

WACO CHARTER SCHOOL
An Unincorporated Division of
Economic Opportunities Advancement
Corporation of Planning Region XI

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

Waco Charter School
Annual Financial Report
For The Year Ended August 31, 2016

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Introductory Section



CERTIFICATE OF BOARD

Waco Charter School
Name of School District

McLennan
County

161-801
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____approved _____disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**HUDSON ANDERSON, CPA
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE**

Independent Auditors' Report

To the Board of Directors
Waco Charter School
500 Franklin Avenue
Waco, Texas 76701

Report on the Financial Statements

We have audited the accompanying financial statements of Waco Charter School ("the Charter School") 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.

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 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 of 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 Charter School'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 School'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 respective financial position of Waco Charter School 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Waco Charter School's financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements.

The supplementary 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. Such 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of Waco Charter 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 Waco Charter School's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Waco Charter School's fiscal year 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

Corsicana, Texas
November 21, 2016

WACO CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
<i>Cash and Cash Equivalents</i>	\$ 936,354	\$ 681,708
<i>Due from Other Governments</i>	125,090	97,638
<i>Inventories</i>	4,341	4,341
<i>Other Assets</i>	2,508	--
Total Current Assets	<u>1,068,293</u>	<u>783,687</u>
Capital Assets:		
<i>Land</i>	120,000	120,000
<i>Buildings and Improvements, Net</i>	1,199,160	1,240,771
<i>Furniture and Equipment, Net</i>	12,109	12,844
<i>Construction in Progress</i>	130,080	130,080
Total Assets	<u>\$ 2,529,642</u>	<u>\$ 2,287,382</u>
LIABILITIES:		
<i>Accounts Payable</i>	\$ 11,106	\$ 22,548
<i>Due to Others</i>	--	--
<i>Current Portion-Long Term Debt Payable</i>	27,623	62,429
<i>Accrued Liabilities</i>	56,071	31,169
Total Current Liabilities	<u>94,800</u>	<u>116,146</u>
Noncurrent Liabilities:		
<i>Due in More Than One Year</i>	33,336	60,851
Total Liabilities	<u>128,136</u>	<u>176,997</u>
NET ASSETS		
Temporarily restricted	1,510,375	1,250,694
Unrestricted	891,131	859,691
Total Net Assets	<u>2,401,506</u>	<u>2,110,385</u>
Total Liabilities and Net Assets	<u>\$ 2,529,642</u>	<u>\$ 2,287,382</u>

The accompanying notes are an integral part of this statement.

WACO CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2016 and 2015

EXHIBIT A-2

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Totals 2016	Totals 2015
REVENUES:				
<i>Local and Intermediate Sources</i>	\$ 42,223	\$ 9,514	\$ 51,737	\$ 36,553
<i>State Program Revenues</i>				
<i>Foundation School Program</i>	--	1,931,332	1,931,332	1,813,401
<i>Other State Aid</i>	--	41,032	41,032	--
<i>Total State Program Revenues</i>	<u>--</u>	<u>1,972,364</u>	<u>1,972,364</u>	<u>1,813,401</u>
<i>Federal Program Revenues</i>				
<i>ESEA Title I, Part A</i>	--	127,951	127,951	111,639
<i>ESEA Title II Part A Teacher/Principal Training</i>	--	12,105	12,105	9,169
<i>Child Nutrition</i>	--	174,930	174,930	175,118
<i>USDA Donated Commodities</i>	--	11,061	11,061	8,801
<i>Summer School LEP</i>	--	1,113	1,113	1,106
<i>IDEA-B Formula</i>	--	51,126	51,126	41,759
<i>IDEA-B Preschool</i>	--	4,580	4,580	4,043
<i>Total Federal Revenues</i>	<u>--</u>	<u>382,866</u>	<u>382,866</u>	<u>351,635</u>
<i>Net Assets Released from Restrictions:</i>				
<i>Restrictions satisfied by payments</i>	<u>2,105,063</u>	<u>(2,105,063)</u>	<u>--</u>	<u>--</u>
Total Revenues	<u>2,147,286</u>	<u>259,681</u>	<u>2,406,967</u>	<u>2,201,589</u>
EXPENDITURES:				
<i>Program Services:</i>				
<i>Instruction</i>	1,222,730	--	1,222,730	1,187,588
<i>Instructional Resources and Media Services</i>	35,999	--	35,999	23,982
<i>Curriculum and Staff Development</i>	12,514	--	12,514	16,500
<i>School Leadership</i>	208,898	--	208,898	216,278
<i>Support Services-Student (Pupil)</i>				
<i>Guidance, Counseling, & Evaluation Services</i>	116,627	--	116,627	113,578
<i>Health Services</i>	1,614	--	1,614	1,105
<i>Food Service</i>	185,573	--	185,573	221,561
<i>Cocurricular</i>	--	--	--	--
<i>General Administration</i>	153,226	--	153,226	155,594
<i>Facilities Maintenance and Operations</i>	144,946	--	144,946	178,858
<i>Support Services-Non-Student Based</i>				
<i>Security and Monitoring Services</i>	752	--	752	302
<i>Data Processing Services</i>	26,672	--	26,672	21,034
<i>Interest on Long-term Debt</i>	<u>6,295</u>	<u>--</u>	<u>6,295</u>	<u>10,406</u>
Total Expenditures	<u>2,115,846</u>	<u>--</u>	<u>2,115,846</u>	<u>2,146,786</u>
Change in Net Assets	<u>31,440</u>	<u>259,681</u>	<u>291,121</u>	<u>54,803</u>
Net Assets, beginning of year	<u>859,691</u>	<u>1,250,694</u>	<u>2,110,385</u>	<u>2,055,582</u>
Net Assets, end of year	<u>\$ 891,131</u>	<u>\$ 1,510,375</u>	<u>\$ 2,401,506</u>	<u>\$ 2,110,385</u>

The accompanying notes are an integral part of this statement.

WACO CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

EXHIBIT A-3

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
<i>Foundation School and Other State Payments</i>	\$ 1,944,912	\$ 1,844,469
<i>Cash Received from Grants</i>	382,866	351,635
<i>Cash Receipts (Payments) for Quasi-external Local Sources</i>	51,737	36,553
<i>Cash Payments to Employees for Services</i>	(1,362,931)	(1,302,057)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(699,617)	(849,049)
<i>Other Operating Cash Receipts (Payments)</i>	--	--
Net Cash Provided (Used) by Operating Activities	<u>316,967</u>	<u>81,551</u>
Cash Flows from Non-capital Financing Activities:		
<i>Transfers From (To) Other Funds</i>	--	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal Paid</i>	(62,321)	(58,210)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(62,321)</u>	<u>(58,210)</u>
Cash Flows from Investing Activities:		
<i>Acquisition or Construction of Capital Assets</i>	--	(164,651)
Net Cash Provided (Used) for Investing Activities	<u>--</u>	<u>(164,651)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	254,646	(141,310)
Cash and Cash Equivalents at Beginning of Year	681,708	823,018
Cash and Cash Equivalents at End of Year	<u>\$ 936,354</u>	<u>\$ 681,708</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 291,121	\$ 54,803
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
<i>Depreciation</i>	42,346	42,345
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Due from other Governments</i>	(27,452)	31,068
<i>Decrease (Increase) in Other Assets</i>	(2,509)	633
<i>Increase (Decrease) in Due to Others</i>	--	(47,297)
<i>Increase (Decrease) in Accounts Payable</i>	(11,441)	(6,371)
<i>Increase (Decrease) in Accrued Liabilities</i>	24,902	6,370
Total Adjustments	<u>25,846</u>	<u>26,748</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 316,967</u>	<u>\$ 81,551</u>

The accompanying notes are an integral part of this statement.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Charter School is 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 Charter School is governed by a Board of Directors comprised of fifteen members. The Board is selected pursuant to the bylaws of the corporation, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the corporation.

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

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

2. Basis of Presentation, Basis of Accounting

The Charter School reports 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. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Charter School reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long long-lived assets must be maintained, the Charter School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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

In addition to classifying the net assets as indicated above, the Charter School also maintains its books and records on the principles of fund accounting. This is to ensure observance of limitations and restrictions placed on the use of the resources available to the Charter School.

When the Charter School incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Charter School's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

b. Inventories and Prepaid Items

The Charter 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.

c. 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.

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

Asset Class	Estimated Useful Lives
Buildings	40
Building Improvements	40
Office Equipment	5
Computer Equipment	5

d. Receivable and Payable Balances

The Charter 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 those balances.

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

e. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide

f. 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 the reported amounts of certain assets, liabilities, revenues, and expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

g. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

h. Fair Value Measurements

The majority of the entity'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 entity for obligations with similar remaining maturities. The recorded value of these financial instruments approximated fair value at August 31, 2016.

i. Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Charter School. The donors of these assets permit the Charter School to use all of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Charter School and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

B. Deposits and Investments

The Charter School's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Charter School's agent bank approved pledged securities in an amount sufficient to protect Charter School funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2016, the carrying amount of the Charter School's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$936,354 and the bank balance was \$940,267. The Charter School has an excess above FDIC coverage in the amount of \$690,267 as of August 31, 2016. EOAC is a party to a tri-lateral agreement with Bank of America and Bank of New York to provide collateral for public funds in excess of the F.D.I.C. insurance limits.

2. Investments:

The Charter School's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

The Charter School's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Charter School's agent bank approved pledged securities in an amount sufficient to protect Charter School funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

C. Capital Assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 120,000	\$ --	\$ --	\$ 120,000
Construction in progress	130,080	--	--	130,080
Total capital assets not being depreciated	<u>250,080</u>	<u>--</u>	<u>--</u>	<u>250,080</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,708,663	--	--	1,708,663
Equipment	147,693	--	--	147,693
Total capital assets being depreciated	<u>1,856,356</u>	<u>--</u>	<u>--</u>	<u>1,856,356</u>
Less accumulated depreciation for:				
Buildings and improvements	(467,892)	(41,611)	--	(509,503)
Equipment	(134,849)	(735)	--	(135,584)
Total accumulated depreciation	<u>(602,741)</u>	<u>(42,346)</u>	<u>--</u>	<u>(645,087)</u>
Total capital assets being depreciated, net	<u>1,253,615</u>	<u>(42,346)</u>	<u>--</u>	<u>1,211,269</u>
Governmental activities capital assets, net	<u>\$ 1,503,695</u>	<u>\$ (42,346)</u>	<u>\$ --</u>	<u>\$ 1,461,349</u>

Depreciation was charged to functions as follows:

Instruction	\$ 26,949
Instructional Resources and Media Services	853
Curriculum and Staff Development	11
School Leadership	4,927
Guidance, Counseling, & Evaluation Services	1,628
Health Services	44
General Administration	3,462
Plant Maintenance and Operations	3,726
Security and Monitoring Services	19
Data Processing Services	727
	<u>\$ 42,346</u>

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

D. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Notes	\$ 123,280	\$ --	\$ (62,321)	\$ 60,959	\$ 27,623
Total governmental activities	\$ 123,280	\$ --	\$ (62,321)	\$ 60,959	\$ 27,623

Note payable to a bank for original amount of \$384,000 at the interest rate of 7.0% with monthly payments, including principal and interest, of \$3,810 with final payment due in February of 2017. The note is secured by a first lien on land and building of the charter school. The balance due at August 31, 2016 is \$7,503.

Note payable to a bank for original amount of \$202,000 at the interest rate of 6.27% with monthly payments, including principal and interest, of \$1,908 with final payment due in July of 2019. The note is secured by a first lien on land and building of the charter school. The balance due at August 31, 2016 is \$53,456.

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 27,623	\$ 2,775	\$ 30,398
2018	21,418	1,477	22,895
2019	11,918	142	12,060
Totals	\$ 60,959	\$ 4,394	\$ 65,353

E. Risk Management

The Charter School is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the Charter School purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

F. Pension Plan

1. Plan Description

The Charter School contributes to the Teacher Retirement System of Texas (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. It operates primarily 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 pension plan. That report may be obtained by downloading the report from the TRS internet website, www.trrs.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 Total Plan Assets at August 31, 2015 are \$157,261,707,241.

Accumulated Benefit Obligations at August 31, 2015 are \$159,496,075,886.

The Plan is 78.43% funded as August 31, 2016.

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

Funding Policy

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 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions 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. State law provides for a member contribution rate of 7.2% for fiscal year 2016 and 6.7% for 2015 and 6.4% for 2014, and a state contribution rate of 6.8% for fiscal year 2016, 2015 and 2014. In certain instances the reporting district is required to make all or a portion of the state's contribution. Employee contributions to TRS for the years ending August 31, 2016, 2015 and 2014 were \$80,725, \$72,053 and \$68,373, respectively. The Charter School paid additional state contributions for the years ending August 31, 2016, 2015 and 2014 in the amount of \$2,663, \$2,313 and \$0, respectively, on portion of the employees' salaries that exceeded the statutory minimum. The Charter School was also subject to the Non-OASDI participating surcharge during the fiscal year 2016.

The Charter 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 July and January, respectively. The Charter School made contributions to the 403(b) plans for the years ending August 31, 2016, 2015 and 2014 in the amount of \$24,116, \$27,483 and \$27,419 respectively, equal to the required contributions for each year.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

G. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

The Charter School 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 the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. 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. The 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 web site at www.trstate.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. 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. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015 and 2014. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$11,212, \$10,754, and \$10,581, respectively, the active member contributions were \$7,288, \$6,754, and \$6,878, respectively, and the Charter School's contributions were \$6,167, \$5,915, and \$5,821, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the Charter School were \$4,011, \$2,950, and \$2,550, respectively.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

H. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the Charter School were covered by a health insurance plan (the Plan). The Charter School paid premiums of \$400 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the Charter School and the third party administrator is renewable April 1, 2017, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Blue Cross Blue Shield and CIGNA Health Plans are available for the year ended December 31, 2015, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

I. Commitments and Contingencies

1. Contingencies

The Charter School participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Charter School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the Charter 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.

2. Litigation

No reportable litigation was pending against the Charter School at August 31, 2016.

J. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for Title II, Part A with the following school districts:

Member Districts

Other Central Texas School Districts

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region XII Education Service Center, nor does the District 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 District. The fiscal agent manager is responsible for all financial activities of the SSA.

K. Related Organizations

As described in Note 1, the Waco Charter School was established to assist in providing educational services to at-risk students. The charter school is an unincorporated division of EOAC and subject to its control procedures. During the year ended August 31, 2016, the division reimbursed EOAC for administrative costs, which were primarily personnel cost for accounting and controllership. The EOAC fiscal year end is April 30th of each year.

WACO CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

L. Compensated Absences

The Charter School has non vested sick leave benefits at August 31, 2016 which are not recorded on the financial statements in the amount of \$94,432. These benefits are recorded as expenditures if and when used in the future. Unpaid leave for 12 month unpaid employees is accrued as an expense at the end of the school year.

M. Budgetary Data

The Board of Trustees adopts a budget for the General Fund. The Charter School is required to present final amended budgeted revenues and expenditures for this fund along with the adopted budget. The Charter School compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit E-1. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20 the Charter School prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the Charter School has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

N. Date of Management Review

Subsequent events have been evaluated through November 21, 2016, the date on which the financial statements were available to be issued.

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

WACO CHARTER SCHOOL
SCHEDULES OF EXPENSES
 FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

EXHIBIT C-1

	2016	2015
EXPENSES		
6100 Payroll Costs	\$ 1,378,925	\$ 1,308,427
6200 Professional and Contracted Services	415,583	512,785
6300 Supplies and Materials	231,586	228,890
6400 Other Operating Costs	83,457	86,278
6500 Debt	6,295	10,406
Total Expenses	\$ 2,115,846	\$ 2,146,786

WACO CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT D-1

	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	130,080	--	--
Total Property and Equipment	<u>428,279</u>	<u>501,157</u>	<u>1,177,000</u>
Less Accumulated Depreciation	<u>(76,753)</u>	<u>(188,556)</u>	<u>(379,778)</u>
Net Capital Assets	<u>\$ 351,526</u>	<u>\$ 312,601</u>	<u>\$ 797,222</u>

WACO CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT E-1

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts			Actual	
	Original	Final			
REVENUES:					
5700	<i>Local and Intermediate Sources</i>	\$ 22,727	\$ 22,727	\$ 51,737	\$ 29,010
5800	<i>State Program Revenues</i>	1,951,281	1,951,281	1,972,364	21,083
5900	<i>Federal Program Revenues</i>	430,597	430,597	382,866	(47,731)
5020	Total Revenues	<u>2,404,605</u>	<u>2,404,605</u>	<u>2,406,967</u>	<u>2,362</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	<i>Instruction</i>	1,311,527	1,311,527	1,222,730	88,797
0012	<i>Instructional Resources and Media Services</i>	38,400	38,400	35,999	2,401
0013	<i>Curriculum and Staff Development</i>	12,705	12,705	12,514	191
	Total Instruction & Instr. Related Services	<u>1,362,632</u>	<u>1,362,632</u>	<u>1,271,243</u>	<u>91,389</u>
Instructional and School Leadership:					
0023	<i>School Leadership</i>	223,748	223,748	208,898	14,850
	Total Instructional & School Leadership	<u>223,748</u>	<u>223,748</u>	<u>208,898</u>	<u>14,850</u>
Support Services - Student (Pupil):					
0031	<i>Guidance, Counseling and Evaluation Services</i>	161,506	161,506	116,627	44,879
0033	<i>Health Services</i>	1,700	1,700	1,614	86
	Total Support Services - Student (Pupil)	<u>163,206</u>	<u>163,206</u>	<u>118,241</u>	<u>44,965</u>
0035	<i>Food Services</i>	219,069	219,069	185,573	33,496
	Total Food Services	<u>219,069</u>	<u>219,069</u>	<u>185,573</u>	<u>33,496</u>
Administrative Support Services:					
0041	<i>General Administration</i>	159,134	159,134	153,226	5,908
	Total Administrative Support Services	<u>159,134</u>	<u>159,134</u>	<u>153,226</u>	<u>5,908</u>
Support Services - Nonstudent Based:					
0051	<i>Plant Maintenance and Operations</i>	210,426	210,426	144,946	65,480
0052	<i>Security and Monitoring Services</i>	1,401	1,401	752	649
0053	<i>Data Processing Services</i>	29,300	29,300	26,672	2,628
	Total Support Services - Nonstudent Based	<u>241,127</u>	<u>241,127</u>	<u>172,370</u>	<u>68,757</u>
Debt Service:					
0072	<i>Interest on Long-Term Debt</i>	13,000	7,000	6,295	705
	Total Debt Service	<u>13,000</u>	<u>7,000</u>	<u>6,295</u>	<u>705</u>
6030	Total Expenditures	<u>2,381,916</u>	<u>2,375,916</u>	<u>2,115,846</u>	<u>260,070</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	22,689	28,689	291,121	262,432
1200	Net Change in Fund Balance	<u>22,689</u>	<u>28,689</u>	<u>291,121</u>	<u>262,432</u>
0100	Fund Balance General - Beginning	<u>2,110,385</u>	<u>2,110,385</u>	<u>2,110,385</u>	--
3000	Fund Balance General - Ending	<u>\$ 2,133,074</u>	<u>\$ 2,139,074</u>	<u>\$ 2,401,506</u>	<u>\$ 262,432</u>

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**HUDSON ANDERSON, CPA
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE**

**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**

Board of Directors
Waco Charter School
500 Franklin Avenue
Waco, Texas 76701

Members of the Board of Directors:

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, 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 November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Waco Charter 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Waco Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Waco Charter 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 a 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. 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 Waco Charter 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

Corsicana, Texas
November 21, 2016

WACO CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses?

 Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

B. Financial Statement Findings

None noted

WACO CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

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

WACO CHARTER SCHOOL
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

None noted so none required