

*ANNUAL FINANCIAL REPORT*

of the

**KATHERINE ANNE PORTER SCHOOL**

For the Years Ended  
August 31, 2016 and 2015

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# KATHERINE ANNE PORTER SCHOOL

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August 31, 2016 and 2015

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# KATHERINE ANNE PORTER SCHOOL

## *CERTIFICATE OF BOARD*

Katherine Anne Porter School

Name of Charter Holder

74-2767913

Federal Employer ID Number

Katherine Anne Porter School

Name of Charter School

Hays

County

105-801

Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above named Charter Holder was reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2016 at a meeting of the governing body of the Charter Holder on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

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

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

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

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## *INDEPENDENT AUDITORS' REPORT*

To the Board of Trustees of  
Katherine Anne Porter School:

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

We have audited the accompanying financial statements of Katherine Anne Porter School (the "Charter Holder") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statement 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.

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter Holder as of August 31, 2016, 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.

## **Prior Period Financial Statements**

The financial statements of the Charter Holder as of August 31, 2015 were audited by other auditors whose report dated January 11, 2016 expressed an unmodified opinion on those statements.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial schedules noted as supplementary information in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. 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, 2017 on our consideration of the Charter Holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
January 16, 2017



## ***FINANCIAL STATEMENTS***

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# KATHERINE ANNE PORTER SCHOOL

## STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1

August 31, 2016 and 2015

	2016	2015
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 406,125	\$ 496,468
Due from other governments	93,777	22,550
Prepaid expense	8,921	7,094
Total current assets	<u>508,823</u>	<u>526,112</u>
Non-current assets:		
Property and equipment, net	<u>862,910</u>	<u>927,003</u>
Total non-current assets	<u>862,910</u>	<u>927,003</u>
<b>Total Assets</b>	<u><u>\$ 1,371,733</u></u>	<u><u>\$ 1,453,115</u></u>
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 10,316	\$ 1,000
Accrued wages payable	90,008	-
Payroll deductions and withholdings payable	2,797	1,228
Due to state	40,827	-
Current portion of note payable	51,202	48,283
Total current liabilities	<u>195,150</u>	<u>50,511</u>
Non-current liabilities:		
Note payable, net of current portion	<u>155,149</u>	<u>206,651</u>
Total non-current liabilities	<u>155,149</u>	<u>206,651</u>
<b>Total Liabilities</b>	<u>350,299</u>	<u>257,162</u>
Net assets:		
Unrestricted	870,215	927,003
Temporarily restricted	151,219	268,950
<b>Total Net Assets</b>	<u>1,021,434</u>	<u>1,195,953</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,371,733</u></u>	<u><u>\$ 1,453,115</u></u>

See Notes to Financial Statements.

# KATHERINE ANNE PORTER SCHOOL

## STATEMENTS OF ACTIVITIES - EXHIBIT A-2

For the Years Ended August 31, 2016 and 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Unrestricted
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 70,768	\$ -	\$ 70,768	\$ 61,642
5750 Revenues from co-curricular activities	40,710	-	40,710	74,510
Total local support	111,478	-	111,478	136,152
State program revenues:				
5810 Foundation school program act revenues	-	1,510,447	1,510,447	-
5820 State program revenues distributed by Texas Education Agency	-	27,247	27,247	-
Total state program revenue	-	1,537,694	1,537,694	-
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	229,425	229,425	-
5940 Federal revenues - direct	-	12,226	12,226	-
Total federal program revenue	-	241,651	241,651	-
Net assets released from restrictions:				
Restricted satisfied by payments	1,897,076	(1,897,076)	-	1,630,058
<b>Total Revenues</b>	<b>2,008,554</b>	<b>(117,731)</b>	<b>1,890,823</b>	<b>1,766,210</b>
<b>Expenses</b>				
11 Instruction	937,255	-	937,255	803,445
12 Instructional resources and media services	29,588	-	29,588	28,688
13 Curriculum development and instructional staff development	17,277	-	17,277	35,479
21 Instructional leadership	81,955	-	81,955	69,717
23 School leadership	137,490	-	137,490	107,324
31 Guidance, counseling, and evaluation services	200,150	-	200,150	199,735
34 Student (pupil) transportation	120,887	-	120,887	102,576
35 Food services	63,861	-	63,861	53,954
36 Co-curricular/extracurricular activities	41,481	-	41,481	96,652
41 General administration	132,601	-	132,601	116,933
51 Plant maintenance and operations	204,547	-	204,547	187,133
53 Data processing services	86,019	-	86,019	75,863
71 Debt service	12,231	-	12,231	-
<b>Total Expenses</b>	<b>2,065,342</b>	<b>-</b>	<b>2,065,342</b>	<b>1,877,499</b>
<b>Change in Net Assets</b>	<b>(56,788)</b>	<b>(117,731)</b>	<b>(174,519)</b>	<b>(111,289)</b>
Beginning net assets	927,003	268,950	1,195,953	1,038,292
<b>Ending Net Assets</b>	<b>\$ 870,215</b>	<b>\$ 151,219</b>	<b>\$ 1,021,434</b>	<b>\$ 927,003</b>

See Notes to Financial Statements.

2015	
Temporarily Restricted	Total
\$ -	\$ 61,642
-	74,510
-	136,152
1,334,041	1,334,041
281	281
1,334,322	1,334,322
245,945	245,945
24,506	24,506
270,451	270,451
(1,630,058)	-
(25,285)	1,740,925
-	803,445
-	28,688
-	35,479
-	69,717
-	107,324
-	199,735
-	102,576
-	53,954
-	96,652
-	116,933
-	187,133
-	75,863
-	-
-	1,877,499
(25,285)	(136,574)
294,235	1,332,527
\$ 268,950	\$ 1,195,953

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# KATHERINE ANNE PORTER SCHOOL

## STATEMENTS OF CASH FLOWS - EXHIBIT A-3

For the Years Ended August 31, 2016 and 2015

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Revenue from co-curricular or enterprising	\$ 40,710	\$ 74,510
Foundation school program payments	1,516,161	1,302,807
Grant payments	232,784	270,451
Miscellaneous sources	70,768	61,642
Payments to vendors for goods and services rendered	(443,529)	(423,364)
Payments to charter school personnel for services rendered	(1,458,654)	(1,378,430)
<b>Net Cash (Used) by Operating Activities</b>	<u>(41,760)</u>	<u>(92,384)</u>
<b>Cash Flows from Financing Activities:</b>		
Repayment of debt, net	(48,583)	(45,820)
<b>Net Cash (Used) by Financing Activities</b>	<u>(48,583)</u>	<u>(45,820)</u>
<b>Net Change in Cash and Cash Equivalents</b>	(90,343)	(138,204)
Beginning cash and cash equivalents	496,468	634,672
<b>Ending Cash and Cash Equivalents</b>	<u>\$ 406,125</u>	<u>\$ 496,468</u>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash</b>		
<b>Provided (Used) by Operating Activities:</b>		
Change in net assets	\$ (174,519)	\$ (136,574)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and amortization	64,093	66,413
(Increase) decrease in current assets:		
Due from other governments	(71,227)	(31,515)
Prepaid expenses	(1,827)	(7,094)
Increase (decrease) in current liabilities:		
Accounts payable	9,316	16,386
Accrued wages payable	90,008	-
Accrued payroll deductions and withholdings payable	1,569	-
Due to state	40,827	-
<b>Net Cash (Used) by Operating Activities</b>	<u>\$ (41,760)</u>	<u>\$ (92,384)</u>

See Notes to Financial Statements.

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# KATHERINE ANNE PORTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 2016 and 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of Katherine Anne Porter Charter School (the “Charter Holder”) (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

#### **Reporting Entity**

The Charter Holder is a not-for-profit organization incorporated in the State of Texas in 1998 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Trustees comprised of seven members. The Board of Trustees is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Trustees has the primary accountability for the fiscal affairs of the Charter Holder.

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

#### **Corporate Operations**

In September 1998, the State Board of Education of the State of Texas granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Katherine Anne Porter Charter School was opened for the academic year 1998-1999. The Charter Holder was organized to provide educational services to students in ninth through twelfth grade. The Charter Holder’s Board of Trustees governs its programs, services, activities, and functions.

#### **Basis of Accounting and Presentation**

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

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted** – net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder, the charter school, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Permanently restricted** – net assets required to be maintained in perpetuity with only the income to be used for the charter school activities due to donor-imposed restrictions.

# **KATHERINE ANNE PORTER SCHOOL**

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

**For the Years Ended August 31, 2016 and 2015**

### **Contributions**

The Charter Holder accounts for contributions 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.

### **Cash and Cash Equivalents**

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

### **Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, vehicles, and furniture and equipment, are reported in the general purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from 5 to 50 years, using the straight-line method of depreciation. Expenditures for additions, major renewals, and improvements are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

### **Use of Estimates**

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

### **Income Taxes**

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

### **Budget**

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

For the year ended August 31, 2016, the Charter Holder budgeted for a \$98,787 decrease in net assets due to an increase in salaries for instruction and programs. The actual decrease in net assets for the year was \$110,426.

### **Reclassifications**

Certain amounts in fiscal year 2015 have been reclassified to conform with the fiscal year 2016 presentation.

# KATHERINE ANNE PORTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2016 and 2015

### NOTE 2 – CASH AND CASH EQUIVALENTS

Cash is held in both interest bearing and non-interest bearing demand accounts at a financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limited amount of \$250,000. As of August 31, 2016, the Charter Holder's uninsured cash balances totaled \$171,771 and, as of August 31, 2015, the Charter Holder's uninsured cash balances totaled \$213,766.

### NOTE 3 – CAPITAL ASSETS

Capital assets at August 31, 2016 and 2015 were as follows:

	2016	2015
Land	\$ 140,000	\$ 140,000
Buildings and improvements	995,875	995,875
Vehicles	268,349	268,349
Furniture and equipment	60,414	60,414
<b>Total</b>	<b>1,464,638</b>	<b>1,464,638</b>
Less accumulated depreciation	601,728	537,635
<b>Property and Equipment, Net</b>	<b>\$ 862,910</b>	<b>\$ 927,003</b>

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

Depreciation expense for the 2016 and 2015 fiscal years was \$64,093 and \$66,413, respectively.

### NOTE 4 – LONG-TERM DEBT

#### Note Payable

On May 21, 2013, the Charter Holder entered into a financing agreement with Ozona National Bank in the amount of \$355,000, with an interest rate of 5.25 percent. The note is secured by the building. It is payable in 84 monthly installments of \$5,067, including interest.

The following is a summary of changes in long-term liabilities of the Charter Holder for the year ended August 31, 2016.

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Bonds payable, note payable, and capital leases:					
Note payable	\$ 254,934	\$ -	\$ (48,583)	\$ 206,351	\$ 51,202
<b>Long-term liabilities due in more than one year</b>				<b>\$ 155,149</b>	

# KATHERINE ANNE PORTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2016 and 2015

Estimated future debt service requirements for the note payable are as follows:

Year Ended August 31	Note Payable		
	Principal	Interest	Total
2017	\$ 51,202	\$ 9,612	\$ 60,814
2018	53,955	6,859	60,814
2019	56,856	3,958	60,814
2020	44,338	970	45,308
	<u>\$ 206,351</u>	<u>\$ 21,399</u>	<u>\$ 227,750</u>

### NOTE 5 – PENSION PLAN OBLIGATIONS

#### Plan Description

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

TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publication Heading.

#### Funding Policy and Funded Status

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

As of August 31, 2015, TRS' total plan assets were \$128,538,706,212, accumulated benefit obligation (or total pension liability) was \$163,887,375,172, and the plan was 78.43 percent funded.

# KATHERINE ANNE PORTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2016 and 2015

### Contributions

State law provides for a member contribution rate of 7.2 percent for fiscal year 2016, 6.7 percent for fiscal year 2015, and 6.4 percent for fiscal year 2014, and a state contribution rate of 6.8 percent for fiscal years 2016, 2015, and 2014. In addition, state law provides for a member contribution rate of 7.7 percent for fiscal year 2017, while maintaining a state contribution rate of 6.8 percent for fiscal year 2017.

The Charter Holder's employees' contributions to TRS for the year ending August 31, 2016 were \$84,892, equal to the required contributions for the year. Other contributions made from federal and private grants for the year ending August 31, 2016 were \$9,148, equal to the required contributions for the year. These contributions did not represent more than five percent of the total contributions to the plan.

In addition to the Charter Holder's contributions given above, when employing a new member to TRS, the Charter Holder is required to pay the state contribution for the new members in their first 90 days of employment. The Charter Holder's contribution for new members for fiscal year ending August 31, 2016 was \$3,190.

Effective for fiscal year 2015, the Charter Holder made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amount contributed for Non-OASDI for fiscal year ending August 31, 2016 was \$17,481.

### **NOTE 6 – RETIREE HEALTH CARE PLAN**

#### Plan Description

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

#### Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were one percent for fiscal years 2016, 2015, and 2014 and 0.65 percent of school payroll, with the Charter Holder contributing a percentage of payroll set at 0.55 percent for fiscal years 2016, 2015, and 2014. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the year ended August 31, 2016, the State's contributions to TRS-Care were \$1,378; the active member contributions were \$7,664; and the Charter Holder's contributions were \$6,485; which equaled the required contributions.

### **NOTE 7 – HEALTH CARE COVERAGE**

During the year ended August 31, 2016, employees of the Charter Holder were covered by TRS Active-Care (the "Plan") for health insurance benefits. The Charter Holder contributed \$225 per month per employee to the Plan,

# KATHERINE ANNE PORTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2016 and 2015

which meets the minimum requirement of \$225. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

### NOTE 8 – DUE FROM OTHER GOVERNMENTS

As of August 31, 2016 and 2015, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	2016	2015
State Foundation Program	\$ 62,360	\$ -
National School Lunch and Breakfast Program	992	-
21st Century Community Learning Center	30,133	22,550
Rural Energy for America Program	292	-
<b>Total</b>	<b>\$ 93,777</b>	<b>\$ 22,550</b>

### NOTE 9 – COMMITMENTS AND CONTINGENCIES

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

The last three years of informational tax returns, 2015, 2014, and 2013, filed with the IRS remain subject to examination.

### NOTE 10 – OPERATING LEASES

The Charter Holder entered into a lease agreement effective June 24, 2014 with TLC Office Systems for equipment rental. The agreement term will end on June 24, 2019. The monthly rent payment varies between \$325 and \$512 based on the terms of the agreement.

Estimated future annual rental payments as of August 31, 2016 are:

Year Ended August 31	Amount
2017	\$ 10,053
2018	10,053
2019	8,378
	<b>\$ 28,484</b>

### NOTE 11 – STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and, at the close of the year, actual attendance is calculated by the TEA. The attendance reports are subject to audit by the TEA and final State Foundation Program earnings may be adjusted as a result of any such audit. During the years ended August 31, 2016 and 2015, the Charter Holder was paid \$1,485,660 and \$1,334,041, respectively, of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

# KATHERINE ANNE PORTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2016 and 2015

### NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2016 and 2015, the Charter Holder's temporarily restricted net assets consisted of the following:

	2016	2015
Local Scholarship Fund	\$ 19,000	\$ 19,000
State Foundation Program	132,219	249,950
<b>Total</b>	<b>\$ 151,219</b>	<b>\$ 268,950</b>

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

	2016	2015
State funds	\$ 1,655,425	\$ 1,359,607
Federal funds	241,651	270,451
<b>Total</b>	<b>\$ 1,897,076</b>	<b>\$ 1,630,058</b>

### NOTE 13 – CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school, Katherine Anne Porter School, and did not conduct any other charter or non-charter activities.

### NOTE 14 – SHARED SERVICES ARRANGEMENTS

The Charter Holder participates in a shared services arrangement (SSA), which provides an after-school program to students who are enrolled in the school. The Charter Holder neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region XIII, nor does the Charter Holder 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 the future additional benefit or burden to the Charter Holder. The fiscal agent manager is responsible for part of the financial activities of the SSA.

### NOTE 15 – CHANGE IN BEGINNING NET ASSETS

The Charter Holder has restated temporarily restricted net assets from unrestricted net assets since criteria for reclassification was not met in previous years.

	Unrestricted Net Assets	Temporarily Restricted Net Assets
Beginning net assets - as reported	\$ 1,176,953	\$ 19,000
Reclassification of net assets	(249,950)	249,950
Beginning net assets - restated	<b>\$ 927,003</b>	<b>\$ 268,950</b>

### NOTE 16 – SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through the date of the independent auditors' report.

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***SUPPLEMENTARY INFORMATION***

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# KATHERINE ANNE PORTER SCHOOL

## *SCHEDULE OF EXPENSES - EXHIBIT C-1*

For the Years Ended August 31, 2016 and 2015

		Totals	
		2016	2015
<b>Expenses</b>			
6100	Payroll costs	\$ 1,550,231	\$ 1,378,430
6200	Professional and contracted services	192,227	152,062
6300	Supplies and materials	189,429	155,875
6400	Other operating costs	121,224	176,138
6500	Debt	12,231	14,994
	<b>Total Expenses</b>	<u>\$ 2,065,342</u>	<u>\$ 1,877,499</u>



# KATHERINE ANNE PORTER SCHOOL

## *SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1*

For the Year Ended August 31, 2016

		Ownership Interest		
		Local	State	Federal
1510	Land purchase and investments	\$ 140,000	\$ -	\$ -
1520	Buildings and improvements	976,382	-	19,493
1539	Furniture and equipment	6,198	54,216	-
1541	Vehicles	268,349	-	-
<b>Total Property and Equipment</b>		<b>\$ 1,390,929</b>	<b>\$ 54,216</b>	<b>\$ 19,493</b>

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# KATHERINE ANNE PORTER SCHOOL

## BUDGETARY COMPARISON SCHEDULE - EXHIBIT E-1

For the Year Ended August 31, 2016

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Local support				
5740 Other revenues from local sources	\$ 25,030	\$ 41,030	\$ 70,768	\$ 29,738
5750 Revenue from co-curricular or enterprising	125,000	49,000	40,710	(8,290)
Total local support	150,030	90,030	111,478	21,448
State program revenues				
5810 Foundation school program revenues	1,415,000	1,510,000	1,510,447	447
5820 State program revenues distributed by Texas Education Agency	27,860	28,160	27,247	(913)
Total state program revenue	1,442,860	1,538,160	1,537,694	(466)
Federal program revenues				
5920 Federal revenues distributed by Texas Education Agency	232,985	228,641	229,425	784
5940 Federal revenues - direct	13,356	13,356	12,226	(1,130)
Total federal program revenue	246,341	241,997	241,651	(346)
<b>Total Revenues</b>	<b>1,839,231</b>	<b>1,870,187</b>	<b>1,890,823</b>	<b>20,636</b>
<b>Expenses</b>				
11 Instruction	825,445	873,730	937,255	(63,525)
12 Instructional resources and media services	29,883	32,660	29,588	3,072
13 Curriculum development and instructional staff development	49,732	28,804	17,277	11,527
21 Instructional leadership	74,911	89,241	81,955	7,286
23 School leadership	121,143	112,157	137,490	(25,333) *
31 Guidance, counseling, and evaluation services	193,533	196,846	200,150	(3,304)
34 Student (pupil) transportation	124,422	124,422	120,887	3,535
35 Food services	55,000	59,800	63,861	(4,061)
36 Co-curricular/extracurricular activities	110,000	56,000	41,481	14,519
41 General administration	81,782	122,000	132,601	(10,601)
51 Plant maintenance and operations	116,382	130,500	140,454	(9,954)
53 Data processing services	63,996	82,000	86,019	(4,019)
71 Debt	60,814	60,814	12,231	48,583
<b>Total Expenses</b>	<b>1,907,043</b>	<b>1,968,974</b>	<b>2,001,249</b>	<b>(32,275)</b>
<b>Change in Net Assets</b>	<b>\$ (67,812)</b>	<b>\$ (98,787)</b>	<b>(110,426)</b>	<b>\$ (11,639)</b>
Reconciliation to Ending Net Assets on Exhibit A-2:				
Depreciation expense			(64,093)	
<b>Change in Net Assets (all funds)</b>			(174,519)	
Beginning net assets			1,195,953	
<b>Ending Net Assets</b>			<b>\$ 1,021,434</b>	

1. \*Expenses exceeded appropriations in excess of ten percent.

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## ***COMPLIANCE***





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

January 16, 2017

To the Board of Directors of  
Katherine Anne Porter 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 Katherine Anne Porter School (the "Charter Holder") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, 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, 2017.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Charter Holder's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. We consider the deficiency 2016-001 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Charter Holder's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Charter Holder's Response to Findings**

The Charter Holder's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Charter Holder's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Holder's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLP  
Certified Public Accountants  
Houston, Texas

**KATHERINE ANNE PORTER SCHOOL**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1***  
For the Year Ended August 31, 2016

**I. SUMMARY OF AUDIT RESULTS**

*Financial Statements*

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

**II. FINANCIAL STATEMENT FINDINGS**

***Significant Deficiency:***

**2016-001. CREDIT CARD PURCHASES**

**Criteria**

According to TEA's *Special Supplement to the Financial Accountability System Resource Guide – Charter Schools*, accounting policies should be in place for the use of credit cards, including the reimbursement process and approval of expenditures. The Charter Holder's "Business Procedures Manual" states that all receipts must be turned in immediately, along with the card, to the business office manager as soon as the purchase is made.

**Condition**

Based on a sample selection of 61 disbursement transactions, four of these transactions were for credit card payments. During observation and review of the purchases made on the credit cards, it was noted that 11 receipts for certain purchases were missing. In addition, for one of the credit card payments, the receipts provided could not be reconciled back to the credit card statement.

**Cause**

According to management, missing receipts were due to them being lost or never turned in by staff who made the purchase.

**Effect**

The Charter Holder does not have adequate support for expenditures.

**Recommendation**

The Charter Holder should closely monitor all credit card purchases. The Charter Holder should continue to improve its processes to obtain all supporting receipts for credit card purchases. Credit card statements should be reconciled to the receipts provided.

# **KATHERINE ANNE PORTER SCHOOL**

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1 (Continued)***

**For the Year Ended August 31, 2016**

### **Management's Corrective Action Plan**

Management concurs with the recommendation and will continue to monitor all credit card purchases to ensure that all supporting receipts are acquired. Management will also ensure that all credit card statements are reconciled to the receipts provided.

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

*None identified.*

**KATHERINE ANNE PORTER SCHOOL**  
***SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT G-1***  
For the Year Ended August 31, 2016

<b>Finding/Recommendation</b>	<b>Current Status</b>	<b>Management's Explanation If Not Implemented</b>
None		

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