

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**

Years Ended August 31, 2018 and 2017

[This page intentionally left blank]

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Years Ended August 31, 2018 and 2017

TABLE OF CONTENTS

Certificate of Board

Independent Auditor's Report	1
-------------------------------------	---

Financial Statements:

Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5

Notes to the Financial Statements	6
--	---

Supplementary Information:

Schedules of Expenses	16
Schedules of Capital Assets	17
Budgetary Comparison Schedule	18

Compliance and Internal Control

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 <i>Government Auditing Standards</i>	19
Summary Schedule of Findings and Responses	21
Summary Schedule of Prior Year Findings and Current Status	24

[This page intentionally left blank]

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, 2018, at a meeting of the governing body of the charter holder on the 16 day of January, 2019.



Signature of Board Secretary



Signature of Board President

[This page intentionally left blank]



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, 2018, 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, 2018, 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 16, 2019, 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 16, 2019

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Statements of Financial Position
August 31, 2018 and 2017

	2018	2017
ASSETS:		
Current Assets:		
Cash	\$ 740,796	\$ 991,401
Due from Other Governments	179,169	228,243
Inventories	2,813	2,338
Total Current Assets	922,778	1,221,982
Noncurrent Assets:		
Land	120,000	120,000
Buildings and Improvements, Net	1,672,902	1,157,548
Furniture and Equipment, Net	11,194	11,375
Construction in Progress	-	139,584
Total Noncurrent Assets	1,804,096	1,428,507
TOTAL ASSETS	\$ 2,726,874	\$ 2,650,489
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable	46,916	37,679
Accrued Liabilities	71,069	66,425
Deferred Revenue	6,137	11,181
Loans Payable -Current	-	22,962
Total Current Liabilities	124,122	138,247
Noncurrent Liabilities:		
Loans Payable -Net of Current Portion	-	10,419
TOTAL LIABILITIES	124,122	148,666
Net Assets:		
Unrestricted	1,005,162	985,391
Temporarily Restricted	1,597,590	1,516,432
Total Net Assets	2,602,752	2,501,823
TOTAL LIABILITIES AND NET ASSETS	\$ 2,726,874	\$ 2,650,489

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Statements of Activities
For the Year Ended August 31, 2018
(With comparative totals for 2017)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	2018	2017
REVENUES:				
Local and Intermediate Sources	\$ 19,771	\$ 10,686	\$ 30,457	54,380
State Program Revenues				
Foundation School Program	-	1,861,700	1,861,700	1,800,744
Other State Aid	-	54,706	54,706	10,972
Total State Program Revenues	<u>-</u>	<u>1,916,406</u>	<u>1,916,406</u>	<u>1,811,716</u>
Federal Program Revenues				
ESEA Title I, Part A	-	120,294	120,294	206,173
ESEA Title II, Part A Teacher/Principal Training	-	10,002	10,002	13,791
Child Nutrition	-	173,184	173,184	199,835
USDA Donated Commodities	-	12,217	12,217	12,465
Summer School LEP	-	10,807	10,807	-
IDEA-B Formula	-	49,648	49,648	55,580
IDEA-B Preschool	-	885	885	4,020
Total Federal Revenues	<u>-</u>	<u>377,037</u>	<u>377,037</u>	<u>491,864</u>
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	<u>2,222,971</u>	<u>(2,222,971)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>2,242,742</u>	<u>81,158</u>	<u>2,323,900</u>	<u>2,357,960</u>
EXPENSES:				
Program Services:				
Instruction	1,243,790	-	1,243,790	1,270,332
Instructional Resources and Media Services	39,481	-	39,481	42,481
Curriculum and Staff Development	10,002	-	10,002	14,087
School Leadership	232,389	-	232,389	222,792
Guidance, Counseling, and Evaluation Services	115,131	-	115,131	101,218
Health Services	1,370	-	1,370	1,099
Food Service	200,881	-	200,881	218,251
General Administration	177,289	-	177,289	186,311
Facilities Maintenance and Operations	169,615	-	169,615	168,722
Security and Monitoring Services	1,191	-	1,191	1,767
Data Processing Services	30,362	-	30,362	27,696
Interest on Long-Term Debt	1,470	-	1,470	2,887
Total Expenses	<u>2,222,971</u>	<u>-</u>	<u>2,222,971</u>	<u>2,257,643</u>
Change in Net Assets	<u>19,771</u>	<u>81,158</u>	<u>100,929</u>	<u>100,317</u>
Net Assets, Beginning of Year	<u>985,391</u>	<u>1,516,432</u>	<u>2,501,823</u>	<u>2,401,506</u>
Net Assets, End of Year	<u>\$ 1,005,162</u>	<u>\$ 1,597,590</u>	<u>\$ 2,602,752</u>	<u>\$ 2,501,823</u>

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Statements of Cash Flows
For the Years Ended August 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
State Grant Receipts	\$ 1,966,686	\$ 1,709,205
Federal Grant Receipts	377,037	491,864
Receipts from Miscellaneous Sources	29,251	53,738
Payments to Vendors for Goods and Service Rendered	(698,540)	(704,804)
Payments to Charter School Personnel for Service Rendered	(1,397,795)	(1,454,987)
Payments for Interest Expense	(1,470)	(2,887)
Net Cash Provided by Operating Activities	275,169	92,129
Cash Flows from Investing Activities:		
Acquisition or Construction of Capital Assets	(492,393)	(9,504)
Net Cash Used by Investing Activities	(492,393)	(9,504)
Cash Flows from Financing Activities:		
Repayment on Long-term Debt	(33,381)	(27,578)
Net Cash Used for Financing Activities	(33,381)	(27,578)
Net (Decrease)/Increase in Cash and Cash Equivalents	(250,605)	55,047
Cash , Beginning of Year	991,401	936,354
Cash , End of Year	\$ 740,796	\$ 991,401
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 100,929	\$ 100,317
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	108,809	42,346
Change in Operating Assets and Liabilities:		
Due from Other Governments	49,074	(103,153)
Inventories	(475)	2,003
Other Assets	7,995	2,508
Accounts Payable and Accrued Liabilities	13,881	36,927
Deferred Revenue	(5,044)	11,181
Total Adjustments	174,240	(8,188)
Net Cash Provided by Operating Activities	\$ 275,169	\$ 92,129

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2018 and 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. As of August 31, 2018 and 2017, the School’s unrestricted net assets were \$1,005,162 and \$985,391, respectively.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 2017

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. As of August 31, 2018 and 2017, the School’s temporarily restricted net assets were \$1,597,590 and \$1,516,432, respectively.

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, 2018 and 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, 2018 and 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.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 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	10-40
Office Equipment	10

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

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 2017

would have been purchased if not provided by contributors, as established by FASB ASC Topic 958-605. As of August 31, 2018 and 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 2015 through 2017 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.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 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 as of August 31, 2018 and 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.

As of August 31, 2018 and 2017, the combined carrying amount of the School's deposits (cash, and interest-bearing savings accounts) were \$740,796 and \$991,401, respectively. As of August 31, 2018 and 2017, the bank balance was \$767,839 and \$1,040,889, respectively. As of August

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 2017

31, 2018 and 2017, the total cash maintained by the School in banks exceeded the FDIC insured limit by \$267,839 and \$749,407, respectively. However, these amounts were sufficiently collateralized as of August 31, 2018 and 2017 in accordance with EOAC's tri-lateral agreement with Bank of America and Bank of New York to mitigate custodial credit risk.

The State of Texas and Federal Government provided a total of 99% and 98% of the School's total revenues for the year ended August 31, 2018 and 2017, respectively, of which 82% and 77% was provided by the State of Texas. 97% and 99% of the total state funding or 80% and 76% of total revenue consists of Foundation School Program, FSP, income as of August 31, 2018 and 2017. 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 \$108,809 and \$42,346 for the year ended August 31, 2018 and 2017, respectively, and is included in plant maintenance and operations on the statement of activities.

Capital assets as of August 31, 2018 and 2017 were as follows:

	2018	2017
Land	\$ 120,000	\$ 120,000
Buildings and improvements	2,327,795	1,708,663
Furniture and equipment	152,543	147,693
Construction in progress	-	139,584
Total capital assets	2,600,338	2,115,940
Less: accumulated depreciation	(796,242)	(687,433)
Capital assets, net	\$ 1,804,096	\$ 1,428,507

NOTE 4: NOTES PAYABLE

The School entered into a note payable agreement with Bank of America for an original amount of \$384,000 in 2002 at interest rate of 8.5%. The loan matured and paid off in January 8, 2017. The School entered into another note payable agreement in 2003 with Bank of America for an original amount of \$202,000 at interest rate 7.77%. The loan was paid off in July of 2018.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 2017

Notes payable activity for the year ended August 31, 2018 was as follows:

	<u>Beginning Balance</u> <u>September 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u> <u>August 31, 2018</u>	<u>Current</u>
Bank of America	\$ 33,381	\$ -	\$ 33,381	\$ -	\$ -

NOTE 5: STATE FOUNDATION PROGRAM REVENUE

The School's charter schools had 9 days of instruction in August 31, 2018. Based on the estimated State Foundation Program revenue for the 2017-2018 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, 2018 and will be received after September 1, 2018.

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, 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 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, 2018, and for the year ended August 31, 2018:

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 2017

Collective Bargaining Agreement	School's Contributions	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	\$ 69,430	N/A	N/A	No

Name of Pension Fund	EIN and Plan Number	Total Plan Assets (in thousands) 2018	Accumulated Benefit Obligations (in thousands) 2018	% funded 2017
TRS	N/A	\$ 176,942,454	\$ 209,611,329	74%

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 \$86,238 and the School contribution to TRS Care was \$8,409 or the year ended August 31, 2018.

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 \$665, \$16,191 and \$234 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 \$1,546 and \$318 for the year ended August 31, 2018, 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 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, 2018 in the amount of \$21,453, equal to the required contributions for each year.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 2017

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, 2018.

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, 2018, the division reimbursed EOAC for administrative costs, which were primarily personnel costs for accounting and controllership. The EOAC fiscal year end is April 30th of each year.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2018 and 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 31 (Counseling, Evaluation Services) contained a budget adjustment of 22% from the original budget. The adjustment was primarily due to more kids than expected in need of counseling and evaluation services.

Function 51 (Facilities Maintenance & Operations) contained an increase of 19% from the original budget. The adjustment was primarily due to cost of repairs to the building \$28,298 were more than expected. Cost of moving gym to an improved location and repair of the roof was less than planned.

Function 53 (Data Processing Services) contained an increase to the budget of 75%. The variance was primarily due technology upgrades budgeted but not enough time to properly procure before end of budget year.

Management's budget amendments have occurred to ensure that actual expenditures align with approved budgeted amount. EOAC continues to monitor its budget on a frequent basis and improve its initial estimate to reduce the need for significant changes to the original budget.

NOTE 11: SUBSEQUENT EVENTS

The School has evaluated subsequent events through January 16, 2019, the date on which the financial statements were available to be issued.

[This page intentionally left blank]

SUPPLEMENTARY INFORMATION

[This page intentionally left blank]

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Schedules of Expenses
For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
EXPENSES		
6100 Payroll Costs	\$ 1,397,795	\$ 1,454,987
6200 Professional and Contracted Services	427,934	475,781
6300 Supplies and Materials	250,593	236,675
6400 Other Operating Costs	145,179	87,313
6500 Debt	<u>1,470</u>	<u>2,887</u>
Total Expenses	<u>\$ 2,222,971</u>	<u>\$ 2,257,643</u>

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Schedules of Capital Assets
For the Years Ended August 31, 2018 and 2017

	2018		
	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 120,000	\$ -
1520 Buildings and Improvements	407,247	743,548	1,177,000
1539 Furniture and Equipment	30,536	117,157	4,850
Total Property and Equipment	\$ 437,783	\$ 980,705	\$ 1,181,850

	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	\$ 437,783	\$ 501,157	\$ 1,177,000

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Budgetary Comparison Schedule
For the Year Ended August 31, 2018

Data Control Codes	Budgeted Amounts			Variance with Final Budget	
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 6,000	4,188	\$ 30,457	\$ 26,269
5800	State Program Revenues	2,036,656	1,904,144	1,916,406	12,262
5900	Federal Program Revenues	406,114	428,393	377,037	(51,356)
	Total Revenues	<u>2,448,770</u>	<u>2,336,725</u>	<u>2,323,900</u>	<u>(12,825)</u>
EXPENSES					
Current:					
Instruction and Instructional Related Services:					
11	Instruction	1,213,653	1,245,950	1,243,790	2,160
12	Instructional Resources and Media Services	32,632	39,274	39,481	(207)
13	Curriculum and Staff Development	-	10,929	10,002	927
	Total Instruction and Instructional Related Services	<u>1,246,285</u>	<u>1,296,153</u>	<u>1,293,273</u>	<u>2,880</u>
Instructional and School Leadership:					
23	School Leadership	240,678	254,027	232,389	21,638
	Total Instructional and School Leadership	<u>240,678</u>	<u>254,027</u>	<u>232,389</u>	<u>21,638</u>
Support Services - Student (Pupil):					
31	Guidance, Counseling, and Evaluation Services	94,392	115,616	115,131	485
33	Health Services	1,050	1,350	1,370	(20)
	Total Support Services - Student (Pupil)	<u>95,442</u>	<u>116,966</u>	<u>116,501</u>	<u>465</u>
35	Food Services	219,164	219,624	200,881	18,743
	Total Food Services	<u>219,164</u>	<u>219,624</u>	<u>200,881</u>	<u>18,743</u>
Administrative Support Services:					
41	General Administration	168,513	178,442	177,289	1,153
	Total Administrative Support Services	<u>168,513</u>	<u>178,442</u>	<u>177,289</u>	<u>1,153</u>
Support Services - Nonstudent Based:					
51	Facilities Maintenance and Operations	166,762	197,913	169,615	28,298
52	Security and Monitoring Services	1,250	1,250	1,191	59
53	Data Processing Services	26,800	46,800	30,362	16,438
	Total Support Services - Nonstudent Based	<u>194,812</u>	<u>245,963</u>	<u>201,168</u>	<u>44,795</u>
Debt Service:					
71	Interest on Long-Term Debt	1,600	1,600	1,470	130
	Total Debt Service	<u>1,600</u>	<u>1,600</u>	<u>1,470</u>	<u>130</u>
	Total Expenses	<u>2,166,494</u>	<u>2,312,775</u>	<u>2,222,971</u>	<u>89,804</u>
	Change in Net Assets	282,276	23,950	100,929	(102,630)
	Net Assets, Beginning of Year	<u>2,501,823</u>	<u>2,501,823</u>	<u>2,501,823</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 2,784,099</u>	<u>\$ 2,525,773</u>	<u>\$ 2,602,752</u>	<u>\$ (102,630)</u>

[This page intentionally left blank]

COMPLIANCE AND INTERNAL CONTROLS

[This page intentionally left blank]



**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, 2018, 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 16, 2019.

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 an



instance 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. 2018-001.

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 16, 2019

WACO CHARETER SCHOOL
(A Texas Nonprofit Organization)
Summary Schedule of Findings and Responses
Year Ended August 31, 2018

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, 2018

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, 2018

STATE COMPLIANCE AND REPORTING REQUIREMENTS

Finding No. 2018-001: *Compliance on Board Training*

Condition: During the course of our audit, we noted that 6 of 13 members of the School's board of directors did not obtain a minimum of 6 (continuing) and or 12 (new board members) 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. The Executive Director and Board Secretary will maintain records of all board members training. These records will be logged in a spreadsheet and reviewed monthly at the board meeting until requirements are met. 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 Prior Year Findings and Current Status
Year Ended August 31, 2018

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.

Status: The finding has continued in the current year audit.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Summary Schedule of Prior Year Findings and Current Status
Year Ended August 31, 2018

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.

Status: The finding has been resolved sufficiently by management.

WACO CHARTER SCHOOL
(A Texas Nonprofit Organization)

Summary Schedule of Prior Year Findings and Current Status
Year Ended August 31, 2018

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.

Status: The finding has been resolved sufficiently by management.