

ANNUAL FINANCIAL REPORT

of the

KATHERINE ANNE PORTER SCHOOL

For the Years Ended
August 31, 2017 and 2016

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KATHERINE ANNE PORTER SCHOOL

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August 31, 2017 and 2016

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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, 2017 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 statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our 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, 2017 and 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.

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 24, 2018 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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 24, 2018

FINANCIAL STATEMENTS

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KATHERINE ANNE PORTER SCHOOL

STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1

August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 303,857	\$ 406,125
Due from other governments	174,930	93,777
Other receivables	5,683	-
Prepaid expense	-	8,921
Total current assets	<u>484,470</u>	<u>508,823</u>
Noncurrent assets:		
Property and equipment, net	<u>824,716</u>	<u>862,910</u>
Total noncurrent assets	<u>824,716</u>	<u>862,910</u>
Total Assets	<u><u>\$ 1,309,186</u></u>	<u><u>\$ 1,371,733</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 16,593	\$ 10,316
Accrued wages payable	49,446	90,008
Payroll deductions and withholdings payable	5,714	2,797
Accrued liabilities	11,759	-
Due to state	5,254	40,827
Current portion of note payable	53,949	51,202
Total current liabilities	<u>142,715</u>	<u>195,150</u>
Noncurrent liabilities:		
Note payable, net of current portion	<u>101,310</u>	<u>155,149</u>
Total noncurrent liabilities	<u>101,310</u>	<u>155,149</u>
Total Liabilities	<u>244,025</u>	<u>350,299</u>
Net assets:		
Unrestricted	912,489	870,215
Temporarily restricted	152,672	151,219
Total Net Assets	<u>1,065,161</u>	<u>1,021,434</u>
Total Liabilities and Net Assets	<u><u>\$ 1,309,186</u></u>	<u><u>\$ 1,371,733</u></u>

See Notes to Financial Statements.

KATHERINE ANNE PORTER SCHOOL

STATEMENTS OF ACTIVITIES - EXHIBIT A-2

For the Years Ended August 31, 2017 and 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Unrestricted
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 126,405	\$ -	\$ 126,405	\$ 70,768
5750 Revenues from co-curricular activities	28,088	-	28,088	40,710
Total local support	154,493	-	154,493	111,478
State program revenues:				
5810 Foundation school program act revenues	-	1,497,879	1,497,879	-
5820 State program revenues distributed by Texas Education Agency	-	16,136	16,136	-
Total state program revenue	-	1,514,015	1,514,015	-
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	225,336	225,336	-
5940 Federal revenues - direct	-	5,985	5,985	-
Total federal program revenue	-	231,321	231,321	-
Net assets released from restrictions:				
Restricted satisfied by payments	1,743,883	(1,743,883)	-	1,897,076
Total Revenues	1,898,376	1,453	1,899,829	2,008,554
Expenses				
11 Instruction	837,171	-	837,171	937,255
12 Instructional resources and media services	15,866	-	15,866	29,588
13 Curriculum development and instructional staff development	14,998	-	14,998	17,277
21 Instructional leadership	-	-	-	81,955
23 School leadership	216,083	-	216,083	137,490
31 Guidance, counseling, and evaluation services	137,408	-	137,408	200,150
33 Health services	1,275	-	1,275	-
34 Student (pupil) transportation	118,547	-	118,547	120,887
35 Food services	50,850	-	50,850	63,861
36 Co-curricular/extracurricular activities	40	-	40	41,481
41 General administration	205,766	-	205,766	132,601
51 Plant maintenance and operations	175,138	-	175,138	204,547
53 Data processing services	47,694	-	47,694	86,019
61 Community services	85	-	85	-
71 Debt service	9,722	-	9,722	12,231
81 Fundraising	25,459	-	25,459	-
Total Expenses	1,856,102	-	1,856,102	2,065,342
Change in Net Assets	42,274	1,453	43,727	(56,788)
Beginning net assets	870,215	151,219	1,021,434	927,003
Ending Net Assets	\$ 912,489	\$ 152,672	\$ 1,065,161	\$ 870,215

See Notes to Financial Statements.

2016	
Temporarily Restricted	Total
\$ -	\$ 70,768
-	40,710
-	111,478
1,510,447	1,510,447
27,247	27,247
1,537,694	1,537,694
229,425	229,425
12,226	12,226
241,651	241,651
(1,897,076)	-
(117,731)	1,890,823
-	937,255
-	29,588
-	17,277
-	81,955
-	137,490
-	200,150
-	-
-	120,887
-	63,861
-	41,481
-	132,601
-	204,547
-	86,019
-	-
-	12,231
-	-
-	2,065,342
(117,731)	(174,519)
268,950	1,195,953
\$ 151,219	\$ 1,021,434

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KATHERINE ANNE PORTER SCHOOL

STATEMENTS OF CASH FLOWS - EXHIBIT A-3

For the Years Ended August 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Revenue from co-curricular or enterprising	\$ 28,088	\$ 40,710
Foundation school program payments	1,391,608	1,516,161
Grant payments	237,002	232,784
Miscellaneous sources	120,722	70,768
Payments to vendors for goods and services rendered	(489,619)	(443,529)
Payments to charter school personnel for services rendered	(1,315,077)	(1,458,654)
Net Cash (Used) by Operating Activities	(27,276)	(41,760)
Cash Flows from Investing Activities		
Purchase of capital assets	(23,900)	-
Net Cash (Used) by Investing Activities	(23,900)	-
Cash Flows from Financing Activities:		
Repayment of debt, net	(51,092)	(48,583)
Net Cash (Used) by Financing Activities	(51,092)	(48,583)
Net Change in Cash and Cash Equivalents	(102,268)	(90,343)
Beginning cash and cash equivalents	406,125	496,468
Ending Cash and Cash Equivalents	\$ 303,857	\$ 406,125
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Change in net assets	\$ 43,727	\$ (174,519)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and amortization	62,094	64,093
(Increase) decrease in current assets:		
Due from other governments	(81,153)	(71,227)
Prepaid expenses	8,921	(1,827)
Other receivables	(5,683)	-
Increase (decrease) in current liabilities:		
Accounts payable	6,277	9,316
Accrued liabilities	11,759	-
Accrued wages payable	(40,562)	90,008
Accrued payroll deductions and withholdings payable	2,917	1,569
Due to state	(35,573)	40,827
Net Cash (Used) by Operating Activities	\$ (27,276)	\$ (41,760)

See Notes to Financial Statements.

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KATHERINE ANNE PORTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 2017 and 2016

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 (the “Board”) 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 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, 2017 and 2016

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.

For the year ended August 31, 2017, the Charter Holder budgeted for a \$56,109 decrease in net assets due to an increase in salaries for instruction and programs. The actual decrease in net assets, excluding depreciation expense, for the year was \$105,821.

KATHERINE ANNE PORTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2017 and 2016

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash is held in both interest bearing and non-interest bearing demand accounts at financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limited amount of \$250,000. As of August 31, 2017, the Charter Holder's uninsured cash balances totaled \$0 and, as of August 31, 2016, the Charter Holder's uninsured cash balances totaled \$171,771.

NOTE 3 – CAPITAL ASSETS

Capital assets at August 31, 2017 and 2016 were as follows:

	2017	2016
Land	\$ 140,000	\$ 140,000
Buildings and improvements	995,875	995,875
Vehicles	292,249	268,349
Furniture and equipment	60,414	60,414
Total	1,488,538	1,464,638
Less accumulated depreciation	663,822	601,728
Property and Equipment, Net	\$ 824,716	\$ 862,910

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 2017 and 2016 fiscal years was \$62,094 and \$64,093, 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, 2017.

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Bonds payable, note payable, and capital leases:					
Note payable	\$ 206,351	\$ -	\$ (51,092)	\$ 155,259	\$ 53,949
Long-term liabilities due in more than one year				\$ 101,310	

KATHERINE ANNE PORTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2017 and 2016

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

Year Ended August 31	Note Payable		
	Principal	Interest	Total
2018	\$ 53,949	\$ 6,865	\$ 60,814
2019	56,850	3,964	60,814
2020	44,460	975	45,435
	<u>\$ 155,259</u>	<u>\$ 11,804</u>	<u>\$ 167,063</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, 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, 2016, TRS' total plan assets were \$134,008,637,473, accumulated benefit obligation (or total pension liability) was \$171,797,150,487, and the plan was 78.00 percent funded.

KATHERINE ANNE PORTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2017 and 2016

Contributions

State law provides for a member contribution rate of 7.7 percent for fiscal year 2017, 7.2 percent for fiscal year 2016, and 6.8 percent for fiscal year 2015; and a state contribution rate of 6.8 percent for fiscal years 2017, 2016, and 2015. In addition, state law provides for a member contribution rate of 7.7 percent for fiscal year 2018, while maintaining a state contribution rate of 6.8 percent for fiscal year 2018.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2017 and 2016 were \$84,426 and \$84,892, respectively, equal to the required contributions for the year. Other contributions made from federal and private grants for the years ending August 31, 2017 and 2016 were \$7,656 and \$9,148, respectively, 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 contributions for new members for fiscal years ending August 31, 2017 and 2016 were \$2,431 and \$3,190, respectively.

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 amounts contributed for Non-OASDI for fiscal years ending August 31, 2017 and 2016 were \$16,353 and \$17,481, respectively.

NOTE 6 – RETIREE HEALTH CARE PLAN

Plan Description

The Charter Holder contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; 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 2017, 2016, and 2015 and 0.65 percent of school payroll, with the Charter Holder contributing a percentage of payroll set at 0.55 percent for fiscal years 2017, 2016, and 2015. 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, 2017, the State's contributions to TRS-Care were \$1,146 and \$1,378, respectively; the active member contributions were \$7,170 and \$7,664, respectively; and the Charter Holder's contributions were \$6,067 and \$6,485, respectively; which equaled the required contributions.

KATHERINE ANNE PORTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2017 and 2016

NOTE 7 – HEALTH CARE COVERAGE

During the year ended August 31, 2017, 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, 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, 2017 and 2016, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	2017	2016
State Foundation Program	\$ 149,194	\$ 62,360
National School Lunch and Breakfast Program	-	992
21st Century Community Learning Center	25,164	30,133
Rural Energy for America Program	572	292
Total	<u>\$ 174,930</u>	<u>\$ 93,777</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Charter Holder receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the 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, 2016, 2015, and 2014, 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, 2017 are:

Year Ended	
August 31	Amount
2018	\$ 10,053
2019	8,378
	<u>\$ 18,431</u>

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.

KATHERINE ANNE PORTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Years Ended August 31, 2017 and 2016

During the years ended August 31, 2017 and 2016, the Charter Holder was paid \$1,436,491 and \$1,485,660, respectively, of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2017 and 2016, the Charter Holder's temporarily restricted net assets consisted of the following:

	2017	2016
Local Scholarship Fund	\$ 14,000	\$ 19,000
State Foundation Program	138,672	132,219
Total	\$ 152,672	\$ 151,219

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

	2017	2016
State funds	\$ 1,512,562	\$ 1,655,425
Federal funds	231,321	241,651
Total	\$ 1,743,883	\$ 1,897,076

NOTE 13 – CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school, Katherine Anne Porter School, and did not conduct any other charter or noncharter 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 – 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, 2017 and 2016

		Totals	
		2017	2016
Expenses			
6100	Payroll costs	\$ 1,277,432	\$ 1,550,231
6200	Professional and contracted services	321,721	192,227
6300	Supplies and materials	108,551	189,429
6400	Other operating costs	138,676	121,224
6500	Debt	9,722	12,231
	Total Expenses	\$ 1,856,102	\$ 2,065,342

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KATHERINE ANNE PORTER SCHOOL

SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1

For the Year Ended August 31, 2017

		Ownership Interest		
		Local	State	Federal
1510	Land purchase and investments	\$ 140,000	\$ -	\$ -
1520	Buildings and improvements	976,382	-	19,493
1531	Vehicles	23,900	-	-
1539	Furniture and equipment	6,198	54,216	-
1541	Vehicles	268,349	-	-
Total Property and Equipment		<u>\$ 1,414,829</u>	<u>\$ 54,216</u>	<u>\$ 19,493</u>

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KATHERINE ANNE PORTER SCHOOL

BUDGETARY COMPARISON SCHEDULE - EXHIBIT E-1

For the Year Ended August 31, 2017

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local support				
5740 Other revenues from local sources	\$ 43,060	\$ 43,060	\$ 126,405	\$ 83,345
5750 Revenue from co-curricular or enterprising	19,660	35,620	28,088	(7,532)
Total local support	62,720	78,680	154,493	75,813
State program revenues				
5810 Foundation school program revenues	1,621,449	1,367,010	1,497,879	130,869
5820 State program revenues distributed by Texas Education Agency	15,300	15,300	16,136	836
Total state program revenue	1,636,749	1,382,310	1,514,015	131,705
Federal program revenues				
5920 Federal revenues distributed by Texas Education Agency	258,955	261,016	225,336	(35,680)
5940 Federal revenues - direct	15,969	15,969	5,985	(9,984)
Total federal program revenue	274,924	276,985	231,321	(45,664)
Total Revenues	1,974,393	1,737,975	1,899,829	161,854
Expenses				
11 Instruction	905,622	734,959	837,171	(102,212) *
12 Instructional resources and media services	-	15,000	15,866	(866)
13 Curriculum development and instructional staff development	18,701	17,726	14,998	2,728
23 School leadership	218,890	258,397	216,083	42,314
31 Guidance, counseling, and evaluation services	141,282	140,222	137,408	2,814
33 Health services	-	1,275	1,275	-
34 Student (pupil) transportation	129,812	111,979	118,547	(6,568)
35 Food services	43,731	43,731	50,850	(7,119) *
36 Co-curricular/extracurricular activities	7,340	340	40	300
41 General administration	188,471	179,715	205,766	(26,051) *
51 Plant maintenance and operations	118,591	128,403	113,044	15,359
52 Security and monitoring services	5,000	2,500	-	2,500
53 Data processing services	67,572	37,950	47,694	(9,744) *
61 Community services	4,000	4,000	85	3,915
71 Debt	60,814	60,814	9,722	51,092
81 Fundraising	29,939	57,073	25,459	31,614
Total Expenses	1,939,765	1,794,084	1,794,008	76
Change in Net Assets	\$ 34,628	\$ (56,109)	105,821	\$ 161,930
Reconciliation to Ending Net Assets on Exhibit A-2:				
Depreciation expense			(62,094)	
Change in Net Assets (all funds)			43,727	
Beginning net assets			1,021,434	
Ending Net Assets			\$ 1,065,161	

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 24, 2018

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 statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2018.

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 deficiencies 2017-001 and 2017-002 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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, 2017

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 Deficiencies:

2017-001. RECLASSIFICATION OF EXPENSES

Criteria

According to the Texas Education Agency (TEA) *Special Supplement to the Financial Accountability System Resource Guide – Charter Schools*, charter schools must ensure that expenses are properly allocated to the appropriate sources of funding, projects, and/or cost objectives.

Condition

Expenses reported in the general ledger for the IDEA-B and 21st Century Community Learning Centers grant funds did not tie to the final expenditure reports provided for those grants. Expenses were reclassified out of these funds to match the amount received as reimbursement and reported as revenue in these funds.

Cause

The Charter Holder requested less for reimbursement than what was reported in the general ledger for those grant funds.

Effect

The Charter Holder's general ledger does not match supporting documentation provided for grant expenses.

Recommendation

The Charter Holder should closely monitor expenses reported in grant funds. The Charter Holder should continue to improve its processes to reconcile grant expenses and grant revenues reported in the general ledger.

KATHERINE ANNE PORTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1 (Continued)
For the Year Ended August 31, 2017

Management's Corrective Action Plan

Management concurs with the recommendation and will closely monitor expenses reported in grant funds. Management will also ensure that all federal grant expenses reconcile to grant revenue reported in the general ledger.

2017-002. CREDIT/DEBIT 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 credit/debit card, to the business office manager as soon as the purchase is made.

Condition

Based on a sample selection of 50 disbursement transactions, seven of these transactions were for credit/debit card payments. During observation and review of the purchases made on the credit/debit cards, it was noted that receipts for four of these transactions were missing. This is a repeat finding of 2016-001 reported in fiscal year 2016.

Cause

Missing receipts could not be located by management or staff.

Effect

The Charter Holder does not have adequate support for expenditures.

Recommendation

The Charter Holder should closely monitor all credit/debit card purchases. The Charter Holder should continue to improve its processes to obtain all supporting receipts for credit/debit card purchases

Management's Corrective Action Plan

Management concurs with the recommendation and will continue to monitor all credit/debit card purchases to ensure that all supporting receipts are acquired.

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, 2017

Significant Deficiency:

2016-001. CREDIT CARD PURCHASES

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.

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.

Current Status

Management is continuing to improve its processes to ensure that all credit cards purchases have supporting documentation.

