A+ Unlimited Potential Charter School

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

A+ Unlimited Potential Charter School

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Independent Auditors' Report

To the Board of Trustees of
A+ Unlimited Potential Charter School:

Report on the Financial Statements

We have audited the accompanying financial statements of A+ Unlimited Potential Charter School, which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A+ Unlimited Potential Charter School as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 11 through 17 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise A+ Unlimited Potential Charter School's basic financial statements. The budget variance explanations on page 17 are presented for purposes of additional analysis as required by the Texas Education Agency and are not a required part of the basic financial statements. The budget variance explanations have 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 them.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018 on our consideration of A+ Unlimited Potential 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 solely 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 effectiveness of A+ Unlimited Potential Charter School's 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 A+ Unlimited Potential Charter School's internal control over financial reporting and compliance.

Blazek & Vetterling

November 20, 2018

A+ Unlimited Potential Charter School

Statements of Financial Position as of June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash	$ 662,425	$ 551,809
Government grants	275,886	157,199
Accounts receivable from affiliate *(Note 3)*		25,563
Total current assets	938,311	734,571
Lease deposit	9,300	9,300
Property, net *(Note 2)*	49,268	44,442
TOTAL ASSETS	$ 996,879	$ 788,313
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 47,209	$ 22,647
Accounts payable to affiliate *(Note 3)*	17,298	4,008
Accrued payroll expenses		15,539
Total current liabilities	64,507	42,194
Commitments *(Note 5)*		
Net assets:		
Unrestricted	560,180	277,644
Temporarily restricted for school expansion	372,192	468,475
Total net assets	932,372	746,119
TOTAL LIABILITIES AND NET ASSETS	$ 996,879	$ 788,313

See accompanying notes to financial statements.

A+ Unlimited Potential Charter School

Statement of Activities for the year ended June 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUE:			
Government grants *(Note 4)*	$ 1,514,227		$ 1,514,227
Program service fees	46,639		46,639
Contributions	10,500		10,500
Total operating revenue	1,571,366		1,571,366
Net assets released from restrictions:			
Program expenditures	96,283	$ (96,283)	
Total	1,667,649	(96,283)	1,571,366
OPERATING EXPENSES:			
Program expenses:			
Instructional	1,088,181		1,088,181
Auxiliary services	73,627		73,627
Total program expenses	1,161,808		1,161,808
General and administrative	223,305		223,305
Total operating expenses	1,385,113		1,385,113
CHANGES IN NET ASSETS	282,536	(96,283)	186,253
Net assets, beginning of year	277,644	468,475	746,119
Net assets, end of year	$ 560,180	$ 372,192	$ 932,372

See accompanying notes to financial statements.

A+ Unlimited Potential Charter School

Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUE:			
Government grants *(Note 4)*	$ 1,054,901		$ 1,054,901
Program service fees	27,905		27,905
Contributions	1,000		1,000
Total operating revenue	1,083,806		1,083,806
Net assets released from restrictions:			
Program expenditures	71,525	$ (71,525)	
Total	1,155,331	(71,525)	1,083,806
OPERATING EXPENSES:			
Program expenses:			
Instructional	838,664		838,664
Auxiliary services	48,920		48,920
Total program expenses	887,584		887,584
General and administrative	237,592		237,592
Fundraising	7,286		7,286
Total operating expenses	1,132,462		1,132,462
CHANGES IN NET ASSETS	22,869	(71,525)	(48,656)
Net assets, beginning of year	254,775	540,000	794,775
Net assets, end of year	$ 277,644	$ 468,475	$ 746,119

See accompanying notes to financial statements.

A+ Unlimited Potential Charter School

Statements of Cash Flows for the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 186,253	$ (48,656)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	1,379	
Changes in operating assets and liabilities:		
Government grants	(118,687)	(127,199)
Accounts receivable from affiliate	25,563	(25,563)
Accounts payable	24,562	22,329
Accounts payable to affiliate	13,290	4,008
Accrued payroll expenses	(15,539)	15,539
Net cash provided (used) by operating activities	116,821	(159,542)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(6,205)	(44,442)
NET CHANGE IN CASH	110,616	(203,984)
Cash, beginning of year	551,809	755,793
Cash, end of year	$ 662,425	$ 551,809

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – A+UP (dba A+ Unlimited Potential Charter School) (the School) operates a Texas Open-Enrollment Charter School pursuant to Chapter 12 of the Texas Education Code under state charter #101871. The School has two campuses in Houston, Texas, which serve approximately 155 students from 6th through 8th grades for the 2017-2018 school year. The School is supported by state and federal grants provided by the Texas Education Agency and by private contributions. The School operates a single charter school and does not conduct any other charter or non-charter activities.

Houston A+ Challenge was incorporated to improve public schooling across the Houston region. The Board of Trustees of the School includes three directors of Houston A+ Challenge and four trustees elected by the majority vote of the Board of Trustees of the School.

Federal income tax status – The School is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Concentration of credit risk – Cash deposits exceed the federally insured limit per depositor per institution.

Property is reported at cost if purchased or at fair value at the date of gift if donated. The School capitalizes additions and improvements with a cost of more than $5,000. Depreciation is provided on a straight-line basis over the estimated useful life of 3 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Government grants are recognized as revenue in the period in which the services are provided. Amounts collected in advance are reported as refundable advances.

Program service fees are recognized in the period in which services are provided.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The School is required to adopt this ASU effective June 30, 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The School is required to adopt this ASU effective June 30, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The School is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – PROPERTY

Property is comprised of the following:

	2018	2017
Furniture and equipment	$ 6,205	
Construction in progress	44,442	$ 44,442
Total property, at cost	50,647	44,442
Accumulated depreciation	(1,379)	
Property, net	$ 49,268	$ 44,442

Texas statutes state that property purchased with public funds by a charter school holder is considered public property pursuant to Chapter 12 of the Texas Education Code and is held in trust by the charter school holder for the benefit of the students of the open enrollment charter school and may be used only for those purposes.

NOTE 3 – AFFILIATE ENTITIES

The School had a professional services agreement with Houston A+ Challenge for professional services of Public Education Information Management System coordination, data support, and back office services. During 2018 and 2017, Houston A+ Challenge also provided services related to curriculum consulting, fundraising for start-up costs, and legal consultation. The School recognized approximately $95,000 in 2018 and $74,000 in 2017 in expenses related to these services. Accounts payable to Houston A+ Challenge was $17,298 and $4,008 at June 30, 2018 and 2017, respectively.

Additionally, the School provided professional leadership and consulting services for Houston A+ Challenge. The total revenue recognized related to these services was $37,024 in 2018 and $25,563 in 2017 and are reported as program service fees revenue in the statement of activities. Accounts receivable from Houston A+ Challenge was $25,563 at June 30, 2017.

NOTE 4 – GOVERNMENT GRANTS

The School is the recipient of grants from state and federal agencies. The School has a charter with the Texas Education Agency, which provides significant funding for school operations. Should the charter not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Government grants, which are passed through the Texas Education Agency, include the following:

	2018	2017
Texas Education Agency Foundation School Program	$ 1,322,003	$ 734,642
U. S. Department of Education	192,224	320,259
Total government grants	$ 1,514,227	$ 1,054,901

Government awards require fulfillment of certain conditions as set forth in the agreements and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the School with the terms of the agreements. Management believes such disallowances, if any, would not be material to the School's financial position or changes in net assets.

NOTE 5 – COMMITMENTS

The School leases facilities under a noncancelable operating lease. Future minimum lease payments are due as follows:

2019	$ 254,572
2020	74,400
2021	74,400
2022	12,400
Total	$ 415,772

Rental expense was approximately $206,000 in 2018 and $121,000 in 2017.

NOTE 6 – MULTIEMPLOYER PENSION PLAN

The School's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by the School, but are the liability of the State of Texas. For 2018, plan members contributed 7.7% of their annual covered salary, the School contributed 6.8% for new members for the first 90 days of employment, and the State of Texas contributed 6.8%. Additionally, the School makes a 1.5% non-OASDI payment on all TRS eligible employees. The School contributed $15,016 and $13,407 to the plan during fiscal years 2018 and 2017, respectively. The School's contributions do not represent more than 5% of the pension plan's total contributions.

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2017 and 2016 were $146.3 billion and $138.8 billion, respectively. Accumulated benefit obligations as of August 31, 2017 and 2016 were $181.8 billion and $174.2 billion, respectively. The plan was 80.50% funded at August 31, 2017 and 79.70% funded at August 31, 2016.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 20, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

A+ Unlimited Potential Charter School

Charter #101871

Supplemental Statements of Activities by Function for the years ended June 30, 2018 and 2017

		UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS 2018	TOTALS 2017
REVENUE:					
Local support:					
5720	Local revenues realized as a result of services rendered to other schools	$ 1,900		$ 1,900	$ 25,563
5740	Other revenue from local sources	51,532		51,532	1,000
5750	Co-curricular, enterprising services or activities	3,707		3,707	1,842
	Total local support	57,139		57,139	28,405
State program revenue:					
5810	Foundation School Program Act Revenue		$ 1,322,003	1,322,003	734,642
5830	State revenues from State of Texas Government Agencies (other than Texas Education Agency)				500
	Total state program revenue		1,322,003	1,322,003	735,142
Federal program revenue:					
5920	Federal revenue distributed by the State of Texas Education Agency		192,224	192,224	320,259
	Total federal program revenue		192,224	192,224	320,259
Net assets released from restrictions:					
	Restrictions satisfied by payments	1,397,391	(1,397,391)		
	Total revenue	1,454,530	116,836	1,571,366	1,083,806

(continued)

A+ Unlimited Potential Charter School

Charter #101871
Supplemental Statements of Activities by Function for the years ended June 30, 2018 and 2017 *(continued)*

		UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS 2018	TOTALS 2017
EXPENSES:					
11	Instruction	534,486		534,486	395,445
12	Instructional resources and media services				2,317
13	Curriculum development and instructional staff development	88,719		88,719	102,874
23	School leadership	77,534		77,534	89,545
34	Student transportation				3,343
35	Food services	73,627		73,627	45,577
36	Extracurricular activities				6,722
41	General administration	190,189		190,189	183,421
51	Facilities maintenance and operations	275,049		275,049	159,332
53	Data processing services	87,287		87,287	116,286
61	Community services	58,222		58,222	20,314
81	Fundraising				7,286
	Total expenses	1,385,113		1,385,113	1,132,462
CHANGES IN NET ASSETS		69,417	116,836	186,253	(48,656)
Net assets, beginning of year		95,009	651,110	746,119	794,775
Net assets, end of year		$ 164,426	$ 767,946	$ 932,372	$ 746,119

NOTE – The supplemental statements of activities by function are presented on the accrual basis of accounting and in accordance with the requirements of the Texas Education Agency *Special Supplement to the Financial Accountability System Resource Guide for Charter Schools* and the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts* that requires federal and state program revenue to be classified as temporarily restricted net assets until expended pursuant to applicable statutes, regulations, and grant requirements.

A+ Unlimited Potential Charter School

Charter #101871
Schedules of Expenses for the years ended June 30, 2018 and 2017

		2018	2017
6100	Payroll costs	$ 635,701	$ 602,668
6200	Professional and contracted services	650,690	393,790
6300	Supplies and materials	79,483	97,219
6400	Other operating costs	19,239	38,785
Total		$ 1,385,113	$ 1,132,462

A+ Unlimited Potential Charter School

Charter #101871
Schedules of Capital Assets as of June 30, 2018 and 2017

		2018 OWNERSHIP INTEREST			
		LOCAL	STATE	FEDERAL	TOTAL
1110	Cash	$ 449,099	$ 213,292	$ 34	$ 662,425
1520	Construction in progress	29,268	15,174		44,442
1530	Furniture and equipment			6,205	6,205
1570	Accumulated depreciation			(1,379)	(1,379)
Total		$ 478,367	$ 228,466	$ 4,860	$ 711,693

		2017 OWNERSHIP INTEREST			
		LOCAL	STATE	FEDERAL	TOTAL
1110	Cash	$ 473,832	$ 73,923	$ 4,054	$ 551,809
1520	Construction in progress	29,268	15,174		44,442
Total		$ 503,100	$ 89,097	$ 4,054	$ 596,251

A+ Unlimited Potential Charter School

Charter #101871
Budgetary Comparison Schedule for the year ended June 30, 2018

		BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	ACTUAL AMOUNTS	VARIANCE FROM FINAL BUDGET
REVENUE:					
Local support:					
5720	Local revenues realized as a result of services rendered to other schools	$ 0	$ 1,900	$ 1,900	
5740	Other revenue from local sources			51,532	$ 51,532 (1)
5750	Co-curricular, enterprising services or activities			3,707	3,707
	Total local support	0	1,900	57,139	55,239
State program revenue:					
5810	Foundation School Program Act Revenue	1,277,113	1,321,338	1,322,003	665
	Total state program revenue	1,277,113	1,321,338	1,322,003	665
Federal program revenue:					
5920	Federal revenue distributed by the State of Texas Education Agency	578,000	603,681	192,224	(411,457) (2)
	Total federal program revenue	578,000	603,681	192,224	(411,457)
Total revenue		1,855,113	1,926,919	1,571,366	(355,553)

(continued)

A+ Unlimited Potential Charter School

Charter #101871

Budgetary Comparison Schedule for the year ended June 30, 2018 *(continued)*

		BUDGETED AMOUNTS			VARIANCE FROM FINAL
		ORIGINAL	FINAL	ACTUAL AMOUNTS	BUDGET
EXPENSES:					
11	Instruction	745,980	712,365	534,486	(177,879) (3)
13	Curriculum development and instructional staff development	5,000	104,504	88,719	(15,785) (3)
23	School leadership	142,100	88,897	77,534	(11,363) (3)
31	Guidance, counseling and evaluation services		9,400		(9,400) (3)
35	Food services		67,573	73,627	6,054
41	General administration	379,380	199,772	190,189	(9,583)
51	Facilities maintenance and operations	312,400	317,597	275,049	(42,548) (3)
53	Data processing services	71,085	121,306	87,287	(34,019) (3)
61	Community services		74,275	58,222	(16,053) (3)
	Total expenses	1,655,945	1,695,689	1,385,113	(310,576)
CHANGES IN NET ASSETS		199,168	231,230	186,253	(44,977)
Net assets, beginning of year		794,775	794,775	746,119	(48,656)
Net assets, end of year		$ 993,943	$ 1,026,005	$ 932,372	$ (93,633)

A+ Unlimited Potential Charter School

Charter #101871
Budget Variance Explanations for the year ended June 30, 2018 (unaudited)

(1) 5740 – The District had an unexpected opportunity to provide a service to another district resulting in additional revenue.

(2) 5920 – The District has access to several federal grants which included overlapping items. The District was not able to use all the grant funds during the timeframe allotted.

(3) The function expense budgets were underspent. The District had planned on expenses when creating the final budget amendment that did not occur.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
A+ Unlimited Potential Charter School:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of A+ Unlimited Potential Charter School (the School), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 20, 2018.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as findings #2018-001, #2018-002, and #2018-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of other noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings #2018-001, #2018-002, #2018-003 and #2018-004.

The School's Responses to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Blazek & Vetterling

November 20, 2018

A+ Unlimited Potential Charter School

Schedule of Findings and Responses for the year ended June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	☒ unmodified	☐ qualified	☐ adverse	☐ disclaimer
Internal control over financial reporting:				
• Material weakness(es) identified?			☐ yes	☒ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?			☒ yes	☐ none reported
Noncompliance material to the financial statements noted?			☐ yes	☒ no
Other noncompliance noted?			☒ yes	☐ no

Section II – Financial Statement Findings

Finding #2018-001 – Significant Deficiency and Other Noncompliance

Criteria: The School is responsible for having an internal control process to ensure the Board of Trustees, Chief Executive and Central Administrative Officers, Campus Administrative Officers, and Business Manager maintain adequate training according to Texas Administrative Code (TAC) §100.1102 through §100.1106. Additionally, the School is responsible for having conflict of interest policies and procedures and to obtain confirmation from each Board of Trustees member stating that the Trustee and his or her spouse has had no significant financial interest in entities doing business with the School.

Condition and context: During our compliance testing, we noted the following:

- The two Campus Administrative Officers did not have training certificates or other documentation available for testing of the compliance requirement of 10 instructional hours of training.
- Six Board of Trustees members did not complete sufficient instructional hours of training and four of the members did not have training certificates evidencing completion of their training.
- The School has a conflict of interest policy in place; however, the signed conflict of interest statements were not available for review.

This finding occurred in fiscal 2017 as finding #2017-002.

Cause: The finding related to training occurred as a result of the School's failure to monitor compliance with the training requirements and maintenance of training certificates evidencing fulfillment of the requirement. The conflict of interest statement finding occurred as a result of the School's failure to emphasize compliance with the maintenance of signed conflict of interest statements.

Effect: Failure to monitor compliance with training requirements and maintenance of training certificates could result in noncompliance. Failure to obtain the signed conflict of interest statements may prevent the School from identifying potential conflicts of interest prior to entering business transactions.

Recommendation: Communicate and monitor training requirements and maintenance of training certificates and emphasize adherence to maintenance of signed conflict of interest statements.

Views of responsible officials and planned corrective actions: Management accepts the responsibility to ensure that all members of the administrative and governance team have their required training. The School has already taken steps to have its Campus Administrative Officers trained for the current school year. The School has also had current Board officers sign Conflict of Interest Statements for the current fiscal year. The Board has also taken responsibility for maintaining its record of Board members' training and associated certificates.

Finding #2018-002 – Significant Deficiency and Other Noncompliance

Criteria: Procurement – The School is responsible for having an internal control process to ensure purchasing procedures comply with federal, state, and local procurement requirements.

Condition and context: Texas Education Code (TEC) §44.031 require competitive procurement procedures for purchases over $50,000 to ensure compliance with federal requirements. During our testing of three vendors requiring procurement, we noted one exception for the documentation of procurement for a contract for substitute teachers.

Cause: Failure to adhere to procurement compliance requirements and maintenance of procurement records.

Effect: As a result of not adhering to procurement compliance requirements, the procurement may not have been conducted in a manner to provide full and open competition.

Recommendation: Provide training to personnel on the procurement standards and adherence to state and federal laws.

Views of responsible officials and planned corrective actions: The School has sought to be compliant with the competitive procurement procedures. The bids were gathered for the item in question but were not maintained from the School's old email server prior to being deleted. Moving forward, the School will not only obtain all needed bids, but immediately electronically archive evidence of those bids.

Finding #2018-003 – Significant Deficiency and Other Noncompliance

Criteria: The School is responsible for having an internal control process to ensure the pay rates are approved by authorized personnel.

Condition and context: During our payroll testing, we noted that 2 out of 5 employment agreements were not signed and approved by authorized personnel.

Cause: Failure to emphasize the policies and procedures of maintaining approved employment agreements.

Effect: Failure to maintain approved employment agreements may result in unauthorized payroll disbursements.

Recommendation: Emphasize adherence to the policies and procedures of maintaining approved payroll records.

Views of responsible officials and planned corrective actions: Having an administrative team that operates away from the main office has created communication gaps. Those are being addressed by ensuring stronger internal controls over the paperwork process to ensure that no file is considered complete without all the required signatures. An internal audit has been conducted to ensure that all current employees have accurate and signed offer letters for the current school year.

Finding #2018-004 – Other Noncompliance

Criteria: The School is required to have a surety bond or pledge securities agreement to protect funds held on deposit at its bank in excess of FDIC insurance.

Condition and context: At June 30, 2018, the School did not have a surety bond or pledge securities agreement to protect funds held at its bank in excess of FDIC insurance.

Cause: The School failed to have a surety bond or pledge security agreement in effect at June 30, 2018.

Effect: Failure to have a surety bond or pledge security agreement could result in the School putting funds in excess of the FDIC insurance limit at risk.

Recommendation: Obtain a surety bond or pledge securities agreement for funds held at the bank in excess of FDIC insurance.

Views of responsible officials and planned corrective actions: Management will obtain a surety bond or pledge security agreement for funds held at the bank in excess of FDIC insurance.

Summary Schedule of Prior Audit Findings

The following audit findings for the year ended June 30, 2017, are required to be reported in accordance with 2 CFR §200.511.

Section II – Financial Statement Findings

Finding #2017-001 – Material Weakness and Other Noncompliance

Criteria: The management of the School is responsible for establishing and maintaining an effective system of internal control over financial reporting in order to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Condition and context: As a result of the audit, the following adjustments were required to properly report the financial statements in accordance with GAAP:

- Increase government grants and receivables by $23,918.
- Increase prepaid expenses by $9,300 for amounts previously expensed.
- Capitalize property of $44,442 for amounts previously expensed.
- Accrue accounts payable and accrued payroll expenses of $25,534.
- Increase beginning net assets by $794,850 for contributions that should have been recognized as revenue in fiscal year 2016.

An unallowable cost of $32,503 was charged to the Public Charter Schools Program start-up grant funded by the Department of Education.

Cause: The School did not have adequate internal controls in place to ensure the financial statements are reported in accordance with GAAP. The review for proper coding of revenue and expenses was not adequate to ensure compliance with federal and state grant budget requirements for allowable expenditures and GAAP.

Effect: Failure to adequately establish and maintain a system of internal control over the financial reporting adversely affects the School's ability to prepare financial statements in accordance with GAAP. Failure to implement sufficient oversight over proper coding could result in errors in reporting or misuse of federal and state grant funds.

Recommendation: Implement policies and procedures to ensure that accounts are properly analyzed and reconciled and year-end closing entries are reviewed and recorded in a timely manner to prepare financial statements in accordance with GAAP. Strengthen policies and procedures to ensure grant expenditures are allowable and in compliance with grant budget requirements.

Views of responsible officials and planned corrective actions: Management agrees with the finding. The School outsources its accounting and relied on the expertise of the provider to properly report the financial statements in accordance with GAAP. The most significant issue is related to the timing of the recognition on contributions that occurred due to a lack of clarity of the appropriate accounting in our first start-up year. Management is currently evaluating accounting service providers versus performing the accounting in-house with its own accountant. Additionally, the Superintendent and Business Office Manager will immediately be meeting monthly to review coding to ensure revenue and expenses are properly coded and stated in accordance with GAAP.

Management's 2018 follow-up response: The School worked with its service providers to ensure better communication and better internal controls for this fiscal year. These actions included closer and more frequent review of all financial transactions on a weekly basis. In addition, monthly reconciliation meetings occurred to ensure proper coding and entries.

Finding #2017-002 – Significant Deficiency and Other Noncompliance

Criteria: The School is responsible for having an internal control process to ensure the Board of Trustees, Chief Executive and Central Administrative Officers, Campus Administrative Officers, and Business Manager maintain adequate training according to Texas Administrative Code (TAC) §100.1102 through §100.1106. Additionally, the School is responsible for having conflict of interest policies and procedures and to obtain confirmation from each Board of Trustee stating that the Trustee and his or her spouse has had no significant financial interest in entities doing business with the School.

Condition and context: During our compliance testing, we noted the following:

- The Superintendent with the function of a chief executive or central administrative officer did not complete 30 instructional hours of training.
- The Principal Learning Coach with the function of a campus administrative officer did not have training certificates available for testing of completion of 10 instructional hours of training.
- Two Board of Trustees members did not complete 12 instructional hours of training and three members did not have training certificates evidencing completion of training.
- The School has a conflict of interest policy in place; however, the signed conflict of interest statements were not available for review.

Cause: The finding related to training occurred as a result of the School's failure to monitor compliance with the training requirements and maintenance of training certificates evidencing fulfillment of the requirement. The conflict of interest statement finding occurred as a result of the School's failure to emphasize compliance with the maintenance of signed conflict of interest statements.

Effect: Failure to monitor compliance with training requirements and maintenance of training certificates could result in noncompliance. Failure to obtain the signed conflict of interest statements may prevent the School from identifying potential conflicts of interest prior to entering business transactions.

Recommendation: Communicate and monitor training requirements and maintenance of training certificates and emphasize adherence to maintenance of signed conflict of interest statements.

Views of responsible officials and planned corrective actions: Management agrees with the finding. As a result of two office moves in one year, the School misplaced some of the training certificates as well as the signed conflict of interest statements. The Superintendent will set aside time in board meetings and staff meetings to provide training. Additionally, the training hours by person will be tracked and monitored to ensure compliance with the training requirements. The School will maintain electronic copies of the conflict of interest statements to ensure retention of the records.

Management's 2018 follow-up response: The School continues to work to ensure that all members of the management and governance team are trained in a timely manner. Efforts have been made by the Governance Board to meet its training requirements and good-faith effort was made by all members to meet minimum standards. Though a trainer was brought in to provide some training and the Superintendent was certified as a Board trainer, the School was unable to achieve full compliance this year.