

**Garza/Gonzalez & Associates**

CERTIFIED PUBLIC ACCOUNTANTS

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**SCHOOL OF EXCELLENCE IN EDUCATION**  
San Antonio, Texas

**ANNUAL FINANCIAL AND COMPLIANCE REPORT**

Year Ended August 31, 2016

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

FINANCIAL AND COMPLIANCE REPORT

Year Ended August 31, 2016

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## **INTRODUCTORY SECTION**

SCHOOL OF EXCELLENCE IN EDUCATION

Name of School District

BEXAR

County

015-806

Co. Dist. Number

We, the undersigned, certify that the attached Annual Financial and Compliance Report of the above named Charter School were reviewed and \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2016 at a School of Excellence In Education's Board of Directors meeting on the \_\_\_\_\_ day of January, 2017.

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

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

If the Board of Directors disapproved of the auditor's report, the reason(s) for disapproving it is/are (attach list as necessary):

**FINANCIAL SECTION**

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
School of Excellence in Education  
San Antonio, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the School of Excellence in Education (the 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.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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 financial position of the 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 as a whole. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This 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, this 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 17, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

  
Margal Bonjuly  
Associates

January 17, 2017

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

STATEMENT OF FINANCIAL POSITION

August 31, 2016

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,267,999
Restricted Cash and Cash Equivalents	1,400,452
Inventory	3,697
Deferred Expenses	14,835
Due from State	960,803
Due from Foundation	24,249
Other Receivables	1,054
Total Current Assets	4,673,089

Non-Current Assets

Bond Issuance Cost	283,250
Property and Equipment, Net	8,876,757
Total Non-Current Assets	9,160,007

Total Assets	\$ 13,833,096
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 1,109,605
Accrued Wages Payable	173,430
Payroll and Payroll Related Liabilities	67,250
Interest Payable	136,454
Unearned Revenue	118,750
Due to State	9,210
Due to Foundation	32,559
Funds Held for Others	9,648
Current Portion of Long-Term Debt	258,529
Other Current Liabilities	554
Total Current Liabilities	1,915,989

Non-Current Liabilities

Long-term Debt, Net of Current Portion	7,750,809
Total Non-Current Liabilities	7,750,809

Total Liabilities	9,666,798
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Net Assets

Temporarily Restricted	1,434,827
Unrestricted	2,731,471
Total Net Assets	4,166,298

Total Liabilities and Net Assets	\$ 13,833,096
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The accompanying notes to financial statements  
form an integral part of this statement.



SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

STATEMENT OF ACTIVITIES

Year Ended August 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Local Support			
Food Service Activity	\$ 11,114	\$ -	\$ 11,114
Interest and Other Income	340,682	-	340,682
Total Local Support	<u>351,796</u>	<u>-</u>	<u>351,796</u>
State Program Revenues			
Foundation School Program	-	9,077,412	9,077,412
Other State Aid	-	33,319	33,319
Total State Program Revenues	<u>-</u>	<u>9,110,731</u>	<u>9,110,731</u>
Federal Program Revenues			
Child Nutrition	-	897,519	897,519
ESEA Title I, Part A - Improving Basic Programs	-	714,765	714,765
IDEA, Part B - Formula	-	230,631	230,631
ESEA Title II, Part A - Teacher/Principal Training	-	87,683	87,683
ESEA Title III, Part A - LEP	-	11,696	11,696
ESEA, Title I, Part C - Migratory Children	-	7,062	7,062
Carl D. Perkins - Basic Formula Grant	-	11,232	11,232
Summer School LEP	-	1,113	1,113
Total Federal Program Revenues	<u>-</u>	<u>1,961,701</u>	<u>1,961,701</u>
Net Assets Released From Restrictions			
Restrictions Satisfied By Payments	<u>11,072,432</u>	<u>(11,072,432)</u>	<u>-</u>
Total Revenues and Other Support	<u>11,424,228</u>	<u>-</u>	<u>11,424,228</u>
<b>EXPENSES</b>			
Program Services			
Instruction and Instructional-Related Services	4,956,735	-	4,956,735
Instructional and School Leadership	989,220	-	989,220
Support Services			
Administrative Support Services	1,154,263	-	1,154,263
Ancillary Services	1,374	-	1,374
Support Services - Non-Student Based	1,893,658	-	1,893,658
Support Services - Student (Pupil)	1,725,396	-	1,725,396
Debt Service	<u>587,559</u>	<u>-</u>	<u>587,559</u>
Total Expenses	11,308,205	-	11,308,205
Change in Net Assets	116,023	-	116,023
Net Assets, Beginning of Year	<u>2,615,448</u>	<u>1,434,827</u>	<u>4,050,275</u>
Net Assets, Ending of Year	<u>\$ 2,731,471</u>	<u>\$ 1,434,827</u>	<u>\$ 4,166,298</u>

The accompanying notes to financial statements  
form an integral part of this statement.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

STATEMENT OF CASH FLOWS

Year Ended August 31, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Foundation School Program Payments	\$ 8,989,461
Grant Payments	1,542,637
Miscellaneous Sources	354,291
Payments to Vendors for Goods and Services Rendered	(2,826,834)
Payments to Charter School Personnel for Services Rendered	(7,230,640)
Interest and Other Payments	(567,635)
Net Cash Provided by Operating Activities	<u>261,280</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Capital Assets	(717,119)
Net Cash (Used) for Investing Activities	<u>(717,119)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal Payments on Bonds Payable	(175,000)
Principal Payments on Capital Lease Payable	(65,264)
Net Cash (Used) for Financing Activities	<u>(240,264)</u>
Net (Decrease) in Cash and Cash Equivalents	<u>(696,103)</u>
Cash and Cash Equivalents, Beginning of Year	<u>4,364,554</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,668,451</u>
<b>Reconciliation to Statement of Financial Position</b>	
Cash and Cash Equivalents	\$ 2,267,999
Restricted Cash and Cash Equivalents	1,400,452
Total Cash and Cash Equivalents	<u>\$ 3,668,451</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 116,023
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation Expense	439,935
Amortization Expense	19,245
(Increase) Decrease in Assets	
Inventory	3,385
Other Receivables	2,495
Deferred Expenses	60,942
Due from State	(413,551)
Increase (Decrease) in Liabilities	
Accounts Payable	81,133
Accrued Wages Payable	35,175
Payroll and Payroll Related Liabilities	(12,578)
Due to State	(68,603)
Interest Payable	(2,321)
Net Cash Provided by Operating Activities	<u>\$ 261,280</u>

Noncash Financing Activities:

Amortization of bond issuance costs and original issue discounts totaled \$19,245.

The accompanying notes to the financial statements  
form an integral part of this statement.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

The School of Excellence in Education (the "School") is a not-for-profit organization incorporated in the State of Texas in 1997 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code ("IRC"). In 1998, the State Board of Education of the State of Texas granted the School an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code ("TEC"). 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, the School was opened on September 1, 1998. The School was organized to provide educational services to at-risk students.

The School, the charter holder, only operates a single charter school and did not conduct any other charter or noncharter activities.

The School is governed by a Board of Directors (the "Board"), which is comprised of three members. The Board is selected pursuant to the bylaws of the School, and has the authority to make decisions, appoint the Superintendent of the School, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the School.

The School receives funding from the Texas Education Agency ("TEA") based on the School's Average Daily Attendance ("ADA") Foundation Formula program. Since the School receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

**B. Basis of Presentation**

The financial statements of the School have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, income and expenses are recognized when earned or incurred. The accompanying financial statements and the related accounting system are organized and prepared in accordance with the Special Supplement to Financial Accounting and Reporting — Nonprofit Charter School Chart of Accounts, a module of the TEA's *Financial Accountability Resource Guide* (the "Resource Guide").

The School accounts and reports its activities in accordance with the Financial Accounting Standards Board - Accounting Standards Codification 958, *Not-for-Profit Entities*.

In accordance with these standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions or relevant law. Accordingly, net assets of the School and changes therein are classified and reported as follows:

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Unrestricted* — Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. As of August 31, 2016, unrestricted net assets totaled \$2,731,471.

*Temporarily Restricted* — Temporarily restricted net assets are those resources, subject to donor-imposed restrictions, that will be satisfied by the actions of the School 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. As of August 31, 2016, temporarily restricted net assets totaled \$1,434,827.

*Permanently Restricted* — Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations. As of August 31, 2016, the School did not hold any assets that were designated as permanently restricted.

C. Cash and Cash Equivalents

The School considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

As of August 31, 2016, the total amount of restricted cash was \$1,400,452. Restricted cash represents debt service and maintenance reserves required by the School debt agreement in the total amount of \$1,261,262; and, \$139,190 for building repairs.

D. Inventories

The School reports inventories of food items on the balance sheet at cost. Inventories are recorded as expenses when they are consumed rather than when purchased. Inventories of supplies are recorded as expenses when they are purchased. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services with a charge to expenses and revenues for an equal amount.

E. Property and Equipment

Property and equipment are stated at historical cost, if purchased, or at fair value if donated. Property and equipment under capital lease are recorded at the present value of the future minimum lease payments. Depreciation on property and equipment and amortization on capital leases is calculated on the straight-line method over the estimated useful life of the asset. The capitalization policy for the School is \$5,000.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged to expense. Major improvements are capitalized and depreciated/amortized over the remaining useful lives of the related capital assets.

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Building and improvements	5-50 years
Furniture and equipment	3-20 years
Vehicles	5-6 years
Property under capital lease	5 years

Capital assets acquired with public funds received by the School for operations constitute public property pursuant to Chapter 12 of the Texas Education Code.

**F. Bond Issuance Cost and Discount**

The bond issuance cost and discount are amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable discount.

**G. Arbitrage Payable**

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. Since the School qualifies under the small issuer exception (issuing less than \$15 million effective January 1, 2002), an arbitrage calculation is not required.

**H. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Income Taxes**

The School is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the IRC, except to the extent it has unrelated business income. No such provision has been made to the accompanying financial statements. The School is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress. The School believes it is no longer subject to income tax examinations for years prior to 2013. There were no interest or penalties assessed to the School by the IRS during the year.

**J. Revenues and Support**

Revenues from the State's available school fund are based on reported attendance. Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

- Contributions with donor-imposed restrictions are reported as restricted support, which increases temporarily restricted net assets.
- Contributions without donor-imposed restrictions are reported as unrestricted support, which increases unrestricted net assets.

Governmental grant contracts that are entered into by the School are recognized as revenue when services are rendered or when the expenses in connection with those services are incurred.

**K. Restricted/Unrestricted Resources**

The School funds expenses by a combination of restricted and unrestricted revenues. Thus, when expenses are incurred, there are both restricted and unrestricted resources available to finance them. It is the School's policy to first apply restricted resources to such expenses.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**II. DEPOSITS AND INVESTMENTS**

At August 31, 2016, deposits and investments are comprised of the following:

<u>Cash and Cash Equivalents:</u>	
Cash On Hand	\$ 200
Demand Accounts	2,140,672
Money Market Funds	<u>1,527,579</u>
Total	<u>\$ 3,668,451</u>

<u>Totals from Statement of Financial Position:</u>	
Cash and Cash Equivalents	\$ 2,267,999
Restricted Cash and Cash Equivalents	<u>1,400,452</u>
Total	<u>\$ 3,668,451</u>

Concentration of Credit Risk – The School maintains its cash and money market fund accounts in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) and by pledged securities. The School's cash balances at August 31, 2016 and during the year then ended were entirely covered by FDIC and pledged securities.

**III. PROPERTY AND EQUIPMENT**

At August 31, 2016, property and equipment consists of the following:

Land	\$ 1,349,553
Buildings and Improvements	9,344,194
Furniture and Equipment	3,155,833
Vehicles	322,422
Property Under Capital Lease	<u>442,062</u>
	14,614,064
Less: Accumulated Depreciation/Amortization	<u>(5,737,307)</u>
	<u>\$ 8,876,757</u>

Depreciation and amortization expense totaled \$439,935 for the year ended August 31, 2016.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**IV. CAPITAL LEASE PAYABLE**

**A. Master Lease/Purchase Agreement – Printers/Copiers & Equipment**

In a prior year, the School entered into a lease agreement in the original amount of \$105,603 with Frost Bank for the lease of 40 printers/copiers and equipment. The lease is payable over a 60-month period with monthly payments of \$1,969 due to Frost Bank. At the end of the lease term, the ownership of the assets transfers to the School.

Assets that qualify as property under capital lease in the amount of \$91,062 are included in property and equipment as property under capital lease and the related amortization is included in accumulated depreciation/amortization in the amount of \$69,814.

Lessor	Original Commitment	Initial Date	Maturity Date	Interest Rate	Balance at August 31, 2016	Due Within One Year
Frost Bank	\$ 105,603	9/28/2012	10/1/2017	4.498%	\$ 26,802	\$ 22,887

Future minimum payments on capital lease payable at August 31, 2016 are as follows:

Year Ending August 31,	Principal	Interest	Total
2017	\$ 22,887	\$ 737	\$ 23,624
2018	3,915	23	3,938
	<u>\$ 26,802</u>	<u>\$ 760</u>	<u>\$ 27,562</u>

Interest paid relating to this capital lease for the year ended August 31, 2016 totaled \$1,742.

**B. Master Lease/Purchase Agreement – Buses**

On May 20, 2015, the School entered into a master lease/purchase agreement in the original amount of \$351,000 with Frost Bank for the purchase of 5 buses. The lease is payable over an 84-month period with monthly payments of \$4,976 due to Frost Bank. At the end of the lease term, the ownership of the buses transfers to the School.



SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**IV. CAPITAL LEASE PAYABLE (Continued)**

The buses are included in capital assets as property under capital lease in the amount of \$351,000 and the related amortization is included in accumulated depreciation/amortization in the amount of \$43,875.

Lessor	Original Commitment	Initial Date	Maturity Date	Interest Rate	Balance at August 31, 2016	Due Within One Year
Frost Bank	\$351,000	05/20/2015	05/22/2022	5.090%	\$ 297,113	\$ 45,642

Future minimum payments on capital lease payable at August 31, 2016 are as follows:

Year Ending August 31,	Principal	Interest	Total
2017	\$ 45,642	\$ 14,068	\$ 59,710
2018	48,020	11,690	59,710
2019	50,523	9,187	59,710
2020	53,155	6,555	59,710
2021	55,925	3,785	59,710
2022	43,848	936	44,784
	\$ 297,113	\$ 46,221	\$ 343,334

Interest paid relating to this capital lease for the year ended August 31, 2016 totaled \$16,328.

**V. BONDS PAYABLE**

On December 1, 2004, the Texas Public Finance Authority Charter School Finance Corporation (the "Finance Corporation") issued \$8,775,000 of School of Excellence in Education Project Charter School Tax-Exempt Revenue Bonds, Series 2004-A.

The following is a summary of the bonds payable at August 31, 2016:

Revenue Bonds	Interest Rate	Maturity Date	Original Issue	Balance at August 31, 2016	Due Within One Year
Series 2004-A	7%	12/1/2034	\$ 8,775,000	\$ 7,755,000	\$ 190,000

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**V. BONDS PAYABLE (Continued)**

Future maturities of bonds payable at August 31, 2016 are as follows:

Year Ending August 31,	Principal	Interest	Total
2017	\$ 190,000	\$ 536,200	\$ 726,200
2018	200,000	522,550	722,550
2019	215,000	508,025	723,025
2020	230,000	492,450	722,450
2021	245,000	475,825	720,825
Thereafter	6,675,000	4,058,075	10,733,075
	<u>\$ 7,755,000</u>	<u>\$ 6,593,125</u>	<u>\$ 14,348,125</u>

In accordance with the bond resolution, the School has \$733,000 on deposit in the Debt Service Reserve account from the proceeds of the bonds, which is an amount equal to at least 100% of the maximum annual debt service requirement for the bonds. Additionally, the School has \$278,262 in the Debt Service account and \$250,000 in the Repair and Replacement account. The total of these amounts is \$1,261,262, which is recorded as restricted cash as of August 31, 2016.

Interest paid on bonds payable for the year ended August 31, 2016 totaled \$548,975.

**V. SUMMARY OF LONG-TERM DEBT**

At August 31, 2016, long-term debt consists of the following:

Bonds Payable	\$ 7,755,000
Unamortized Discount	(69,577)
Capital Lease Payable	323,915
	<u>\$ 8,009,338</u>
Less: Current Portion	(258,529)
Long-term Debt, Net of Current Portion	<u>\$ 7,750,809</u>

**VI. SHORT TERM DEBT**

On April 8, 2016, the School entered into a revolving line of credit loan agreement with a financial institution for \$600,000 due on April 15, 2017. Interest on the loan is computed using the prime interest rate plus 1.25 percent. At August 31, 2016, the School did not have an outstanding balance on the loan.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**VII. OPERATING LEASES**

The School has a commitment under an operating lease for a campus building, which is paid on a month-to-month basis.

Rental expense for the campus building under this operating lease for the year ended August 31, 2016 totaled \$265,500.

**VIII. PENSION PLAN OBLIGATIONS**

*Plan Description*

The School participates in the Teacher Retirement System of Texas ("TRS"), a public employee retirement system. TRS is a cost-sharing, multiple-employer defined benefit pension plan (Plan) with one exception: all risks and costs are not shared by the School, but are the liability of the State of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. TRS' annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701, by calling 1-800-223-8778, or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter school or independent school district ("ISD") may be used for the benefit of an employee of another charter school or ISD. The risk of participating in multi-employer pension plans is different from single-employer plans. If a participating charter school or ISD stops contributing to the Plan, the unfunded obligations of the Plan gets passed along to the remaining charter schools and ISDs. There is not a withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

*Funding Policy*

Contribution requirements are not actuarially determined, but are established and amended by the Texas legislature, pursuant to Article 16, section 67 of the Texas Constitution, which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to TRS members during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the 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.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**VIII. PENSION PLAN OBLIGATIONS (Continued)**

Under provisions in state law, plan members and the state are each required to contribute 7.2% and 6.8% of their annual covered salary, respectively; and, in certain instances, the School is required to make all or a portion of the member's contribution and on the portion of the employees' salaries that exceed the statutory minimum. The School contributed \$194,238 on behalf of its employees, to TRS for the year ended August 31, 2016, the required contributions for the year. The State also contributes to TRS on behalf of charter school employees; however, these contributions are not recognized in the School's financial statements under FASB accounting. The School's contributions to the Plan did not represent more than 5% of the total contributions to the Plan. There have been no changes that would affect the comparison of employer contributions from year to year.

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Legal Name of Plan	Texas Retirement System of Texas
Plan's Employer Identification Number	N/A
Total Plan Assets	\$149,780,061,824
Accumulated Benefit Obligations	\$163,887,375,172
Percentage Plan was Funded	78.43%
Expiration Date of Collective Bargaining Agreement	N/A
Funding Improvement Plan or Rehabilitation Plan Implemented or Pending	N/A
Total Employer Contribution Made for the Non-OASDI Participating Surcharge	\$88,184

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**IX. HEALTH CARE COVERAGE**

During the year ended August 31, 2016, employees of the School were covered by TRS ActiveCare, a statewide health coverage program for public education employees established by the 77th Texas Legislature. The School contributed \$150 per employee, per month to the plan, while the state contributed \$75 per employee, per month to the plan. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**X. RECEIVABLE FROM ACTIVITY FUNDS**

To comply with a TEA directive included in a letter dated August 24, 2009, the School's activity funds are required to pay the general fund for costs that were inappropriately paid from the general fund. The total amount required to be repaid was \$80,338, comprised of \$68,852 for a band trip to China and \$11,486 for the purchase of band uniforms and shoes.

During the current fiscal year, the School made no payments from the activity fund to the general fund, leaving a receivable balance of \$72,838 at August 31, 2016.

**XI. RELATED ORGANIZATIONS**

The School of Excellence Educational Foundation (the "Foundation"), a not-for-profit entity which was organized for educational and charitable purposes for the benefit of the School, is considered a "related organization" of the School. The Foundation's Board of Directors are appointed by majority vote of the existing directors. The Foundation's Board of Directors include the School's Superintendent, Director of Finance, Director of Human Resources, and Director of Technology.

**XII. REGULATED INDUSTRY**

The majority of the School's activities and revenues are as a result of contracts with TEA and its operations are concentrated in the education field. As such, the School operates in a heavily regulated environment. The operations of the School are subject to administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress, an act of the state legislature, or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2016

**XIII. CONTINGENCIES**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

The School is involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the School's financial position, change in net assets, or liquidity.

*Grants*

The School 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 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 School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by TEA or other grantor agencies. Management is of the opinion that no material liability will result from such audits.

**XIV. SUBSEQUENT EVENTS**

The School has evaluated any potential subsequent events through January 17, 2017, the date of the audit report, and has determined that no additional subsequent events have occurred.

**OTHER SUPPLEMENTAL INFORMATION**

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SCHEDULE OF EXPENSES BY OBJECT CODE

Year Ended August 31, 2016

		<u>Totals</u>
EXPENSES		
6100	Payroll Costs	\$ 7,253,237
6200	Professional and Contracted Services	1,720,411
6300	Supplies and Materials	897,216
6400	Other Operating Costs	852,782
6500	Debt	<u>584,559</u>
Total Expenses		<u>\$ 11,308,205</u>



SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SCHEDULE OF EXPENSES BY DETAILED FUNCTION

Year Ended August 31, 2016

EXPENSES		<u>Totals</u>
11	Instruction	\$ 4,810,915
12	Instructional Resources and Media Services	24,972
13	Curriculum Development and Instructional Staff Development	120,848
21	Instructional Leadership	453,499
23	School Leadership	535,721
31	Guidance, Counseling and Evaluation Services	164,061
32	Social Work Services	-
33	Health Services	99,288
34	Student (Pupil) Transportation	454,719
35	Food Services	864,599
36	Cocurricular/Extracurricular Activities	142,729
41	General Administration	1,154,263
51	Plant Maintenance and Operations	1,613,426
52	Security and Monitoring Services	2,804
53	Data Processing Services	277,428
61	Community Services	1,374
71	Debt Service	587,559
Total Expenses		<u>\$ 11,308,205</u>

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SCHEDULE OF CAPITAL ASSETS

Year Ended August 31, 2016

	Ownership Interest		
	Local	State	Federal
1510 Land	\$ -	\$ 1,349,553	\$ -
1520 Buildings and Improvements	-	9,344,194	-
1530 Vehicles	-	322,422	-
1539 Furniture and Equipment	-	3,155,833	-
1550 Assets Purchased Under Capital Lease	-	442,062	-
<b>Total Property and Equipment</b>	<b>\$ -</b>	<b>\$ 14,614,064</b>	<b>\$ -</b>

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENSES

Year Ended August 31, 2016

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES AND OTHER SUPPORT</b>				
<b>Local Support</b>				
5700 Total Local Support	\$ 35,000	\$ 37,324	\$ 351,796	\$ 314,472 (1)
<b>State Program Revenues</b>				
5800 Total State Program Revenues	9,406,483	9,301,615	9,110,731	(190,884)
<b>Federal Program Revenues</b>				
5900 Total Federal Program Revenues	1,740,966	1,669,666	1,961,701	292,035 (2)
Total Revenues	<u>\$ 11,182,449</u>	<u>\$ 11,008,605</u>	<u>\$ 11,424,228</u>	<u>\$ 415,623</u>
<b>EXPENSES</b>				
11 Instruction	\$ 5,093,486	\$ 4,739,362	\$ 4,810,915	\$ (71,553)
12 Instructional Resources and Media Services	-	17,431	(5) 24,972	(7,541) (3)
13 Curriculum Development and Instructional Staff Development	193,996	137,713	(6) 120,848	16,865 (4)
21 Instructional Leadership	315,981	437,448	(5) 453,499	(16,051)
23 School Leadership	525,676	445,818	(5) 535,721	(89,903) (3)
31 Guidance, Counseling and Evaluation Services	153,974	190,023	(6) 164,061	25,962 (4)
32 Social Work Services	-	-	-	-
33 Health Services	100,841	94,636	99,288	(4,652)
34 Student (Pupil) Transportation	462,049	439,467	454,719	(15,252)
35 Food Services	791,500	811,631	864,599	(52,968)
36 Cocurricular/Extracurricular Activities	131,445	152,251	(6) 142,729	9,522
41 General Administration	1,223,781	1,396,116	(6) 1,154,263	241,853 (4)
51 Plant Maintenance and Operations	1,525,151	1,620,230	1,613,426	6,804
52 Security and Monitoring Services	50,337	137,190	(6) 2,804	134,386 (4)
53 Data Processing Services	300,285	247,447	(5) 277,428	(29,981) (3)
61 Community Services	7,006	4,578	(6) 1,374	3,204 (4)
71 Debt Service	548,975	557,387	587,559	(30,172)
Total Expenses	<u>\$ 11,424,483</u>	<u>\$ 11,428,728</u>	<u>\$ 11,308,205</u>	<u>\$ 120,523</u>

- Notes:
- (1) Under adjusted insurance claim on budget.
  - (2) Under adjusted budget amendment for grant roll forward amounts.
  - (3) Under adjusted budget amendments.
  - (4) Over adjusted budget amendments.
  - (5) Under estimated final budget.
  - (6) Over estimated final budget.

**SINGLE AUDIT SECTION**

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## 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  
School of Excellence in Education  
San Antonio, Texas

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 the School of Excellence in Education (the 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 January 17, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School'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 over financial reporting 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**

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

### **Other Matters**

We noted certain matters that we reported to management of the School in a separate letter dated January 17, 2017.

### **Purpose of this Report**

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



January 17, 2017

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
School of Excellence in Education  
San Antonio, Texas

### **Report on Compliance for Each Major Federal Program**

We have audited the School of Excellence in Education's (the School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended August 31, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

### *Report on Internal Control Over Compliance*

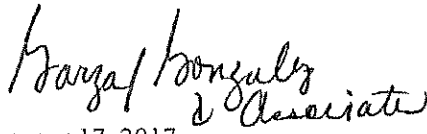
Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Other Matters**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
January 17, 2017



SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2016

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

<i>Financial Statements</i>		
Type of auditor’s report issued on GAAP financial statements:	<u>Unmodified</u>	
Internal control over financial reporting: • Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant control deficiency(ies) identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

<i>Federal Awards</i>		
Internal control over major programs: • Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance Section 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

<i>Identification of Major Federal Programs</i>		
CFDA Numbers(s)	Name of Federal Program or Cluster	
10.553 10.555	Child Nutrition Cluster – School Breakfast Program National School Lunch Program	
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2016

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

**SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS**

There were no federal award findings and questioned costs required to be reported in accordance with the Uniform Guidance Section 220.516(a).

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended August 31, 2016

There were no prior audit findings reported.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2016

Grantor/Program Title	Federal CFDA No.	Project Number	Federal Expenditures
<b>U.S. Department of Education</b>			
Passed Through State Department of Education			
ESEA Title I, Part A Improving Basic Programs	84.010A	16610101015806	\$ 714,765
IDEA, Part B - Formula	84.027A	166600010158066000	230,631
Title III, Part A- LEP	84.365A	16671001015806	11,696
ESEA Title II Part A, Teacher & Principal Training	84.367A	16694501015806	87,683
Summer School LEP	84.369A	69551402	<u>1,113</u>
Total Passed Through State Department of Education			<u>\$ 1,045,888</u>
Passed Through Region 20 ESC			
Carl D. Perkins - Basic Formula Grant	84.011A	16420006015950	11,219
Carl D. Perkins - Basic Formula Grant	84.011A	17420006015950	<u>13</u>
Total CFDA Number 84.011A			<u>11,232</u>
ESEA, Title I, Part C - Migratory Children	84.048A	15615001015950	\$ 15
ESEA, Title I, Part C - Migratory Children	84.048A	16615001015950	\$ 6,990
ESEA, Title I, Part C - Migratory Children	84.048A	17615001015950	<u>57</u>
Total CFDA Number 84.048A			<u>7,062</u>
Total Passed Through Region 20 ESC			<u>\$ 18,294</u>
Total U.S. Department of Education			<u>\$ 1,064,182</u>
<b>U. S. Department of Agriculture</b>			
Passed Through State Department of Education			
National School Lunch Program - Cash Assistance*	10.555	71301601	\$ 602,367
National School Lunch Program - Noncash Assistance*	10.555	71301601	56,181
School Breakfast Program*	10.553	71401601	<u>238,971</u>
Total U.S. Department of Agriculture			<u>\$ 897,519</u>
Total Expenditures of Federal Awards			<u>\$ 1,961,701</u>

\* Clustered programs

SCHOOL OF EXCELLENCE IN EDUCATION  
San Antonio, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2016

1. The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of the School under programs of the Federal government for the year ended August 31, 2016. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to, and does not, present the financial position and changes in net assets of the School.

The Schedule is presented using the basis of accounting described in Note 1 of the financial statements.

2. For all federal programs, the School used the net asset classes and codes specified by the Texas Education Agency (TEA) in the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.
3. Expenditures for the National School Lunch and Breakfast Program are shown to the extent of federal revenues earned during the year since expenditures are not specifically attributable to these revenue sources. Included in the National School Lunch Program are USDA Donated Commodities which represent non-cash assistance. Expenditures are recognized for the issuance of the commodities to the School's campuses.
4. In accordance with U.S. Department of Education guidance, which states independent school districts, open-enrollment charter schools, and education service centers are not eligible to apply for the 10% de minimis indirect cost rate and must submit their indirect cost rate proposals to TEA, the School properly submitted their fiscal year 2016 indirect cost rate proposal to TEA. On May 1, 2015, TEA approved the School's indirect cost rate proposal.