

UNIVERSITY OF HOUSTON

CHARTER SCHOOL

(a Department within an Agency of the State of Texas)

Annual Financial Report

August 31, 2018

(With Independent Auditors' Report Thereon)

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

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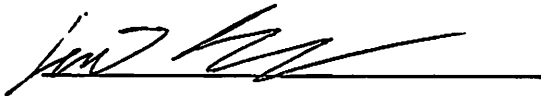
INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

University of Houston System
(Federal Employer Identification Number: 74-6001399)
Charter Holder for
University of Houston Charter School
(County – District Number: 101-807)

We, the undersigned, certify that the attached Annual Financial Report and Compliance Report of the University of Houston Charter School were reviewed and (check one) approved disapproved for the year ended August 31, 2018 at a meeting of the Management Board of the University of Houston Charter School, which has authority to review, monitor, and approve budgets and audited financial statements as granted by the University of Houston System Board of Regents, on the 15th day of January, 2019.



Signature of Board Secretary



Signature of Board President

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

UNIVERSITY OF HOUSTON CHARTER SCHOOL

University of Houston System Board of Regents and
Management Board of the University of Houston Charter School

University of Houston (UH) System Board of Regents

Officers FY2018

- Tilman J. Fertitta, Chairman, UH System Board of Regents
- Peter K. Taaffe, Vice Chairman, UH System Board of Regents
- Paula M. Mendoza, Secretary, UH System Board of Regents

Member(s) with terms set to expire August 31, 2019

- Durga D. Agrawal
- Paula M. Mendoza
- Peter K. Taaffe

Member(s) with terms set to expire August 31, 2021

- Tilman J. Fertitta
- Beth Madison
- Gerald W. McElvy

Member(s) with terms set to expire August 31, 2023

- Doug H. Brooks
- Jack B. Moore
- Steve I. Chazen

Member(s) with terms set to expire May 31, 2019

- Andrew Z. Teoh

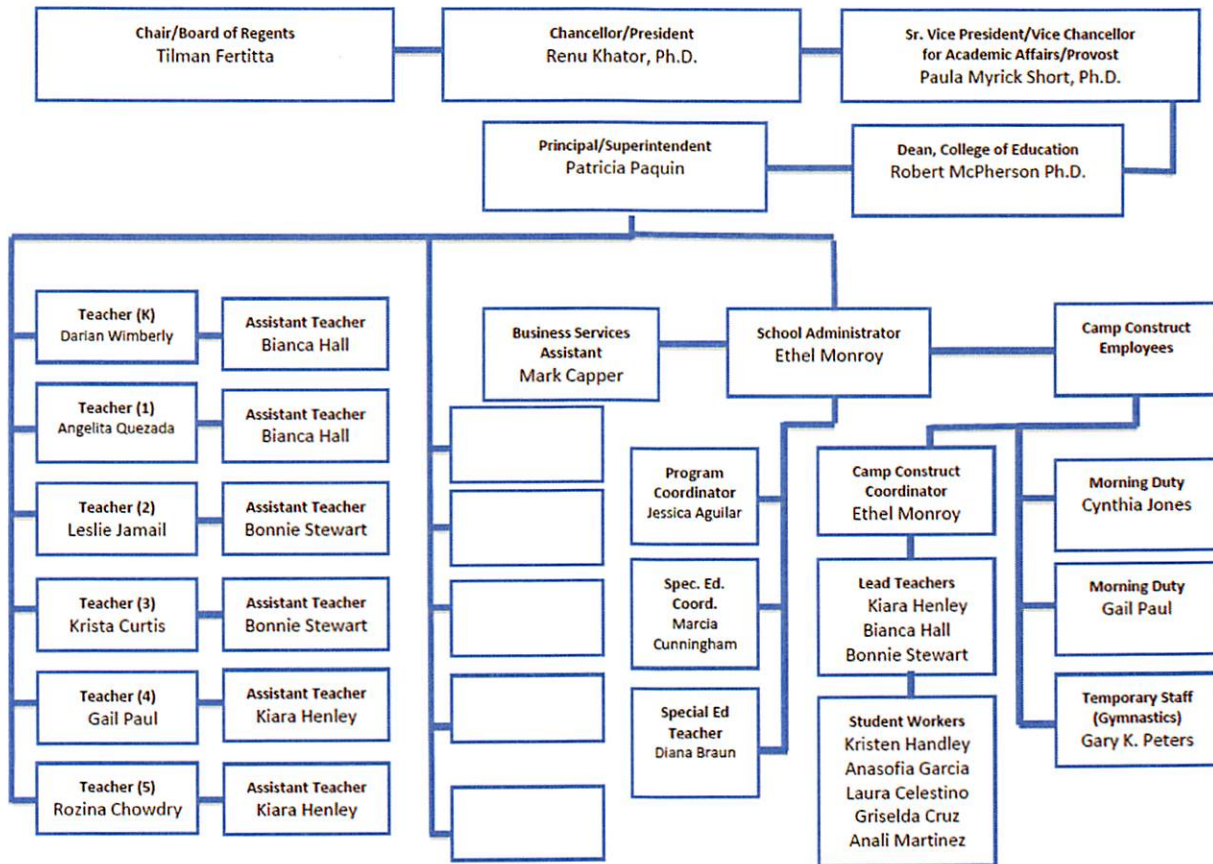
Management Board of the University of Houston Charter School

- Robert H. McPherson, Ph.D., Chair, Dean, UH College of Education
- Jonathan Schwartz, Ph.D., Secretary, UH College of Education
- Rebecca Sanford, Ph.D., Principal, Hambrick Middle School, Community Representative
- Rozina Chowdry, Teacher Representative, UH Charter School
- Alexander Hernandez, Member, UH Charter School

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Administrative Organization

University of Houston Charter School 2018



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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Management Board of the
University of Houston Charter School:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The University of Houston Charter School (the "Charter School") (a department of the University of Houston, which is an agency of the State of Texas) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter School as of August 31, 2018, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

While the results of our audit are not modified with respect to this matter, the financial statements of Charter School are intended to present the financial position and the changes in financial position of the University of Houston System (UH System) and the State of Texas (the "State") that are attributable to the transactions of the Charter School, as discussed in Note 1. Transactions associated with facilities, bonds, pensions, and other postemployment benefits related to Charter School's activities in the name of UH System are reported by UH System and not the Charter School. The financial statements do not purport to, and do not, present fairly the financial position of the UH System or State as of August 31, 2018, the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The introductory section, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019 on our consideration of the Charter School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the Charter School’s internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 11, 2019

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

Year ended August 31, 2018

Introduction

The discussion and analysis of the financial position of the University of Houston Charter School (the "Charter School") provides an overview of the activities for the fiscal years ended August 31, 2018 and 2017. This Management's Discussion and Analysis is unaudited and is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. It should be read in conjunction with the Charter School's financial statements.

Overview of the Financial Statements

The Charter School herewith presents its basic financial statements for fiscal year 2018. The basic financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The Charter School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements presented are the statement of net position and the statement of activities. The fund financial statements presented are the balance sheet and the statements of revenues, expenditures, and changes in fund balances. The notes to the basic financial statements provide additional information and disclosures that are essential to a complete understanding of the data provided in the government-wide and fund financial statements. The information contained in the basic financial statements of the Charter School is incorporated within the University of Houston System's Annual Financial Report.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

Year ended August 31, 2018

Statement of Net Position

The statement of net position reflects all the Charter School's assets, liabilities, and deferred outflows/inflows of resources using the full accrual basis of accounting and represents the financial position as of the conclusion of the fiscal year. Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Net position is equal to assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Unrestricted net position is available to the Charter School for any lawful purpose. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Cash	\$ 274,678	\$ 143,366	\$ 131,312
Due from other governments	12,399	9,832	2,567
Other receivables	589	792	(203)
Total assets	<u>\$ 287,666</u>	<u>\$ 153,990</u>	<u>\$ 133,676</u>
Current liabilities:			
Accounts payable	\$ 1,046	\$ 2,959	\$ (1,913)
Payroll deductions and withholdings	30,922	33,327	(2,405)
Accrued wages payable	44,287	39,895	4,392
Due to other governments	-	4,130	(4,130)
Employees' compensable leave (other accrued expenses)	-	26,777	(26,777)
Total current liabilities	<u>76,255</u>	<u>107,088</u>	<u>(30,833)</u>
Restricted for various programs:			
Summer and camp construct programs	12,949	17,657	(4,708)
Other nonmajor funds	28,686	34,850	(6,164)
Unrestricted	<u>169,776</u>	<u>(5,605)</u>	<u>175,381</u>
Total net position	<u>211,411</u>	<u>46,902</u>	<u>164,509</u>
Total liabilities and net position	<u>\$ 287,666</u>	<u>\$ 153,990</u>	<u>\$ 133,676</u>

Fiscal Year 2018 Compared to 2017

Cash represents 95% of the current assets held by the Charter School. Current assets increased by \$133,676 or 87% and current liabilities decreased by \$30,833 or 29%.

The ending net position for restricted state and federal programs has decreased by \$10,872. Unrestricted net position decreased by \$175,381.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

Year ended August 31, 2018

Statement of Activities

The statement of activities identifies all of the Charter School's revenues and expenses and measures the results of the Charter School's operations during the fiscal year. All revenues and expenses are included, regardless of when cash is received or paid. Revenues are separated into those provided by external entities, which share the costs of certain programs, and those revenues provided as general revenues. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Charges for services	\$ 107,197	\$ 125,252	\$ (18,055)
Operating grants	76,303	64,634	11,669
Grants and general	<u>1,267,159</u>	<u>1,162,216</u>	<u>104,943</u>
Total revenues	<u>1,450,659</u>	<u>1,352,102</u>	<u>98,557</u>
Expenses			
Current:			
Instruction	754,488	811,056	(56,568)
Curriculum and staff development	500	500	-
School leadership	237,466	201,332	36,134
Guidance, counseling, and evaluation services	2,708	3,555	(847)
Food services	66,990	41,934	25,056
General administration	126,174	192,690	(66,516)
Plant maintenance and operations	565	6,503	(5,938)
Community services	96,023	101,722	(5,699)
Fundraising	<u>1,236</u>	<u>100</u>	<u>1,136</u>
Total expenditures	<u>1,286,150</u>	<u>1,359,392</u>	<u>(73,242)</u>
Excess (deficiency) of revenues over (under) expenses	\$ <u>164,509</u>	\$ <u>(7,290)</u>	\$ <u>171,799</u>

In fiscal year 2018, charges for services decreased by \$18,055 due to decreases in revenue for the breakfast and lunch local fund and for Camp Construct revenue when compared to fiscal year 2017.

Operating grants and contributions revenue for fiscal year 2018 increased by \$11,669. This increase can be attributed to the change in revenue across several state and federal grant programs. There was an increase in Foundation School Program, Title I and National School Lunch Program funds received in fiscal year 2018 as compared to fiscal year 2017.

In 2018, the general revenues of \$1,267,159 included \$1,118,355 in state program revenues as compared to 2017 where general revenues were \$1,162,216. This reflects an increase in revenue of \$104,943 from 2017 to 2018.

The decrease in expenses in instruction is primarily related to staffing in fiscal year 2018 when compared to staffing in fiscal year 2017. A member of the Charter School personnel retired in April 2018 and was not replaced for 2019.

The decrease in general administration is related to salary expense being allocated to School Leadership that had previously been allocated to General Administration.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

Year ended August 31, 2018

The decrease in expenses in community services of \$4,247 can be attributed to a decrease in students participating in the after-school program, as well as a decrease in staff members employed in the after-school program in fiscal year 2018 as compared to fiscal year 2017.

The increase in school leadership can be attributed to the allocation of salaries that had previously been allocated to general administration.

The increase in expenses in food services can be attributed to the increase in student participation in the food services program in fiscal year 2018 as compared to fiscal year 2017. An increase in participation directly impacts the cost of the food services program.

The decrease in plant maintenance and operations can be attributed to the increase in expenses paid in fiscal year 2017 for services provided in relation to the Charter School's 20-year birthday celebration. The Charter School did not celebrate a major even in 2018, therefore decreasing the expenses.

The increase in fundraising can be attributed to an increase fundraising activities at the Charter School in fiscal year 2018.

The majority of the Charter School's revenue is expended for instructional purposes, which includes teacher and support personnel salaries.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives or programs. Contracts and state law require the establishment of some funds. Other funds are created by the Charter School's management to control and manage expenditures for particular purposes. The only category of funds used by the Charter School is governmental funds.

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as displaying balances of spendable resources available at the end of the fiscal year. These financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Because these statements provide a detailed short-term perspective of the Charter School's general operations, they may be useful in evaluating a school's near-term financing requirements. Any differences between the broader long-term focus of the government-wide financial statements (as reported in the statement of net position and the statement of activities) and the fund financial statements will be displayed in a reconciliation following the end of the governmental fund financial statements.

General Fund – This is the Charter School's primary operating fund. It accounts for all financial resources of the Charter School except those required to be accounted for in another fund. The major revenue source for the general fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund. The Foundation School Program revenues were \$1,106,157 and \$1,023,420 for the years ended August 31, 2018 and 2017, respectively.

UH Allocation – The source of this revenue is an allocation from the University of Houston System (the "University") Administration General Funds to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs. The University Allocation was \$108,000 and \$106,153 for the years ended August 31, 2018 and 2017, respectively.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

Year ended August 31, 2018

Summer Camp/Camp Construct Programs – The source of this revenue is from tuition payments. Funds originated in the Summer Camp and Camp Construct programs are restricted to these programs. The Summer Camp/Camp Construct revenues were \$91,078 and \$105,074 for the years ended August 31, 2018 and 2017, respectively. Although this fund did not meet the technical requirements to be a major fund, because of its significance, management has elected to present it as such.

Accounting Systems and Annual Budgets

The necessity of legal compliance with applicable laws and regulations related to the state and federal grants requires developing and improving the accounting system and consideration is given to the adequacy of the internal control structure.

The Charter School Planning Panel provides need assessments and prioritizes efforts for the upcoming year. An annual budget is developed for its general fund and each of its separate governmental funds. University policy requires budgeted expenditures to be no more than budgeted revenue. During the course of the fiscal year, the actual to budget amounts are reviewed and modified or adjusted as needed.

The general fund has a budget that is approved by the Management Board. The actual general fund revenue was more than budgeted by \$7,966 and actual expenditures were less than budgeted by \$125,797.

Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

Capital Assets

As of the end of the fiscal year 2018, the Charter School did not possess any reportable capital assets. Such assets would include property, buildings, furniture, and equipment. The University provides building space, a playground area, and parking facilities for use by the Charter School.

Title to capital assets resides with the University, which allocates custody of such assets to the Charter School for its operational needs. Therefore, such assets can be transferred to or from the Charter School at the discretion of the University. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are recorded at cost and are depreciated over the estimated useful life of the asset. Useful life is established by a uniform classification system maintained by the State of Texas and is measured from the date of acquisition.

Noncapital furniture and equipment, including computing equipment, is maintained by the Charter School for its operational needs. Title to these items also resides with the University, which allocates custody to the Charter School. Expenditures for these items are charged to current operating expenses as incurred as they are below the Charter School's capitalization threshold. Funds for the acquisition of such equipment are provided from the Charter School's operating revenues. Additional information regarding the capitalization of assets is in the notes to the financial statements.

Debt Administration

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions. The operating budget for the Charter School is currently structured such that annual financial obligations are satisfied through operating revenues that are received during each current fiscal year.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

Year ended August 31, 2018

Economic Condition and Outlook

Through the use of effective and judicious financial budgeting and management, and the University's contribution of facilities and other indirect services, the Charter School has been able to satisfy current year expenses with available resources. As previously discussed, the Charter School has no liability obligations other than typical business associated payables, primarily payroll related.

Since the financial operations of the Charter School are considered a governmental organization, the potential for unilateral dissolution by the University is one of the factors that needs to be considered. The two primary financial supporters of the Charter School's operations, the Texas Education Agency and the University, have demonstrated endorsement of the Charter School's financial and management policies through their continued financial support and commitments in the prior years.

Management of neither the Charter School nor the University is aware of any other known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the 2018-2019 fiscal year. Although it is not possible to predict ultimate results, management believes the Charter School's financial condition and position are strong.

Contacting the Charter School's Financial Management

This financial report is designed to provide a general overview of the Charter School's financial position and to demonstrate the Charter School's accountability for the funds it receives. Any questions regarding this report or requests for additional financial information should be directed to the Charter School Principal, Patricia Paquin, University of Houston, Houston, Texas 77204-2016.

BASIC FINANCIAL STATEMENTS

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Statement of Net Position
 Year Ended August 31, 2018

<u>Data control codes</u>		<u>1 Governmental Activities</u>
	Assets:	
1110	Cash	\$ 274,678
1240	Due from other governments	12,399
1290	Other receivables	589
1000	Total assets	<u>\$ 287,666</u>
	Liabilities:	
	Current liabilities:	
2110	Accounts payable	\$ 1,046
2150	Payroll deductions and withholdings	30,922
2160	Accrued wages payable	<u>44,287</u>
	Total current liabilities	<u>76,255</u>
	Net position:	
3800	Restricted for various programs:	
3890	Summer and camp construct programs	12,949
3820	Other nonmajor funds	28,686
3900	Unrestricted	<u>169,776</u>
	Total net position	<u>211,411</u>
	Total liabilities and net position	\$ <u>287,666</u>

See accompanying notes to financial statements.

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
Statement of Activities
Year Ended August 31, 2018

Data control codes	Functions/programs	1 Expenses	Program revenues		Net revenue (expense) and changes in net position
			3 Charges for services	4 Operating grants and contributions	
					Governmental activities
	Governmental activities:				
11	Instruction	\$ 754,488	\$ -	\$ 30,597	\$ (723,891)
13	Curriculum and staff development	500	-	-	(500)
23	School leadership	237,466	-	-	(237,466)
31	Guidance/counseling, and evaluation services	2,708	-	2,708	-
35	Food services	66,990	16,119	42,998	(7,873)
41	General administration	126,174	-	-	(126,174)
51	Plant maintenance and operations	565	-	-	(565.00)
61	Community services	96,023	91,078	-	(4,945)
81	Fundraising	1,236	-	-	(1,236)
TG	Total governmental activities	\$ <u>1,286,150</u>	\$ <u>107,197</u>	\$ <u>76,303</u>	<u>(1,102,650)</u>
	General revenues:				
GC	Grants and contribution not restricted to specific function				<u>1,267,159</u>
CN	Change in net position				<u>164,509</u>
NB	Net position, beginning of year				<u>46,902</u>
NE	Net position, end of year				\$ <u><u>211,411</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL
Balance Sheet – Governmental Funds
Year Ended August 31, 2018

Data control codes	10	40	40	98	98	
	General fund	UH allocation	Summer camp/camp construct	Nonmajor funds	Total governmental funds	
Assets:						
1110	Cash	\$ 181,078	\$ 58,243	\$ 13,704	\$ 21,653	\$ 274,678
1240	Due from other governments	500	-	-	11,899	12,399
1290	Other receivables	-	39	550	-	589
1000	Total assets	\$ 181,578	\$ 58,282	\$ 14,254	\$ 33,552	\$ 287,666
Liabilities:						
2110	Accounts payable	-	-	-	1,046	\$ 1,046
2150	Payroll deductions and withholdings	29,262	-	21	1,639	30,922
2160	Accrued wages payable	40,822	-	1,284	2,181	44,287
2180	Due to other governments	-	-	-	-	-
2000	Total liabilities	70,084	-	1,305	4,866	76,255
Fund balances:						
3450	Restricted for child nutrition	-	-	-	1,448	1,448
3490	Restricted for summer camp/camp construct	-	-	12,949	-	12,949
3490	Restricted for various programs	-	-	-	27,238	27,238
3590	Assigned	-	58,282	-	-	58,282
3600	Unassigned	111,494	-	-	-	111,494
3000	Total fund balances	111,494	58,282	12,949	28,686	211,411
4000	Total liabilities and fund balance	\$ 181,578	\$ 58,282	\$ 14,254	\$ 33,552	\$ 287,666
<p>Certain liabilities and deferred outflows/inflows are not due and payable in the current period and, therefore, not reported in the governmental funds.</p> <p style="padding-left: 40px;">Employees' compensable leave</p> <p style="padding-left: 40px;">Net position of Charter School</p>						
					-	-
					\$	<u>211,411</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
 Year Ended August 31, 2018

<u>Data control codes</u>	10 <u>General fund</u>	40 <u>UH allocation</u>	40 <u>Summer camp/camp construct</u>	<u>Nonmajor funds</u>	98 <u>Total governmental funds</u>
Revenues:					
5700	\$ 1,000	\$ 108,000	\$ 91,078	\$ 39,761	\$ 239,839
5800	1,106,157	-	-	12,198	1,118,355
5900	22,138	-	-	70,327	92,465
5000	<u>1,129,295</u>	<u>108,000</u>	<u>91,078</u>	<u>122,286</u>	<u>1,450,659</u>
Expenditures:					
Current:					
0011	720,084	-	-	61,181	781,265
0013	500	-	-	-	500
0023	237,466	-	-	-	237,466
0031	-	-	-	2,708	2,708
0035	-	-	-	66,990	66,990
0041	62,740	63,434	-	-	126,174
0051	-	565	-	-	565
0061	-	237	95,786	-	96,023
0081	-	-	-	1,236	1,236
6000	<u>1,020,790</u>	<u>64,236</u>	<u>95,786</u>	<u>132,115</u>	<u>1,312,927</u>
	108,505	43,764	(4,708)	(9,829)	137,732
	2,989	14,518	17,657	38,515	73,679
3000	<u>\$ 111,494</u>	<u>\$ 58,282</u>	<u>\$ 12,949</u>	<u>\$ 28,686</u>	<u>\$ 211,411</u>
					\$ 137,732
Net change in fund balance, per above					
Certain expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.					
					<u>26,777</u>
					<u>\$ 164,509</u>

See accompanying notes to basic financial statements.

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The University of Houston Charter School (the "Charter School") is chartered by the State Board of Education and accredited by the Texas Education Agency (TEA). The charter is held by the University of Houston (the "University or UH"), which is an agency of the State of Texas (the "State"). The University is one of the universities that make up the University of Houston System (UH System) and UH System is one of six university systems and five independent universities that in total are presented as a major enterprise fund in the State's Comprehensive Annual Financial Report.

UH and UH System and the Charter School have elected to define the Charter School's reporting entity to include only activities in the Charter School's name. The Charter Schools proportional share of liabilities in the name of UH and/or UH System are reported by UH and/or UH System. Accordingly, Transactions associated with facilities, bonds, pensions, and other postemployment benefits related to the Charter School's activities in the name of UH and/or UH System are not reported by the Charter School. However, the Charter School has elected to make limited disclosures with respect to these matters in notes 5 and 6. The associated financial activities related to these items and required disclosures are made within UH, UH System and State's Annual Financial Report.

The Principal of the Charter School reports to management personnel of the University, and the operations of the Charter School are overseen by the Management Board (the "Board"), which provides general oversight to the Charter School. This oversight includes approval of budgets and financial audits, broad education policies and handbooks, and personnel matters.

The Board consists of five members, all of whom are appointed by the Dean of the University's College of Education. Two of the Board members are employees of the University and one is an employee of the Charter School. The other two members are parent and community representatives. These positions were established through the Charter School's bylaws, as approved on January 26, 2015.

The University is accredited with the Southern Association of Colleges and Schools. Courses are developed to the Texas Essential Knowledge and Skills (TEKS) objectives and are TEKS compliant. The Charter School is a model constructivist elementary school that implements a curriculum in which children develop cognitively, socially, morally, and physically based on a sustained mental action. The Charter School provides educational curriculum to kindergarten through the fifth grade. The Charter School's administrators and staff are degreed and certified for the positions to which they are assigned.

(b) Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Charter School.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

(c) Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

(d) Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Charter School's funds. Separate statements for each fund category – governmental – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Charter School reports the following governmental funds:

General Fund

The general fund is the Charter School's primary operating fund. It accounts for and reports all financial resources of the Charter School not accounted for and reported in another fund. The major revenue source for the general fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund.

The UH Allocation fund is considered a major fund for reporting purposes. The source of this revenue is an allocation from the University administration general fund to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs.

The Summer Camp/Camp Construct programs fund is considered a major fund for reporting purposes. The source of revenue is from tuition payments.

During the course of operations, the Charter School has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

(e) *Measurement Focus and Basis of Accounting*

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

(f) *Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position*

1. *Cash and Cash Equivalents*

The Charter School's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Charter School maintains all of its cash with the University's Treasury (the "Treasury"). The University maintains accounts with financial institutions.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

2. Investments

The Charter School's funds are deposited with the Treasury and are not required to be maintained by the Treasury in a separate depository account with financial institutions. The Treasury maintains deposits with financial institutions in the name of the University. The Charter School reconciles the revenues and expenses on a monthly basis. The Charter School does not maintain investments of any kind, which is in compliance with the Charter School's investment policy.

3. Receivables and Payables

The Charter School believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided to further disaggregate those balances. All receivables are scheduled for collection within one year from year end.

4. Capital Assets

The Charter School did not have any capitalized assets as of August 31, 2018. The University provides the Charter School with building facilities, furniture, playground, and parking facilities. Title to these capital assets resides with the University.

6. Compensated Absences

Employees of the Charter School are entitled to paid vacation and sick days depending on length of service. Before 2018, employees could carry over earned but unused vacation time at the end of each calendar year to the following calendar year. Unpaid compensable absences of \$26,777 were paid out fully and eliminated as of August 31, 2018. The expenditures related to unpaid compensable absences have been recorded in the accompanying financial statements.

The activities of unpaid compensable absences during 2018 are as follows:

Employees' compensable leave, beginning	\$ 26,777
Leave accrual expense	<u>(26,777)</u>
Employees' compensable leave, ending	<u>\$ -</u>

7. Long-Term Obligations

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions.

8. Net Position Flow Assumptions

Sometimes the Charter School will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Charter School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

9. Fund Balance Flow Assumptions

Sometimes the Charter School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Charter School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Charter School itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Charter School's highest level of decision-making authority. The Board is the highest level of decision-making authority for the Charter School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The Charter School did not have any commitments at year end.

Amounts in the assigned fund balance classification are intended to be used by the Charter School for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. Data Control Codes

Data control codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

order to ensure accuracy in building a statewide database for policy development and funding plans.

13. Income Taxes

The Charter School is a department of the University, which is a local government exempt from income taxes under Section 115(1) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

(g) Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

2. Expenditures

Expenditures are reported using the data control codes following the TEA requirements to ensure accuracy in building a statewide database for policy development and funding plans.

(2) Stewardship, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the Charter School prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year.

In accordance with State law, the Charter School prepares an annual budget for the general fund and the national school lunch and breakfast program special revenue fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

(a) (3) Risk Management

General

Approximately 77% of the Charter School's revenues for fiscal year 2018 were provided by the State of Texas.

Healthcare Coverage and Risk Management

The University provides healthcare benefits to all of the Charter School's employees who meet the University's employment qualifications and requirements. Contributions are required from the Charter School's employees for coverage of their dependents and for higher level of coverage beyond standard benefits. During the year, the University deducted amounts from the Charter School's cash accounts to cover the Charter School's portion of healthcare coverage based on an allocation determined by the State and records a corresponding expense. Healthcare benefits costs attributable to the Charter School for fiscal years 2018, 2017, and 2016 were \$130,941, \$112,347, and \$111,001, respectively.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

Risk of Loss

The Charter School is exposed to various risks of loss related to torts, injuries to employees, and natural disasters. The University carries commercial insurance to cover losses to which the Charter School may be exposed.

(4) Contingent Liabilities

The Charter 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 the TEA and is subject to audit and adjustment. In addition, costs charged to federal programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Charter School have complex compliance requirements and, should state or federal auditors discover areas of noncompliance, the Charter School funds may be subject to refund if so determined by the TEA or the grantor agencies. In the opinion of the Charter School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the various state and federal program grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

(5) Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

UH System participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by TRS. It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

The employers of TRS include the State, TRS, and the State's public schools, education service centers, charter schools, and community and junior colleges. TRS membership is in employee class. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS. Employees of TRS and State colleges, universities, and medical schools are members of TRS.

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Additional information regarding UH's proportional share of the obligation may be obtain for UH System http://www.uh.edu/finance/pages/State_Report.htm

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Financial Statements

Year ended August 31, 2018

(6) Postemployment Health Care and Life Insurance Benefits

Employees Retirement System

Plan Description

UH System participates in a cost-sharing, multiple-employer, other postemployment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life, and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

OPEB Plan Fiduciary Net Position

Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report that includes financial statements, notes to the financial statements, and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of the plan has been determined using the same basis used by the OPEB plan.

Additional information regarding UH's proportional share of the obligation may be obtain for UH System http://www.uh.edu/finance/pages/State_Report.htm

(7) Restatement

UH System and the Charter School have elected to no longer report the Charter School's proportional share of the Pension liability and related deferred out flows and in flows resulting in the beginning balance of net position being restated by \$484,610.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
Budgetary Comparison Schedule – General Fund
Year Ended August 31, 2018
Unaudited

Data control codes		Budgeted amounts		Actual	Variance with final budget positive (negative)
		Original	Final		
	Revenues:				
5800	State program revenues	\$ 1,095,000	\$ 1,121,329	\$ 1,129,295	\$ 7,966
5000	Total revenues	<u>1,095,000</u>	<u>1,121,329</u>	<u>1,129,295</u>	<u>7,966</u>
	Expenditures:				
	Current:				
	Instruction and instruction related services:				
0011	Instruction	778,000	804,329	715,814	88,515
0013	Curriculum and instructional staff development	20,000	20,000	500	19,500
	Total instruction and instruction related services	<u>798,000</u>	<u>824,329</u>	<u>716,314</u>	<u>108,015</u>
	Instructional and school leadership:				
0023	School leadership	220,000	237,466	237,466	—
	Total instructional and school leadership	<u>220,000</u>	<u>237,466</u>	<u>237,466</u>	<u>—</u>
	Administrative support services:				
0041	General administration	77,000	77,000	59,218	17,782
	Total administrative support services	<u>77,000</u>	<u>77,000</u>	<u>59,218</u>	<u>17,782</u>
6000	Total expenditures	<u>1,095,000</u>	<u>1,138,795</u>	<u>1,012,998</u>	<u>125,797</u>
	Net change in fund balance	—	(17,466)	116,297	133,763
	Fund balance, beginning of year	—	(3,553)	16,824	
3000	Fund balance, end of year	<u>\$ —</u>	<u>\$ (21,019)</u>	<u>\$ 133,121</u>	

Notes for Required Supplementary Information:

- Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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***OTHER SUPPLEMENTARY
INFORMATION***

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Budgetary Comparison Schedule
 Child Nutrition
 Year Ended August 31, 2018
 Unaudited

Data control codes		Budgeted amounts		Actual	Variance with final budget positive (negative)
		Original	Final		
	Revenues:				
5700	Local and intermediate sources	\$ 24,000	15,750	\$ 16,167	\$ 417
5800	State program revenues	300	300	315	15
5900	Federal program revenues	25,700	45,062	42,680	(2,382)
5000	Total revenues	<u>50,000</u>	<u>61,112</u>	<u>59,162</u>	<u>(1,950)</u>
	Expenditures:				
	Current:				
0035	Food services	50,000	66,833	66,833	—
6000	Total expenditures	<u>50,000</u>	<u>66,833</u>	<u>66,833</u>	<u>—</u>
	Net change in fund balance	—	(5,721.00)	(7,671)	(1,950)
	Fund balance, beginning of year	(9,166)	(1,448)	(9,166)	
3000	Fund balance, end of year	<u>\$ (9,166)</u>	<u>\$ (7,169)</u>	<u>\$ (16,837)</u>	

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Schedule J-2

UNIVERSITY OF HOUSTON CHARTER SCHOOL
Schedule of Expenses
August 31, 2018

<u>Data control codes</u>			
	Expenses:		
6100	Payroll costs	\$	1,099,279
6200	Professional and contractual services		37,140
6300	Supplies and materials		129,072
6400	Other operating costs		<u>47,436</u>
	Total expenses	\$	<u><u>1,312,927</u></u>

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COMPLIANCE

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

January 11, 2019

To the Management Board of the
University of Houston 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 the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (the "Charter School") (a department of the University of Houston, which is an agency of the State of Texas) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements and have issued our report thereon dated January 11, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Charter 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter 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 Charter School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Schedule of Findings and Questioned Costs
 Year Ended August 31, 2018

I. SUMMARY OF AUDIT RESULTS*Financial Statements*

Type of audit report issued	Unmodified
-----------------------------	------------

Internal control over financial reporting:

One or more material weakness(es) identified?	No
---	----

One or more significant deficiency(ies) identified that are not considered to be material weaknesses?	No
---	----

Noncompliance material to financial statements noted?	No
---	----

II. FINDINGS - BASIC FINANCIAL STATEMENT AUDIT*None identified.***III. FINDINGS - FEDERAL AWARDS***None identified.*

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
Summary Schedule of Prior Year Audit Findings
Year Ended August 31, 2018

A. Summary of Prior Year Audit Findings

Significant Deficiency:

2017-001. RECONCILIATION OF FEDERAL GRANT FUNDS

Condition

Federal grant revenue as stated on the general ledger for grant year 2017 did not reconcile to expenditures in Title I grant funds.

Recommendation

The Charter School should develop a formal reconciliation process between federal grant revenue and expenditures reported on the general ledger for the federal grant funds by grant year. Management should review the federal grant expenditures/revenue for completeness and proper cut-off.

Current Year Status

The Charter School has further refined the process, and brought the difference between grant revenue and expenditures to within an immaterial amount.

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UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Schedule of Required Responses to
 Selected School First Indicators
 August 31, 2017

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the annual financial report on the financial statements as a whole?	Yes
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the annual financial report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the Charter School make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF8	Did the Charter School <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ <u><u> -</u></u>
SF11	Net pension asset (1920) at fiscal year end	\$ <u><u> -</u></u>
SF12	Net pension liability (2540) at fiscal year end	\$ <u><u> -</u></u>

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Required Auditor Disclosure Letter

January 11, 2019

To the Management Board of
The University of Houston Charter School:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (the "Charter School") (a department of the University of Houston, which is an agency of the State of Texas), as of and for the year ended August 31, 2018. Professional standards require that we provide the Management Board (the "governing body") with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of the audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 6, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our engagement letter dated August 6, 2018.

III. Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter School are described in the notes to the financial statements. As described in the notes to the financial statements, the Charter School changed accounting principles related to accounting for postemployment benefits by adopting Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the Charter School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

- A. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates.
- B. The financial statement disclosures are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Charter School's relationship with the University of Houston, including direct and indirect support provided through revenue, management oversight, services and supplies, operations, and maintenance.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 11, 2019.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charter School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IV. Other Matters

We applied certain limited procedures to the Required Supplementary Information (RSI), as identified on the table of contents, which supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, as identified on the table of contents, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section or the scheduled of required supplementary information, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

V. Restrictions on Use

This information is intended solely for the use of the governing body and management of the Charter School and is not intended to be, and should not be, used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

Client: **University of Houston Charter School**
 Engagement: **UH Charter 08/31/2018**
 Period Ending: **8/31/2018**
 Trial Balance: **2.2.01 - TB**
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		J.01		
To correct beginning fund balance.				
199-41-6499-00-000-99-000	Misc Operating Costs		3,524.00	
211-11-6119-00-000-24-000	Salaries/Wages-Tchrs & Othr Prof		169.04	
211-11-6141-00-000-24-000	Social Security/Medicare		36.73	
211-11-6142-00-000-24-000	Group Health & Life Insur		46.30	
211-11-6146-00-000-24-000	Teachers Retirement/TRS Care		12.95	
240-00-5749-00-000-00-000	Other Revenues from Local Sources		48.00	
240-35-6499-00-000-99-000	Misc Operating Costs		154.00	
499-00-3000-00-000-99-000	Net Position		14,518.31	
499-00-3000-00-000-99-000	Net Position		17,657.00	
499-00-3000-00-000-99-000	Net Position		21,234.00	
199-00-3000-00-000-99-000	Net Position			3,524.00
211-00-3000-00-000-99-000	Net Position			265.02
240-00-3000-00-000-99-000	Net Position			48.00
240-00-3000-00-000-99-000	Net Position			154.00
499-00-3000-00-101-99-000	Net Position			14,518.31
499-00-3000-00-102-99-000	Net Position			17,657.00
499-00-3000-00-104-99-000	Net Position			21,234.00
Total			57,400.33	57,400.33
Adjusting Journal Entries JE # 2		C.02		
To recognize school lunch revenue for prior year expenses.				
240-35-6341-00-000-99-000	Food		2.97	
240-00-5800-00-000-00-000	State Program Revenues			2.97
Total			2.97	2.97
Adjusting Journal Entries JE # 3		C.02		
To correct local revenue recorded as state revenue.				
199-00-5800-00-000-00-000	State Program Revenues		1,000.00	
199-00-5749-00-000-00-000	Other Revenues from Local Sources			1,000.00
Total			1,000.00	1,000.00
Adjusting Journal Entries JE # 4		C.02a		
To accrue revenue due from state.				
211-00-1241-00-000-00-000	Due from State		5,528.00	
255-00-1241-00-000-00-000	Due from State		1,371.86	
289-00-1241-00-000-00-000	Due from state		4,999.18	
211-00-5900-00-000-00-000	Federal Program Revenues			5,528.00
255-00-5900-00-000-00-000	Federal Program Revenues			1,371.86
289-00-5900-00-000-00-000	Federal Program Revenues			4,999.18
Total			11,899.04	11,899.04