



COLORADO DEPARTMENT OF EDUCATION

201 East Colfax Avenue • Denver, Colorado 80203-1799
303.866.6600 • www.cde.state.co.us

Robert K. Hammond
Commissioner of Education

Diana Sirko, Ph.D.
Deputy Commissioner

Keith Owen, Ph.D.
Associate Commissioner

TO: Charter Schools and District Authorizers

FROM: Amy Anderson, Assistant Commissioner, Innovation and Choice
Amy Anderson
Leanne Emm, Assistant Commissioner, Public School Finance
Leanne Emm

DATE: October 17, 2011

SUBJECT: Financial Audit Requirement for Charter Schools

The Consolidated Appropriations Act, 2010 enacted by the 111th Congress, requires that states provide certain assurances in order to continue to receive funding pursuant to the Public Charter School Grant Program. One of these assurances is that a state must adopt policies, laws and regulations that ensure every charter school operating in the state conducts annual, timely, and independent audits of the school's financial statements that are filed with the school's authorized public chartering agency. A recent review by The US Department of Education has found Colorado to be out of compliance on this assurance.

In order for the Colorado Department of Education (CDE or the Department) to become compliant with Federal Law, and to continue to receive this federal funding, the Department will require each charter school in the state to complete a separate independent audit and submit this financial audit to their authorizer.

These individual charter school audits will be required for the fiscal year ending June 30, 2012 and must be submitted to the charter school authorizer, the Colorado Department of Education, and the State Auditor's Office. Those charter schools that haven't been conducting independent audits to date will now need to budget for the expenditures associated with conducting these independent audits. These independent charter audits must be completed even if a district includes charter schools in the district's annual audit as component units. The requirement for an independent financial statement audit of all charter schools is separate from the requirements related to A-133 single audits (discussed below).

Annually, districts are required to submit their annual audited financial statements to the local Board of Education by November 30 and then submit the same report to the Department and the State Auditor's Office by December 30. To the extent that charter schools are included in a district's annual audit, the charter school will need to work with the authorizer on deadlines for completion of the charter school independent financial audit to ensure that the district meets the audit deadlines established through C.R.S. Audit Law 29-1-603.

Single Audit Requirements:

If a charter school is an entity that is required to get a single audit, the single audit would satisfy the charter school's requirement for an independent financial statement audit. A charter school that "receives" and expends more than \$500,000 of federal financial assistance would be required to have a single audit performed. A single audit is defined under Office of Management and Budget (OMB) Circular A-133.

However, in Colorado, very few charter schools would be required to get an A-133 single audit because CDE does not allow for subrecipient arrangements between districts or SFAs and charter schools. Based on the opinion the Department obtained from Washington DC attorneys, funds provided to the charter school through the district or a school food authority (SFA) and spent on behalf of a school district or SFA would not be considered as being "received" by the charter school. For these funds to qualify under OMB Circular A-133, the charter school must be a subrecipient (i.e., a subrecipient agreement and treatment must be in place between the school district or SFA and the individual charter school). Due to the fact that the Department does not allow this subrecipient arrangement at the school district or SFA level for Federal grants administered by the state, the charter school should not be considered a subrecipient of the school district or SFA for single audit purposes.

However, the single audit of the school district or SFA must include the charter schools within the school district or SFA. Therefore, the charter school may be requested to assist with documents or other matters during the single audit of the school district or SFA.

In addition, in the limited cases where funds are received directly by the charter school or the charter school receives other Federal funds that are subject to a subrecipient agreement and arrangements (such as funding provided to the Charter SFA), these funds should be counted by the charter school to determine if it meets the \$500,000 of federal financial assistance threshold each fiscal year. If the charter school meets the \$500,000 threshold based on direct or subrecipient funding, the charter school would need to have a single audit performed. The charter school's A-133 single audit would also satisfy the required independent financial statement audit. The charter school should seek guidance from its independent auditor on these requirements.

Cc: Robert K. Hammond, Commissioner of Education
Diana Sirko, Deputy Commissioner
Keith Owen, Associate Commissioner