

**WACO CHARTER SCHOOL**

**An Unincorporated Division of Economic  
Opportunities Advancement Corporation of  
Planning Region XI  
(A Texas Nonprofit Organization)**

**Annual Financial Statements and Independent  
Auditor's Report**

**Year Ended August 31, 2017**

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Year Ended August 31, 2017**

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**WACO CHARTER SCHOOL**

**(Co.-Dist. Number: 161-801)  
Certificate of Board**

We, the undersigned, certify that the attached Financial and Compliance Report of the above named school district was reviewed and (check one)  approved  disapproved for the year ended August 31, 2017, at a meeting of the governing body of the charter holder on the \_\_\_\_\_ day of JAN 24, 2018.



Signature of Board Secretary



Signature of Board President



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Waco Charter School

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

We have audited the accompanying financial statements of Waco Charter School (the "School"), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and cash flows for the year 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 auditor's 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 entity'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 entity'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.



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules, as listed in the table of contents, as required by the Texas Education Agency, are presented for purposes of additional analysis and are 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 18, 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 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.

Houston, Texas  
January 18, 2018

**WACO CHARTER SCHOOL**  
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**Statements of Financial Position**  
**August 31, 2017**

**ASSETS:**

**Current Assets:**

Cash	\$ 991,401
Due from Other Governments	228,243
Inventories	2,338
<b>Total Current Assets</b>	<u>1,221,982</u>

**Noncurrent Assets:**

Land	120,000
Buildings and Improvements, Net	1,157,548
Furniture and Equipment, Net	11,375
Construction in Progress	139,584
<b>Total Noncurrent Assets</b>	<u>1,428,507</u>

**TOTAL ASSETS** \$ 2,650,489

**LIABILITIES AND NET ASSETS:**

**Current Liabilities:**

Accounts Payable	37,679
Accrued Liabilities	66,425
Deferred Revenue	11,181
Loans Payable -Current	22,962
<b>Total Current Liabilities</b>	<u>138,247</u>

**Noncurrent Liabilities:**

Loans Payable -Net of Current Portion	<u>10,419</u>
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**TOTAL LIABILITIES** 148,666

**Net Assets:**

Unrestricted	985,391
Temporarily Restricted	1,516,432
<b>Total Net Assets</b>	<u>2,501,823</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 2,650,489

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**Statement of Activities**  
**For the Year Ended August 31, 2017**

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Total</b>
<b>REVENUES:</b>			
Local and Intermediate Sources	\$ 43,278	\$ 11,102	\$ 54,380
State Program Revenues			
Foundation School Program	-	1,800,744	1,800,744
Other State Aid	-	10,972	10,972
Total State Program Revenues	-	1,811,716	1,811,716
Federal Program Revenues			
ESEA Title I, Part A	-	206,173	206,173
ESEA Title II, Part A Teacher/Principal Training	-	13,791	13,791
Child Nutrition	-	199,835	199,835
USDA Donated Commodities	-	12,465	12,465
IDEA-B Formula	-	55,580	55,580
IDEA-B Preschool	-	4,020	4,020
Total Federal Revenues	-	491,864	491,864
Net Assets Released from Restrictions:			
Restrictions satisfied by payments	2,257,643	(2,257,643)	-
<b>Total Revenues</b>	<b>2,300,921</b>	<b>57,039</b>	<b>2,357,960</b>
<b>EXPENSES:</b>			
Program Services:			
Instruction	1,270,332	-	1,270,332
Instructional Resources and Media Services	42,481	-	42,481
Curriculum and Staff Development	14,087	-	14,087
School Leadership	222,792	-	222,792
Guidance, Counseling, and Evaluation Services	101,218	-	101,218
Health Services	1,099	-	1,099
Food Service	218,251	-	218,251
General Administration	186,311	-	186,311
Facilities Maintenance and Operations	168,722	-	168,722
Security and Monitoring Services	1,767	-	1,767
Data Processing Services	27,696	-	27,696
Interest on Long-Term Debt	2,887	-	2,887
<b>Total Expenses</b>	<b>2,257,643</b>	<b>-</b>	<b>2,257,643</b>
<b>Change in Net Assets</b>	<b>43,278</b>	<b>57,039</b>	<b>100,317</b>
<b>Net Assets, Beginning of Year</b>	<b>942,113</b>	<b>1,459,393</b>	<b>2,401,506</b>
<b>Net Assets, End of Year</b>	<b>\$ 985,391</b>	<b>\$ 1,516,432</b>	<b>\$ 2,501,823</b>

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**Statement of Cash Flows**  
**For the Year Ended August 31, 2017**

**Cash Flows from Operating Activities:**

State Grant Receipts	\$	1,709,205
Federal Grant Receipts		491,864
Receipts from Miscellaneous Sources		53,738
Payments to Vendors for Goods and Service Rendered		(704,804)
Payments to Charter School Personnel for Service Rendered		(1,454,987)
Payments for Interest Expense		(2,887)
<b>Net Cash Provided by Operating Activities</b>		<b>92,129</b>

**Cash Flows from Investing Activities:**

Acquisition or Construction of Capital Assets		(9,504)
<b>Net Cash Used by Investing Activities</b>		<b>(9,504)</b>

**Cash Flows from Financing Activities:**

Repayment on Long-term Debt		(27,578)
<b>Net Cash Used for Financing Activities</b>		<b>(27,578)</b>

**Net Increase in Cash and Cash Equivalents** 55,047

<b>Cash , Beginning of Year</b>		936,354
<b>Cash , End of Year</b>	\$	<b>991,401</b>

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:

Change in Net Assets	\$	100,317
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation		42,346
Change in Operating Assets and Liabilities:		
Due from Other Governments		(103,153)
Inventories		2,003
Other Assets		2,508
Accounts Payable and Accrued Liabilities		36,927
Deferred Revenue		11,181
Total Adjustments		(8,188)
Net Cash Provided by Operating Activities	\$	<b>92,129</b>



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**Notes to the Financial Statements**  
**August 31, 2017**

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

The financial statements of Waco Charter School (the “School”) have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) in conjunction with the Texas Education Agency’s Financial Accountability System Resource Guide (“Resource Guide”).

Reporting Entity

The School is a part of Economic Opportunities Advancement Corporation of Planning Region XI (“EOAC”), a not-for-profit organization incorporated in the State of Texas and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The School is governed by a Board of Directors comprised of fifteen members. The Board is selected pursuant to the bylaws of EOAC and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the School and EOAC.

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

The School was organized to provide educational services to at-risk students and their programs, services, activities, and functions are governed by the School’s board of directors. EOAC operates a single charter school and did not conduct any other charter activities.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Financial Statement Presentation

The School is required by accounting principles generally accepted in the United States of America to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as defined below:

**Unrestricted net assets** – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the School. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors. At August 31, 2017, the School’s unrestricted net assets were \$985,391.

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**Temporarily restricted net assets** – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of the School and/or the passage of time. This classification includes contributions, underwriting, and unconditional promises to give for which the ultimate purposes of the proceeds are not permanently restricted. At August 31, 2017, the School’s temporarily restricted net assets were \$1,516,432.

**Permanently restricted net assets** – These are resources that are subject to donor-restrictions requiring that principal be held in perpetuity and any income thereon be used by the School. The School did not have any permanently restricted net assets as of August 31, 2017.

In addition, the School is required by Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*, to present statements of activities and cash flows.

When both restricted and unrestricted resources are available for use, it is the School’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

For financial statement purposes, the School considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The carrying value approximates fair value because of the short maturities of those financial instruments. The school did not have any cash equivalents as of August 31, 2017.

Inventories and Prepaid Items

The School records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. A capitalization threshold of \$5,000 is used.

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**August 31, 2017**

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Building Improvements	40
Office Equipment	5
Computer Equipment	5

Revenue Recognition

Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. State and federal grant revenues are recognized when services are rendered. State Foundation School Program revenues are recognized based on the reported student attendance. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time.

Standard Financial Accounting System

For all federal and state programs, the School used the net asset classes and codes specified by the Texas Education Agency (TEA) in the Special Supplement to Financial Accounting and Reporting, Nonprofit School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Contributions

The School accounts for contributions in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities-Revenue Recognition*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services

The School recognizes contributed services at their fair value if the services provide value to the School and require specialized skills, are provided by individuals possessing those skills, and

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would have been purchased if not provided by contributors, as established by FASB ASC Topic 958-605. During the fiscal year ended August 31, 2017, the School did not receive any services that would meet the criteria for recognition in the financial statements as prescribed in FASB ASC 958-605.

Receivable and Payable Balances

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 which disaggregates these balances.

There are no significant receivables which are not scheduled for collection within one year of year-end.

Income Taxes

The School is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, income taxes are not provided for in the accompanying financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

The School applies the provisions of FASB ASC 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The School's Federal income tax returns for years 2014 through 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the School's financial statements are related to the School's estimate of revenue and receivable for the Foundation School Program, depreciation expense and the functional allocation of expenses.

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**Notes to the Financial Statements**  
**August 31, 2017**

Fair Value Measurements

The majority of the School's current assets and liabilities are considered financial instruments. These assets and liabilities are reflected at fair value, or at carrying amounts that approximate fair value because of the short maturity of the instrument. Other financial instruments consist of long-term obligations. The fair value of long-term obligations is estimated based on current interest rates offered to the School for obligations with similar remaining maturities. The recorded value of the financial instruments approximated fair value at August 31, 2017.

New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – Leases (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the School's 2021 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958), which amended the requirements for financial statements and notes for not-for-profit entities in order to improve the usefulness of information provided and reduce the complexities or costs for preparers or users of financial statements. This update will be effective for the Organization's 2019 financial statements. Management is currently evaluating the impact this update will have on the Organization's financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update provided clarified guidance on certain cash flow classification issues, and will be effective for the Organization's 2020 financial statements. Management is currently evaluating the impact this update will have on the Organization's financial statements.

**NOTE 2: DEPOSITS AND INVESTMENTS**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover its deposits. The School maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. Balances in interest bearing accounts at the banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank.

The combined carrying amount of the School's deposits (cash, and interest-bearing savings accounts) were \$991,401 and the bank balance was \$1,040,889 as of August 31, 2017. Management believes that such credit risk exposure was mitigated by the financial strength of the banking institutions in which the deposits were held. At August 31, 2017, the total cash

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maintained by the School in banks exceeded the FDIC insured limit by \$749,407; however, these amounts were sufficiently collateralized as of August 31, 2017 in accordance with EOAC's tri-lateral agreement with Bank of America and Bank of New York.

The State of Texas and Federal Government provided a total of 98% of the School's total revenues for the year ended August 31, 2017 of which 77% was provided by the State of Texas. 99% of the total state funding or 76% of total revenue consists of Foundation School Program, FSP, income. Cash and cash equivalents reported in the statement of financial position is different from the cash and cash equivalents at banks due to outstanding checks and similar reconciling items.

**NOTE 3: CAPITAL ASSETS**

Capital assets acquired with public funds received by the School for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for the School.

Depreciation expense was \$42,346 for the year ended August 31, 2017 and is included in plant maintenance and operations on the statement of activities.

Capital assets as of August 31, 2017 was as follows:

	<u>Amount</u>
Land	\$ 120,000
Buildings and improvements	1,708,663
Furniture and equipment	147,693
Construction in progress	139,584
Total capital assets	<u>2,115,940</u>
Less: accumulated depreciation	<u>(687,433)</u>
Capital assets, net	<u>\$ 1,428,507</u>

**NOTE 4: NOTES PAYABLE**

The School entered into a note payable agreement with Bank of America for an original amount of \$384,000 at interest rate of 8.5%. The loan matured and paid off in January 8, 2017. The School entered into another note payable agreement with Bank of America for an original amount of \$202,000 at interest rate 7.77%. The loan matures on July, 2019. The note is secured by a first lien on land and building of the School.

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**Notes to the Financial Statements**  
**August 31, 2017**

Notes payable activity for the year ended August 31, 2017 was as follows:

	<u>Beginning Balance</u> <u>September 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u> <u>August 31, 2017</u>	<u>Current</u>
Bank of America	\$ 60,959	\$ -	\$ 27,578	\$ 33,381	\$ 22,962

Annual debt service requirements to maturity of the loans payable are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 22,962	\$ 1,477	\$ 24,439
2019	10,419	142	10,561
Totals	\$ 33,381	\$ 1,619	\$ 35,000

**NOTE 5: STATE FOUNDATION PROGRAM REVENUE**

The School's charter schools had 11 days of instruction in August 31, 2017. Based on the estimated State Foundation Program revenue for the 2016-2017 school year as provided by the Texas Education Agency, the School's charter schools earned \$106,742 of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2017 and will be received after September 1, 2017.

**NOTE 6: DEFINED BENEFIT PENSION PLAN**

Plan Description

The School contributes to the Teacher Retirement System of Texas (the "System" or "TRS"), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. The System operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan 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 downloading the report from the TRS internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701. Charters are legally

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separate entities from the state and each other. Assets contributed by one charter or ISD may be used for the benefit of an employee of another ISD or charter, and any unfunded obligations get passed on to the other charters and ISDs. There is no withdrawal penalty for leaving the TRS system.

The following present information about the School's multiemployer pension plan as of August 31, 2017, and for the year ended August 31, 2017:

Collective Bargaining Agreement	School's Contributions	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	\$ 155,897	N/A	N/A	No

  

Name of Pension Fund	EIN and Plan Number	Total Plan Assets		Accumulated Benefit Obligations		% funded 2016
		(in thousands) 2017	(in thousands) 2017	(in thousands) 2017	(in thousands) 2017	
TRS	N/A	\$ 165,379,342	\$ 179,336,535			82%

The School's contributions to the plan did not represent more than 5% of the total contributions to the plan.

Funding Policy

Under provisions in State law, the System's plan members are required to contribute 7.7% of their annual covered salary for TRS Retirement and 0.65% of their annual covered salary to TRS Care. The State of Texas contributes an amount equal to 6.80% of the covered payroll of the participating employees compensated with State funds for TRS Retirement for TRS Care. The School employees' contributions to the TRS was \$90,776 and the School contribution to TRS Care was \$6,483 for the year ended August 31, 2017.

Under provisions in the State of Texas law, the School is required to pay a 0.55% administrative TRS entity fee, an entity payment of 1.5% for Non-OASDI members for covered salary and a 6.8% administrative TRS new member fee for the first three (3) months for each new TRS member working at the school. The School total administrative fee to the TRS was \$ \$6,748, \$17,684 and \$15,523 for TRS Entity Fee, TRS Entity Payment for Non-OASDI Members, and TRS New Member Fee, respectively.

For payroll covered by federal government funded grants, the School is required to contribute to the defined benefit plan matching contribution amount of 6.80% to TRS Retirement and 1% for TRS Care for the charter school's covered payroll. The employer's contributions made to the TRS Retirement and TRS Care were \$9,423 and \$1,843 for the year ended August 31, 2017, respectively.

The School contributes to a qualified retirement plan under IRS section 403(b) for all employees working more than 1,500 hours. Contributions of 3% of employees' gross earnings are made to



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the plan each month. Employees are required to work one year to be eligible to participate in the plan. Enrollment is twice a year, April and October, with participation beginning in July and January, respectively. The School made contributions to the 403(b) plan for the years ending August 31, 2017 in the amount of \$29,328, equal to the required contributions for each year.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

Contingencies

The School participates in grant programs which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

No reportable litigation was pending against the School at August 31, 2017.

**NOTE 8: SHARED SERVICES ARRANGEMENTS**

Shared Services Arrangement – Membership

The School participates in a shared services (“SSA”) for Title II, Part A with the following school districts:

Member Districts

Other Central Texas School Districts

The School does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The School neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region XII Education Service Center, nor does the School have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the School. The fiscal agent manager is responsible for all financial activities of the SSA.

**NOTE 9: RELATED ORGANIZATIONS**

As described in Note 1, the Waco Charter School was established to assist in providing educational services to at-risk students. The School is an unincorporated division of EOAC and subject to its control procedures. During the year ended August 31, 2017, the division reimbursed EOAC for administrative costs, which were primarily personnel costs for accounting and controllership. The EOAC fiscal year end is April 30<sup>th</sup> of each year.

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**Notes to the Financial Statements**  
**August 31, 2017**

**NOTE 10: BUDGETARY DATA**

The Board of Directors adopts an annual budget for the School. The School is required to present final amended budgeted revenues and expenditures along with the adopted budget. The School compares the final amended budget to actual revenues and expenses. However, due to the significant inflows and outflows of students from the programs, the budget must be amended on a regular basis. This has resulted in the variances between the original adopted budget and final amended budget presented on the Budgetary Comparison Schedule.

Function 12 (Library) contained an unfavorable variance of \$4,872 from budget. The variance was primarily due to the actual cost of contract labor and library supplies were higher than expected for the year.

Function 41 (General Administration Cost) contained an unfavorable variance of \$21,736 from budget. The variance was primarily due to the actual cost of contract service, insurance and bond were higher than previously projected for the year.

Function 52 (Security and Monitoring Services) contained an unfavorable variance of \$667 from budget. The variance was primarily due to the change of coding the dedicated phone line. It was moved from utility to security since it is only used for security.

Management has taken steps to ensure that future related budgets are amended on a frequent basis to reflect changes in actual and budgeted amounts.

**NOTE 12: SUBSEQUENT EVENTS**

The School has evaluated subsequent events through January 18, 2018, the date on which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Schedule of Expenses**  
**For the Year Ended August 31, 2017**

EXPENSES

6100	Payroll Costs	\$	1,454,987
6200	Professional and Contracted Services		475,681
6300	Supplies and Materials		236,675
6400	Other Operating Costs		87,413
6500	Debt		<u>2,887</u>
	Total Expenses	\$	<u><u>2,257,643</u></u>

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Schedule of Capital Assets**  
**For the Year Ended August 31, 2017**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 120,000	\$ -
1520 Buildings and Improvements	267,663	264,000	1,177,000
1539 Furniture and Equipment	30,536	117,157	-
1580 Interim Construction	139,584	-	-
Total Property and Equipment	<u>\$ 437,783</u>	<u>\$ 501,157</u>	<u>\$ 1,177,000</u>

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Budgetary Comparison Schedule**  
**For the Year Ended August 31, 2017**

Data Control Codes	Budgeted Amounts			Variance with Final Budget	
	Original	Final	Actual		
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 29,558	\$ 29,558	\$ 54,380	\$ 24,822
5800	State Program Revenues	1,837,288	1,837,288	1,811,716	(25,572)
5900	Federal Program Revenues	541,764	541,764	491,864	(49,900)
	<b>Total Revenues</b>	<b>2,408,610</b>	<b>2,408,610</b>	<b>2,357,960</b>	<b>(50,650)</b>
<b>EXPENSES</b>					
Current:					
Instruction and Instructional Related Services:					
11	Instruction	1,354,370	1,354,370	1,270,332	84,038
12	Instructional Resources and Media Services	25,609	37,609	42,481	(4,872)
13	Curriculum and Staff Development	19,679	19,679	14,087	5,592
	<b>Total Instruction and Instructional Related Services</b>	<b>1,399,658</b>	<b>1,411,658</b>	<b>1,326,900</b>	<b>84,758</b>
Instructional and School Leadership:					
23	School Leadership	231,853	231,853	222,792	9,061
	<b>Total Instructional and School Leadership</b>	<b>231,853</b>	<b>231,853</b>	<b>222,792</b>	<b>9,061</b>
Support Services - Student (Pupil):					
31	Guidance, Counseling, and Evaluation Services	125,829	125,829	101,218	24,611
33	Health Services	1,600	1,600	1,099	501
	<b>Total Support Services - Student (Pupil)</b>	<b>127,429</b>	<b>127,429</b>	<b>102,317</b>	<b>25,112</b>
35	Food Services	234,372	234,372	218,251	16,121
	<b>Total Food Services</b>	<b>234,372</b>	<b>234,372</b>	<b>218,251</b>	<b>16,121</b>
Administrative Support Services:					
41	General Administration	164,575	164,575	186,311	(21,736)
	<b>Total Administrative Support Services</b>	<b>164,575</b>	<b>164,575</b>	<b>186,311</b>	<b>(21,736)</b>
Support Services - Nonstudent Based:					
51	Facilities Maintenance and Operations	220,523	220,523	168,722	51,801
52	Security and Monitoring Services	1,100	1,100	1,767	(667)
53	Data Processing Services	23,800	27,800	27,696	104
	<b>Total Support Services - Nonstudent Based</b>	<b>245,423</b>	<b>249,423</b>	<b>198,185</b>	<b>51,238</b>
Debt Service:					
71	Interest on Long-Term Debt	5,300	5,300	2,887	2,413
	<b>Total Debt Service</b>	<b>5,300</b>	<b>5,300</b>	<b>2,887</b>	<b>2,413</b>
	<b>Total Expenses</b>	<b>2,408,610</b>	<b>2,424,610</b>	<b>2,257,643</b>	<b>166,967</b>
	Change in Net Assets	-	(16,000)	100,317	(217,617)
	Net Assets, Beginning of Year	2,401,506	2,401,506	2,401,506	2,401,506
	Net Assets, End of Year	\$ 2,401,506	\$ 2,385,506	\$ 2,501,823	\$ 2,183,889

## **COMPLIANCE AND INTERNAL CONTROLS**



**INDEPENDENT AUDITOR'S 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***

To the Board of Directors of  
Waco 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 Waco Charter School (the "School"), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 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 opinion 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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





***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 three instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as No. 2017-01 to 2017-03.

***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.

Houston, Texas  
January 18, 2018

**WACO CHARETER SCHOOL**  
(A Texas Nonprofit Organization)  
**Summary Schedule of Findings and Responses**  
**Year Ended August 31, 2017**

**SECTION 1:**

**SUMMARY OF AUDITOR'S RESULTS**

*Financial Statement Section*

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weakness identified?	No
b) Significant deficiencies identified, which are not considered to be material weaknesses?	No
c) Noncompliance material to financial statements noted?	No

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)  
**Summary Schedule of Findings and Responses**  
**Year Ended August 31, 2017**

**SECTION 2:**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None reported

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)  
**Summary Schedule of Findings and Responses**  
**Year Ended August 31, 2017**

**STATE COMPLIANCE AND REPORTING REQUIREMENTS**

**Finding No. 2017 -01: *Compliance on Board Training***

***Condition:*** During the course of our audit, we noted that 4 of 14 members of the School's board of directors did not obtain a minimum of 6 instructional hours of training in the current fiscal year as required by the State of Texas legislation described below.

***Criteria:*** Texas Administrative Code (TAC) Title 19 Rule 100.1102 specifies the minimum requirements of board training that every member of the governing body of a charter holder or a member of the governing body of a charter school must complete, delivered by a course provider registered under TAC Title 19 Rule 100.1107 (relating to Course Providers). The timelines for completing such training course is also specified in that Rule.

***Effect:*** Noncompliance with state laws may be considered a violation of the contract for charter.

***Recommendation:*** We recommend that the School follow its current policy requiring its board members to meet the minimum training requirements required by TEA.

***Views of Responsible Officials and Planned Corrective Actions:*** Management agrees with this recommendation and believes that the training requirements would have been met if its current policy had been properly followed. Although the board attended several trainings on Saturday's, some of those trainings were not recorded properly and/or did not result in actual training certificates. It is our belief that with proper documentation we would have met our obligations regarding board trainings. The Executive Director and Board Secretary will maintain records of all board members training. These records will be logged in a spreadsheet and reviewed quarterly at the board meeting. Board Members will then verify all training has been accounted for and provide the board secretary with any corrections.

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Summary Schedule of Findings and Responses**  
**Year Ended August 31, 2017**

**Finding No. 2017-02: *Compliance on Records Maintenance and Retention***

*Condition:* During the course of our audit, we noted that 6 out of 10 students tested, their enrollment forms for school year 2016-2017 were not properly maintained by the School as required by the State of Texas legislation described below.

*Criteria:* TAC, Title 19, Rule 100.1203 indicates that a charter holder is considered to be a local governmental for purpose of Title 6, Subtitle C, Local Governmental Code, and Government Code, Chapter 441, subchapter J. The minimum retention periods for enrollment or registration forms that are associated with public school districts (including charter schools) is from date of withdraw plus 5 years.

*Effect:* Noncompliance with TAC, Title 19, Rule 100.1203.

*Recommendation:* We recommend that the School follow the TAC Title 19, Rule 100.1203 requirements of records maintenance and retention.

- *Views of Responsible Officials and Planned Corrective Actions:* Management agrees with this recommendation and is in the process of revising the current record retention policy to specifically cover the TAC Title 19, Rule 100.1203 requirements. The PEIMS Coordinator does and will continue to attend trainings where record retention is covered. As an additional control, the Principal and Staff Accountant will begin reviewing/auditing student enrollment forms on an annual basis to be assured that these records are being kept as required.

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Summary Schedule of Findings and Responses**  
**Year Ended August 31, 2017**

**Finding No. 2017-03: *Compliance Requirements on Use of State Funds***

*Condition:* During the course of our audit, we noted that the School has not expended minimum percentage allotment of Foundation School Program (FSP) for Gifted and Talented Adjusted Program as required by the State of Texas legislation described below.

*Criteria:* Texas Administrative Code (TAC), Title 19, Rule 105.11 specifies the minimum percentage of FSP allotment to be spent on certain programs. No more than 48% of each school district's Foundation School Program (FSP) special allotments under the Texas Education Code, Chapter 42, Subchapter C, may be expended for indirect costs related to the following programs: compensatory education, bilingual education and special language programs, and special education. No more than 45% of each school district's FSP special allotments under the Texas Education Code, Chapter 42, Subchapter C, may be expended for indirect costs related to gifted and talented education programs. No more than 42% of each school district's FSP special allotments under the Texas Education Code, Chapter 42, Subchapter C, may be expended for indirect costs related to career and technical education programs.

*Effect:* Noncompliance with TAC, Title 19, Rule 105.11.

*Recommendation:* We recommend that the School follow the TAC 105.11 requirements of minimum spending of FSP allotment for the program intent codes.

*Views of Responsible Officials and Planned Corrective Actions:* Management understands the minimum spending requirements for the program intent codes, as specified by the TAC 105.11. Management agrees with this finding. Expenditures for all program intent codes were recalculated, and with exception of Gifted and Talented, were in compliance. The accountant will continue to monitor coding of expenses. As an additional control, the Staff Accountant will send the Principal and the Controller a quarterly report of expenditures for each program code, this report will including minimum percentage's and variance for each.

**WACO CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**Summary Schedule of Prior Year Findings and Current Status**  
**Year Ended August 31, 2017**

There were no audit findings reported in the Schedule of Findings and Responses for fiscal year ended August 31, 2016.