in-class learning, but the Charter is ready to modify its plans if necessary.

**NOTE 17 – SUBSEQUENT EVENTS**

The Charter Holder has evaluated subsequent events through January 25, 2021

# DRAFT

## ***SUPPLEMENTARY INFORMATION***

**STEP CHARTER SCHOOL**  
**SUPPLEMENTAL STATEMENT OF ACTIVITIES - EXHIBIT B-1**  
For the Years Ended August 31, 2020 and 2019

		2020		2019
		Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions
<b>Revenues</b>				
Local support:				
5740	Other revenues from local sources	\$ 16,366	\$ -	\$ 4,440
	Total local support	16,366	-	4,440
State program revenues:				
5810	Foundation school program act revenues	-	5,325,054	-
5829	State program revenues distributed by Texas Education Agency	-	115,082	-
	Total state program revenue	-	5,440,136	-
Federal program revenues:				
5920	Federal revenues distributed by Texas Education Agency	-	1,103,815	-
Net assets released from restrictions:				
	Restrictions satisfied by payments	6,838,126	(6,838,126)	5,815,439
	<b>Total Revenues</b>	<b>6,854,492</b>	<b>(294,175)</b>	<b>5,819,879</b>
<b>Expenses</b>				
11	Instruction	3,619,083	-	3,155,814
12	Instructional resources and media services	99	-	360
13	Curriculum and instructional staff development	139,451	-	136,008
23	School leadership	597,966	-	500,367
31	Guidance, counseling, and evaluation services	116,070	-	60,120
33	Health services	6,849	-	7,890
35	Food services	506,536	-	404,718
41	General administration	158,700	-	115,522
51	Plant maintenance and operations	1,498,910	-	1,328,071
52	Security and monitoring services	66,618	-	14,568
53	Data processing services	69,097	-	60,371
61	Community services	-	-	1,267
	<b>Total Expenses</b>	<b>6,779,379</b>	<b>-</b>	<b>5,785,076</b>
	<b>Change in Net Assets</b>	<b>75,113</b>	<b>(294,175)</b>	<b>34,803</b>
Beginning net assets		350,707	751,168	315,904
	<b>Ending Net Assets</b>	<b>\$ 425,820</b>	<b>\$ 456,993</b>	<b>\$ 350,707</b>

See Notes to Financial Statements.

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2019	
With Donor Restrictions	Totals
\$ -	\$ 4,440
-	4,440
5,011,882	5,011,882
32,296	32,296
5,044,178	5,044,178
878,829	878,829
(5,815,439)	-
107,568	5,927,447
-	3,155,814
-	360
-	136,008
-	500,367
-	60,120
-	7,890
-	404,718
-	115,522
-	1,328,071
-	14,568
-	60,371
-	1,267
-	5,785,076
107,568	142,371
643,600	959,504
\$ 751,168	\$ 1,101,875

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**STEP CHARTER SCHOOL**  
**SCHEDULE OF EXPENSES - EXHIBIT C-1**  
For the Years Ended August 31, 2020 and 2019

Expenses		Totals	
		2020	2019
6100	Payroll costs	\$ 4,045,018	\$ 3,479,268
6200	Professional and contracted services	1,520,483	1,345,793
6300	Supplies and materials	1,059,834	799,337
6400	Other operating costs	154,044	160,678
<b>Total Expenses</b>		<b>\$ 6,779,379</b>	<b>\$ 5,785,076</b>

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**STEP CHARTER SCHOOL**  
**SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1**  
August 31, 2020

		Ownership Interest		
		Local	State	Federal
1520	Building improvements	\$ -	\$ 780,861	\$ -
1531	Vehicles	-	49,226	-
1539	Furniture and equipment	-	44,800	-
<b>Total Property and Equipment</b>		<b>\$ -</b>	<b>\$ 874,887</b>	<b>\$ -</b>

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**STEP CHARTER SCHOOL**  
**SCHEDULE OF RELATED PARTY TRANSACTIONS - EXHIBIT E-1**  
**August 31, 2020**

<b>Related Party Name</b>	<b>Name of Relation to the Related Party</b>	<b>Relationship</b>	<b>Type of Transaction</b>	<b>Description of Terms and Conditions</b>	<b>Source of Funds Used</b>	<b>Payment Frequency</b>	<b>Total Paid During FY</b>	<b>Principal Balance Due</b>
The Walden School, Inc., Mary Lynn Randall	William Clark (Superintendent)	Superintendent's Mother	Financial	20 year lease term ending 8/31/29. Rent began at \$19,000 with option for landlord to increase \$1,000 a month beginning 9/1/10, another \$600 a month beginning 9/1/11, and another \$1,000 a month every five years.	State	Monthly	\$ 295,200	N/A

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**STEP CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE - EXHIBIT F-1**  
For the Year Ended August 31, 2020

				Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
				Original	Final		
<b>Revenues</b>							
Local support							
5740	Other revenues from local sources			\$ 4,500	\$ 9,500	\$ 16,366	\$ 6,866
Total local support				4,500	9,500	16,366	6,866
State program revenues							
5810	Foundation school program revenues			5,402,970	5,495,790	5,325,054	(170,736)
5829	State program revenues distributed by Texas Education Agency			103,114	115,239	115,082	(157)
Total state program revenue				5,506,084	5,611,029	5,440,136	(170,893)
Federal program revenues							
5920	Federal revenues distributed by Texas Education Agency			728,564	1,726,382	1,103,815	(622,567)
<b>Total Revenues</b>				6,239,148	7,346,911	6,560,317	(164,027)
<b>Expenses</b>							
0011	Instruction			3,503,491	3,910,953	3,610,993	299,960
0012	Instructional resources and media services			2,500	2,250	99	2,151
0013	Curriculum and instructional staff development			87,070	149,013	139,451	9,562
0023	School leadership			515,885	652,473	597,966	54,507
0031	Guidance, counseling, and evaluation services			109,305	128,764	116,070	12,694
0033	Health services			9,500	9,500	6,849	2,651
0035	Food services			416,434	468,889	506,536	(37,647)
0041	General administration			131,500	168,650	158,700	9,950
0051	Plant maintenance and operations			1,257,350	1,477,111	1,427,190	49,921
0052	Security and monitoring services			71,500	81,408	66,618	14,790
0053	Data processing services			61,000	71,160	69,097	2,063
0061	Community services			4,000	3,600	-	3,600
<b>Total Expenses</b>				6,169,535	7,123,771	6,699,569	424,202
<b>Change in Net Assets</b>				\$ 69,613	\$ 223,140	(139,252)	\$ (588,229)

**Notes to Supplementary Information:**

Reconciliation to Change in Net Assets

Depreciation expense

(79,810)

**Change in Net Assets**

(219,062)

Beginning net assets

1,101,875

**Ending Net Assets**

\$ 882,813

Notes to Supplementary Information:

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

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***COMPLIANCE, INTERNAL CONTROL, AND FEDERAL AWARDS***

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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**

January 25, 2021

To the Board of Directors of  
STEP Charter School:

We have audited, 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, the financial statements of STEP Charter School (the "Charter Holder") (a nonprofit organization), which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, statements of functional expenses, and statements of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Charter Holder's internal control over financial reporting (internal control) as a basis for designing 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 the Charter Holder's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Charter Holder's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been 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 may have not been identified.

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### Compliance and Other Matters

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

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PECHACEK, LLLP

Belt Harris Pechacek, LLLP  
Certified Public Accountants  
Houston, Texas

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

January 25, 2021

To the Board of Directors of  
STEP Charter School:

### **Report on Compliance for Each Major Federal Program**

We have audited STEP Charter School's (the "Charter Holder") (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Charter Holder's major federal programs for the year ended August 31, 2020. The Charter Holder's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Charter Holder's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Charter Holder's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Charter Holder's compliance.

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### **Opinion on Each Major Federal Program**

In our opinion, the Charter Holder complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

### **Report on Internal Control Over Compliance**

Management of the Charter Holder is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter Holder's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control over compliance.

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

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

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

 HACEK, LLLP

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

**STEP CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT G-1**  
For the Year Ended August 31, 2020

**I. SUMMARY OF AUDIT RESULTS**

*Financial Statements*

Type of audit report issued	Unmodified
Internal control over financial reporting:	
One or more material weakness(es) identified?	No
One or more significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

*Federal Awards*

Internal control over major programs:	
One or more material weakness(es) identified?	No
One or more significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of audit report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No
Identification of major programs:	

<b>CFDA Number</b>	<b>Program Title</b>
10.553 and 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

**II. FINANCIAL STATEMENT FINDINGS**

None identified.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified.

# DRAFT



**STEP CHARTER SCHOOL**  
***SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT H-1***  
**For the Year Ended August 31, 2020**

**2019-001. CREDIT CARD SUPPORT**

**Criteria**

The Charter Holder should ensure that supporting receipts/invoices are available for all purchases.

**Condition**

During the walkthrough of disbursement transactions, we selected nine credit card payments for which to view support. Of those nine payments, we noted six that did not have all of the supporting receipts for the various purchases.

**Effect**

The Charter Holder was unable to produce supporting receipts for 19 transactions totaling \$1,003.81.

**Cause**

Staff either lost, or failed to turn in, supporting receipts.

**Recommendation**

The Charter Holder should formally adopt a credit card policy which outlines the requirements to use the credit cards and consequences for not following the policy requirements or the misuse of the credit cards. The Charter Holder should consider restricting access to the credit cards to where a credit card must be checked out prior to use and checked back in, along with the supporting receipts.

**Views of Responsible Official and Planned Corrective Action**

All three sites at STEP Charter have their own credit card statements. They are received at the beginning of the month at the district office. The superintendent will review the statements and deliver the statements to the three campus site offices by the 15th of the month.

Campus site offices will collect all receipts for the individual statements by the last day of the month. They will then submit these back to the district office on that date with a list of any outstanding receipts. The business manager and superintendent will follow up with the campus offices and/or individuals who made the purchases.

All three monthly statements with completed receipts will be stored in a file storage system with clearly labeled sections for easy and timely retrieval.

**Status**

Resolved.

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**STEP CHARTER SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT I-1**  
For the Year Ended August 31, 2020

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Texas Education Agency:</i>			
Title I, Part A - Improving Basic Programs	84.010A	20610101101859	\$ 220,511
Title I, Part A - Improving Basic Programs	84.010A	21610101101859	5,395
Title I, Part A - School Improvement	84.010A	20610141101859	50,000
IDEA-B Formula	84.027A	206600011018596600	72,999
IDEA-B Formula	84.027A	216600011018596600	2,903
Title III, Part A - English Language Acquisition	84.365A	20671001101859	12,612
Title III, Part A - English Language Acquisition	84.365A	21671001101859	26,602
Title II, Part A - Supporting Effective Instruction	84.367A	20694501101859	26,820
Title II, Part A - Supporting Effective Instruction	84.367A	21694501101859	2,632
Instruction Continuity	84.377A	17610740101859	10,500
Title IV, Part A - Subpart 1	84.424	20680101101859	17,058
Title IV, Part A - Subpart 1	84.424	21680101101859	1,480
Education Stabilization	84.425D	20521001101859	145,482
<b>Total U.S. Department of Education</b>			<b>594,994</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Texas Education Agency:</i>			
School Breakfast Program*	10.553	806780706	132,490
National School Lunch Program*	10.555	806780706	376,331
<b>Total U.S. Department of Agriculture</b>			<b>508,821</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,103,815</b>

\* Indicates cluster program under OMB Uniform Guidance Compliance Supplement

The accompanying notes are an integral part of this schedule.

# DRAFT

**STEP CHARTER SCHOOL**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Years Ended August 31, 2020 and 2019**

**NOTE 1 – STANDARD FINANCIAL ACCOUNTING SYSTEM**

For all federal programs, the Charter Holder used the net asset classes and codes specified by the TEA in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Net assets with donor restrictions are used to account for resources restricted to specific purposes by a grantor. Federal and state financial assistance is generally accounted for in net assets with donor restriction codes.

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Charter Holder. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the SEFA may differ from amounts presented or used in the preparation of the basic financial statements.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 4 – INDIRECT COST RATE**

The Charter Holder has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 5 – DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)**

During the emergency period of COVID-19, federal agencies and recipients of federal assistance funds donated personal protective equipment (PPE) to non-federal entities. In connection with that donation, the recipient must disclose the estimated value of the donated PPE, but such amounts are not included in the SEFA. The Charter Holder did not receive PPE donations during the reporting year.

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