

**ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS**

**CONSOLIDATED FINANCIAL STATEMENTS WITH
COMPLIANCE AND SINGLE AUDIT REPORTING**

August 31, 2016 and 2015

ORENDA EDUCATION
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CONSOLIDATED FINANCIAL STATEMENTS WITH
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**ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS**

Federal Employer Identification Number: 74-2774612

Certificate of Board

We, the undersigned, certify that the attached annual financial reports of the above-named charter holder were reviewed and (check one) approved disapproved for the year ended August 31, 2016, at a meeting of the Board of Directors of such charter holder on the 16th day of January, 2017.



Signature of Board Secretary



Signature of Board President

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Orenda Education dba Orenda
Charter Schools
Georgetown, Texas

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Orenda Education (the Charter Holder) dba Orenda Charter Schools, a nonprofit organization, as of August 31, 2016 and 2015, the related consolidated statement of activities (with comparative totals for 2015) and the consolidated statements 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the Charter Holder as of August 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

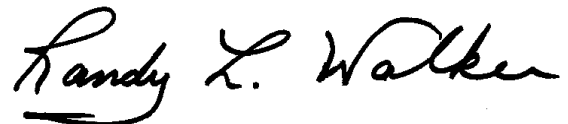
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 28-29 are presented for purposes of additional analysis and are 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2017 on pages 30-31 on our consideration of the Charter Holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control over financial reporting and compliance.



San Antonio, Texas
January 16, 2017

GENERAL-PURPOSE FINANCIAL STATEMENTS

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|---------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 7,415,755 | \$ 5,704,334 |
| Investments | 1,226,832 | 1,156,068 |
| Accounts Receivable | 10,942 | 13,104 |
| Due from Texas Education Agency | 672,595 | 1,146,190 |
| Other Receivables | 103,759 | 115,674 |
| Prepaid Expenses | 120,013 | 75,379 |
| Total Current Assets | 9,549,896 | 8,210,749 |
| LONG-TERM ASSETS | | |
| Restricted Cash | 5,184,118 | 5,252,969 |
| Sinking Fund for Bonds Payable | 836,887 | 671,350 |
| Bond Issuance Costs, net | 1,863,905 | 2,091,776 |
| Property and Equipment, net | 17,138,205 | 17,420,713 |
| Total Long-Term Assets | 25,023,115 | 25,436,808 |
| TOTAL ASSETS | \$ 34,573,011 | \$ 33,647,557 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 224,043 | \$ 364,602 |
| Accrued Expenses | 579,122 | 492,148 |
| Deferred Revenue | 8,112 | 10,997 |
| Other Liabilities | 51,568 | 36,767 |
| Loans Payable - current | 14,670 | 2,710 |
| Bonds Payable - current | 285,000 | 285,000 |
| Capital Lease Payable - current | - | 66,492 |
| Total Current Liabilities | 1,162,515 | 1,258,716 |
| LONG-TERM LIABILITIES | | |
| Loans Payable - long-term | 49,379 | - |
| Bonds Payable - long-term | 25,050,000 | 25,335,000 |
| Capital Lease Payable - long-term | - | 2,744 |
| Total Long-Term Liabilities | 25,099,379 | 25,337,744 |
| TOTAL LIABILITIES | 26,261,894 | 26,596,460 |
| NET ASSETS | | |
| Unrestricted | 3,871,794 | 3,570,079 |
| Temporarily Restricted | 4,439,323 | 3,481,018 |
| TOTAL NET ASSETS | 8,311,117 | 7,051,097 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 34,573,011 | \$ 33,647,557 |

The accompanying notes are an integral part of these financial statements.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2016
(with comparative totals for 2015)

| | 2016 | | | 2015 Total |
|---|---------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| REVENUES AND OTHER SUPPORT | | | | |
| Local Support: | | | | |
| Contributions | \$ 508,433 | \$ 10,250 | \$ 518,683 | \$ 469,175 |
| Food Service Activity | 338,475 | - | 338,475 | 299,864 |
| Miscellaneous Revenue from Intermediate Sources | 156,442 | - | 156,442 | 234,056 |
| Interest Income | 119,121 | - | 119,121 | 379 |
| Unrealized Gain on Escrow | 108,074 | - | 108,074 | 8,224 |
| E-Rate Revenue | 107,301 | - | 107,301 | 115,674 |
| Unrealized Gain (Loss) on Investments | 68,943 | - | 68,943 | (15,237) |
| Athletic Activities | 37,686 | - | 37,686 | 32,151 |
| Other Local Revenue | 7,800 | - | 7,800 | 3,492 |
| Earnings from Temporary Deposits and Investments | 1,810 | - | 1,810 | 1,862 |
| Total Local Support | <u>1,454,085</u> | <u>10,250</u> | <u>1,464,335</u> | <u>1,149,640</u> |
| State Program Revenues: | | | | |
| Foundation School Program Act Revenues | - | 10,961,652 | 10,961,652 | 11,066,615 |
| State Program Revenues Distributed by Texas Education Agency | - | 105,201 | 105,201 | 197,130 |
| Total State Program Revenues | <u>-</u> | <u>11,066,853</u> | <u>11,066,853</u> | <u>11,263,745</u> |
| Federal Program Revenues: | | | | |
| Federal Revenues Distributed by Texas Education Agency | - | 327,950 | 327,950 | 510,671 |
| Total Federal Program Revenues | <u>-</u> | <u>327,950</u> | <u>327,950</u> | <u>510,671</u> |
| Net Assets Released From Restrictions | | | | |
| Restrictions Satisfied By Payments | 10,446,748 | (10,446,748) | - | - |
| TOTAL REVENUES AND OTHER SUPPORT | <u>11,900,833</u> | <u>958,305</u> | <u>12,859,138</u> | <u>12,924,056</u> |
| EXPENSES | | | | |
| Program Services (Charter School): | | | | |
| Instruction | 5,340,665 | - | 5,340,665 | 5,699,483 |
| Instructional Resources and Media Services | 86,623 | - | 86,623 | 67,446 |
| Curriculum Development and Instructional Staff Development | 65,817 | - | 65,817 | 74,065 |
| Instructional Leadership | 227,451 | - | 227,451 | 177,251 |
| School Leadership | 721,827 | - | 721,827 | 748,206 |
| Guidance, Counseling, and Evaluation Services | 223,444 | - | 223,444 | 364,977 |
| Health Services | 59,498 | - | 59,498 | 60,836 |
| Student Transportation | 92,695 | - | 92,695 | 76,705 |
| Food Services | 293,046 | - | 293,046 | 269,980 |
| Extracurricular Activities | 317,978 | - | 317,978 | 312,530 |
| General Administration | 480,631 | - | 480,631 | 388,174 |
| Plant Maintenance and Operations | 1,270,264 | - | 1,270,264 | 1,176,881 |
| Security and Monitoring Services | 2,907 | - | 2,907 | - |
| Data Processing Services | 395,273 | - | 395,273 | 410,640 |
| Debt Service | 4,175 | - | 4,175 | 8,342 |
| Fundraising | 180,011 | - | 180,011 | 175,687 |
| Support Services (Charter Holder): | | | | |
| Bond Interest | 1,085,646 | - | 1,085,646 | 830,972 |
| Depreciation and Amortization | 636,850 | - | 636,850 | 907,486 |
| Miscellaneous Expense | 65,027 | - | 65,027 | 40,859 |
| Salaries and Benefits | 46,490 | - | 46,490 | 72,774 |
| Professional Fees | 2,800 | - | 2,800 | 6,723 |
| Supplies and Equipment | - | - | - | 706 |
| TOTAL EXPENSES | <u>11,599,118</u> | <u>-</u> | <u>11,599,118</u> | <u>11,870,723</u> |
| CHANGE IN NET ASSETS | <u>301,715</u> | <u>958,305</u> | <u>1,260,020</u> | <u>1,053,333</u> |
| NET ASSETS, Beginning of Year | <u>3,570,079</u> | <u>3,481,018</u> | <u>7,051,097</u> | <u>5,997,764</u> |
| NET ASSETS, End of Year | <u>\$ 3,871,794</u> | <u>\$ 4,439,323</u> | <u>\$ 8,311,117</u> | <u>\$ 7,051,097</u> |

The accompanying notes are an integral part of these financial statements.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in Net Assets From Operations | \$ 1,260,020 | \$ 1,053,333 |
| Adjustments to Reconcile Net Excess to Net Cash | | |
| Provided by Operations: | | |
| Depreciation and Amortization | 828,427 | 1,086,316 |
| Change in Investments | (70,753) | 13,375 |
| Decrease (Increase) in Assets: | | |
| Accounts Receivable | 2,162 | 274 |
| Due from Texas Education Agency | 473,595 | (281,959) |
| Other Receivables | 11,915 | (82,346) |
| Prepaid Expenses | (44,634) | 6,452 |
| (Decrease) Increase in Liabilities: | | |
| Accounts Payable | (140,559) | (647,239) |
| Accrued Expenses | 86,974 | 44,784 |
| Deferred Revenue | (2,885) | (55,440) |
| Other Liabilities | 14,801 | (6,231) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,419,063 | 1,131,319 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Property and Equipment | (242,128) | (430,168) |
| Purchases of Investments | (10) | - |
| NET CASH USED BY INVESTING ACTIVITIES | (242,138) | (430,168) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Capital Lease Obligation | (69,236) | (59,492) |
| Payments on Long-Term Debt | (14,582) | (35,187) |
| Proceeds from Issuance of Bonds | - | 15,480,000 |
| Refinance of Bonds Payable | - | (10,455,000) |
| Payments into Sinking Fund | (165,537) | (164,557) |
| Payment of Bond Issue Costs | - | (629,732) |
| Payments on Bonds Payable | (285,000) | (379,000) |
| NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES | (534,355) | 3,757,032 |
| NET INCREASE IN CASH FLOWS | 1,642,570 | 4,458,183 |
| CASH AND CASH EQUIVALENTS, Beginning of Year | 5,704,334 | 6,499,120 |
| RESTRICTED CASH, Beginning of Year | 5,252,969 | - |
| LESS RESTRICTED CASH, End of Year | (5,184,118) | (5,252,969) |
| CASH AND CASH EQUIVALENTS, End of Year | \$ 7,415,755 | \$ 5,704,334 |
| Supplemental Disclosures | | |
| Interest | \$ 1,089,821 | \$ 839,314 |
| Asset Acquired through Loan Obligation | \$ 75,920 | \$ - |

The accompanying notes are an integral part of these financial statements.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Operations

Orenda Education (the Charter Holder) dba Orenda Charter Schools is a not-for-profit organization incorporated in the State of Texas in 1995. The Charter Holder is governed by a Board Directors comprised of six members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter Holder.

In 2001, the State Board of Education of the State of Texas granted the organization an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the charter application Contract for Charter, Orenda Charter School (the School) was opened for the academic year 2002-2003. It was organized to provide educational services to students in grades Kindergarten through 12th grade, and the organization's Board of Directors governs its programs, services, activities, and functions.

As of August 31, 2016, the School operates five campus locations. Since the Charter Holder receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Principles of Consolidation

The accompanying consolidated financial statements as of August 31, 2016 and 2015, include the financial statements of the Charter Holder and the School. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation

The financial statements of the Charter Holder have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the Charter Holder's accounting policies are described below:

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

The Charter Holder is required to report information regarding its financial position and activities according to the absence or existence and nature of donor-imposed restrictions as follows:

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (continued)

Basis of Presentation (continued)

Unrestricted - Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted - Temporarily restricted net assets are those resources, subject to donor-imposed restrictions, that will be satisfied by the actions of the Charter Holder and/or the passage of time.

When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations. As of August 31, 2016 and 2015, the Charter Holder had no permanently restricted net assets.

Grant Funds

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require a refund of all or part of the unused amount.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Charter Holder is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is also exempt from income and sales taxes. As of August 31, 2016, the tax years that remain subject to examination by taxing authorities begin with 2013.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (continued)

Cash and Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Restricted Cash

Restricted cash represents a portion of proceeds from a bond issuance (see Note 9) that are not available for operating purposes. The restricted cash is being held in a reserve account to pay off the Series 2011A bond under an optional redemption provision in the bond indenture that allows for the bond to be paid off on August 15, 2021 instead of on the original maturity date of August 15, 2041. At August 31, 2016 and 2015, restricted cash totaled \$5,184,118 and \$5,252,969, respectively.

Investments

The security investments that are purchased are held principally for the purpose of selling them in the near term and are classified as trading securities. Trading securities are recorded at fair value based on quoted market prices.

Contributions

The Charter Holder accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Property and Equipment

Property and equipment are defined as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from four to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Subsequent Events

The Charter Holder has evaluated subsequent events through January 16, 2017, which is the date the financial statements were available to be issued.

ORENDA EDUCATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 2 - Investments

Investments held at August 31 consisted of the following:

| Orenda Education (Charter Holder) | | | | | |
|--|--|--------------------------|--------------------|--------------------------|--------------------|
| | | 2016 | | 2015 | |
| | | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Cash/Money Accounts | | \$ - | \$ - | \$ 2,661 | \$ 133 |
| Fixed Income - Bonds | | - | - | 12,036 | 11,558 |
| Mutual Funds | | 929,698 | 772,145 | 846,048 | 756,274 |
| Total | | \$ 929,698 | \$ 772,145 | \$ 860,745 | \$ 767,965 |

| Orenda Charter School | | | | | |
|------------------------------|--|--------------------------|--------------------|--------------------------|--------------------|
| | | 2016 | | 2015 | |
| | | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Cash/Money Accounts | | \$ 133 | \$ 133 | \$ 18,912 | \$ 18,912 |
| Fixed Income - CDs | | 297,001 | 297,000 | 276,411 | 275,913 |
| Total | | \$ 297,134 | \$ 297,133 | \$ 295,323 | \$ 294,825 |

Investment income (loss) consisted of the following at August 31:

| Orenda Education (Charter Holder) | | | |
|--|--|------------------|--------------------|
| | | 2016 | 2015 |
| Interest/Dividends | | \$ 37,250 | \$ 40,820 |
| Unrealized Gain (Loss) | | 31,703 | (56,057) |
| Total | | \$ 68,943 | \$ (15,237) |

| Orenda Charter School | | | |
|------------------------------|--|-----------------|-----------------|
| | | 2016 | 2015 |
| Interest/Dividends | | \$ 2,455 | \$ 3,412 |
| Unrealized Loss | | (645) | (1,550) |
| Total | | \$ 1,810 | \$ 1,862 |

ORENDA EDUCATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 3 - Due from State and Federal Government

At August 31, 2016 and 2015, the School had \$672,595 and \$1,146,190, respectively, in receivables due from Texas Education Agency (TEA) related to various state grants and Foundation School Program revenue. All amounts receivable are deemed by management to be fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

Note 4 - Concentration of Credit Risk

The Charter Holder maintains several cash and investment accounts in various financial institutions and investment companies. Cash account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000, and investment account balances are insured by the Securities Investor Protection Corporation up to \$500,000. At August 31, 2016 and 2015, respectively, uninsured cash and investment account balances totaled \$429,698 and \$348,709, not including reconciling items.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets were for the following purposes at August 31:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|---------------------|---------------------|
| Gateway Tech High School | \$ 1,000 | \$ - |
| Kingsland School | 4,000 | - |
| GWCP Swim Program | 200 | 200 |
| Foundation School Program | <u>4,434,123</u> | <u>3,480,818</u> |
| Total | <u>\$ 4,439,323</u> | <u>\$ 3,481,018</u> |

Note 6 - Property and Equipment

Property and equipment consisted of the following at August 31:

| | <u>Orenda Education</u> <u>(Charter Holder)</u> | |
|-------------------------------|--|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Land and Improvements, net | \$ 1,161,622 | \$ 1,161,622 |
| Construction in Progress | 80,760 | 67,760 |
| Buildings and Improvements | 15,859,624 | 15,819,790 |
| Furniture and Equipment | <u>44,253</u> | <u>44,253</u> |
| | 17,146,259 | 17,093,425 |
| Less Accumulated Depreciation | <u>(1,066,108)</u> | <u>(657,129)</u> |
| Total Property and Equipment | <u>\$ 16,080,151</u> | <u>\$ 16,436,296</u> |

ORENDA EDUCATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 6 - Property and Equipment (continued)

As of August 31, 2016 and 2015, land and improvements of \$1,161,622 is net of \$140,471 in escrow funds received during the year for future roadway improvements. These funds consist of \$137,716 used to obtain a certificate of deposit as collateral for a letter of credit with a local financial institution and 2% for bank fees. The beneficiary of the letter of credit is the City of Georgetown.

| | Orenda Charter School | |
|----------------------------------|------------------------------|----------------|
| | 2016 | 2015 |
| Buildings and Improvements | \$ 889,849 | \$ 889,849 |
| Vehicles | 331,844 | 236,944 |
| Furniture and Equipment | 629,632 | 459,318 |
| | 1,851,325 | 1,586,111 |
| Less Accumulated Depreciation | (793,271) | (601,694) |
| Total Property and Equipment | \$ 1,058,054 | \$ 984,417 |

Depreciation expense for the years ended August 31, 2016 and 2015 was \$600,556 and \$573,816, respectively. Amortization expense of \$36,165 related to a capital lease obligation (Note 8) is included in depreciation for the years ended August 31, 2016 and 2015.

Note 7 - Long Term Debt

Long-term debt of the Charter Holder consisted of the following at August 31:

| | 2016 | 2015 |
|--|------------------|-------------|
| Loan payable to Bank of America, due in monthly installments of principal and interest of \$1,365.36; interest rate at 2.99%; maturing in October 2020, at which time all unpaid principal and interest is payable in full; secured by school bus. | \$ 64,049 | \$ - |
| Loan payable to Bank of America, due in monthly installments of principal and interest of \$1,362.19; interest rate at 4.20%; maturing in October 2015, at which time all unpaid principal and interest is payable in full; secured by two vans. | - | 2,710 |
| Total Debt | 64,049 | 2,710 |
| Less Current Portion | (14,670) | (2,710) |
| Total Long-Term Debt | \$ 49,379 | \$ - |

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 7 - Long Term Debt (continued)

Future scheduled maturities of loans payable are as follows:

| For the Year Ending August 31, | |
|-----------------------------------|------------------|
| 2017 | \$ 14,670 |
| 2018 | 15,115 |
| 2019 | 15,573 |
| 2020 | 16,045 |
| 2021 | <u>2,646</u> |
| Total | <u>\$ 64,049</u> |

Note 8 - Capital Lease Payable

The Charter Holder entered into a capital lease agreement in October 2013 with Dell Financial Services to purchase computer equipment. The lease was payable in 36 monthly installments of \$5,540.50 and expired on September 1, 2016, at which time the lease provided for transfer of ownership for \$1. The computer equipment is carried at a cost of \$180,826 less accumulated depreciation of \$105,480 and \$69,315 at August 31, 2016 and 2015, respectively.

As of August 31, 2015, the current portion and long-term portion of the capital lease payable were \$66,492 and \$2,744, respectively. The capital lease payable balance was paid in full as of August 31, 2016. Interest expense on the capital lease was \$2,378 and \$7,390 for the years ended August 31, 2016 and 2015, respectively.

Note 9 - Bonds Payable

The Charter Holder's obligations under bonds payable include Taxable Education Revenue Bonds (Series 2011Q) and Education Revenue Bonds (Series 2011A) issued through the Texas Public Finance Authority Charter School Finance Corporation, and Taxable Education Revenue Bonds (Series 2011B) issued through the Newark Cultural Education Facilities Finance Corporation. These bonds are dated December 1, 2011. The Series 2011Q and A bonds closed and funded on December 1, 2011, and the Series 2011B bonds closed and funded on December 15, 2011, with all proceeds being held by the Bank of Texas. The bonds' proceeds will be used for property acquisition and construction at the Gateway College Preparatory Campus and were underwritten by Piper Jaffray & Co. The interest rates on the bonds range from 7.25% to 8%, and the terms of the bonds range from nine to thirty years.

ORENDA EDUCATION
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August 31, 2016 and 2015

Note 9 - Bonds Payable (continued)

The Charter Holder's bond obligations also include Education Revenue Refunding Bonds (Series 2015A) and Taxable Education Revenue Refunding Bonds (Series 2015B) issued through the Newark Higher Education Finance Corporation. These bonds closed and funded on August 20, 2015, with all proceeds being held by Bank of Texas. The bonds' proceeds will be used for expansion of the Gateway College Preparatory Campus, and a portion has been restricted by the Charter Holder to pay off the Series 2011A bond in 2021 (see Note 1). The bonds were underwritten by Oppenheimer & Co. The interest rates on the bonds range from 1% to 4%, and the terms of the bonds range from four to twenty-nine years.

As of August 31, 2016, the outstanding balance on bonds payable was \$25,335,000, consisting of bonds payable - current portion of \$285,000 and bonds payable - long-term of \$25,050,000. As of August 31, 2015, the outstanding balance on bonds payable was \$25,620,000, consisting of bonds payable - current portion of \$285,000 and bonds payable - long-term of \$25,335,000.

As of August 31, 2016 and 2015, issuance costs paid for these bonds at date of issuance totaled \$2,633,096. Amortization expense related to these costs during the years ended August 31, 2016 and 2015 was \$227,871 and \$512,500, respectively.

Future minimum principal payments on the bonds payable are as follows:

| For the Year Ending August 31, | |
|-----------------------------------|----------------------|
| 2017 | \$ 285,000 |
| 2018 | 285,000 |
| 2019 | 335,000 |
| 2020 | 335,000 |
| 2021 | 140,000 |
| Thereafter | <u>23,955,000</u> |
| Total | <u>\$ 25,335,000</u> |

All bonds are subject to optional bond call at any time prior to maturity.

The Charter Holder makes monthly principal payments to the sinking fund in anticipation of payments to be made to the bondholders when due. The balance of the sinking fund as of August 31, 2016 and 2015 was \$836,887 and \$671,350, respectively.

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August 31, 2016 and 2015

Note 10 - Intercompany Transactions

The School reimburses the Charter Holder each month for certain expenses incurred to sponsor the school charter and to provide governance, executive planning, and financial and management services for the School. The total amount of these expenses was \$85,000 and \$115,000 for the years ended August 31, 2016 and 2015, respectively. This transaction is eliminated in the consolidated financial statements. However, the amount is reflected as professional services revenue in the statement of activities included in the specific purpose financial statements of the Charter Holder.

Furthermore, the School reimburses the Charter Holder for making the monthly bond payments for the Series A, B, and Q bonds. The total amount of these payments was \$1,241,158 and \$1,337,282 for the years ended August 31, 2016 and 2015, respectively. This transaction is eliminated in the consolidated financial statements. Because the Charter Holder is accepting the debt service payments in lieu of facility lease payments from the School, the amount is reflected as rent revenue in the statement of activities included in the specific purpose financial statements of the Charter Holder.

As of August 31, 2016 and 2015, there was a payable from the School to the Charter Holder for \$68,253 and \$95,555, respectively, for intercompany activities such as bond loan payments. The intercompany payable and corresponding intercompany receivable are eliminated in the consolidated financial statements.

Note 11 - Commitments and Contingencies

The Charter Holder receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Charter Holder have complex compliance requirements, and, should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by TEA or the grantor agency.

Note 12 - Regulated Industry

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

ORENDA EDUCATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 13 - Operating Leases

The School has multiple operating lease agreements for office equipment and instructional facilities. Rent expense for the years ended August 31, 2016 and 2015 was \$593,486 and \$575,516 respectively.

The following is a schedule of the operating lease obligations subsequent to August 31, 2016:

| Year Ending August 31, | |
|---------------------------|------------|
| 2017 | \$ 245,962 |
| 2018 | 176,139 |
| 2019 | 109,754 |
| 2020 | 84 |
| Total | \$ 531,939 |

Note 14 - Pension Plan Obligations

Plan Description

The School contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the School but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, *Public Retirement Systems*, Subtitle C, *Teacher Retirement System of Texas*, which is subject to amendment by the Texas Legislature. TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River St., Austin, Texas 78701-2698 or by calling (800) 877-0123.

The TRS plan differs from a single-employer plan as follows:

- Charter schools are legally separate entities from the state and each other.
- Assets contributed by one charter school or independent school district (ISD) may be used for the benefit of an employee of another ISD or charter school.
- The unfunded obligations get passed along to the other charter schools and ISDs.
- There is no withdrawal penalty for leaving the TRS system.

Total plan assets, accumulated benefit obligations, and % funded are as follows:

Total Plan Assets - \$149,780,061,824
Accumulated Benefit Obligations - \$163,887,375,172
The plan is 78.43% funded.

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August 31, 2016 and 2015

Note 14 - Pension Plan Obligations (continued)

There are no collective-bargaining agreements.

Funding Policy

Under provisions in state law, plan members are required to contribute 6.7% of their annual covered salary and the state of Texas contributes an amount equal to 6.0% of the School's covered payroll. The School's contributions to TRS for the years ended August 31, 2016 and 2015 were \$148,629 and \$142,688, respectively, which include non-OASDI participating surcharges of \$84,831 and \$86,071, respectively. The School's contributions did not represent more than 5% of the total contributions to the plan (i.e., total plan assets). There have been no changes that would affect the comparison of employer contributions from year to year.

Note 15 - Health Care Coverage

During the years ended August 31, 2016 and 2015, employees of the School were covered by a health insurance plan. The School contributed \$350 per employee per month to the plan during the years ended August 31, 2016 and 2015. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 16 - Fair Value of Financial Instruments

The Charter Holder adopted the provisions of ASC 820, "*Fair Value Measurements and Disclosures*" (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect the Charter Holder's financial position or results of operations. The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

The Charter Holder has no Level 2 or Level 3 assets or liabilities.

ORENDA EDUCATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2016 and 2015

Note 16 - Fair Value of Financial Instruments (continued)

The Charter Holder's financial instruments (Level 1) were as follows at August 31:

| | 2016 | | 2015 | |
|---------------------------------|--------------------|--------------|--------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets: | | | | |
| Cash and Cash Equivalents | \$ 7,415,755 | \$ 7,415,755 | \$ 5,704,334 | \$ 5,704,334 |
| Accounts Receivable | \$ 10,942 | \$ 10,942 | \$ 13,104 | \$ 13,104 |
| Due from Texas Education Agency | \$ 672,595 | \$ 672,595 | \$ 1,146,190 | \$ 1,146,190 |
| Other Receivables | \$ 103,759 | \$ 103,759 | \$ 115,674 | \$ 115,674 |
| Prepaid Expenses | \$ 120,013 | \$ 120,013 | \$ 75,379 | \$ 75,379 |
| Financial liabilities: | | | | |
| Accounts Payable | \$ 224,043 | \$ 224,043 | \$ 364,602 | \$ 364,602 |
| Accrued Expenses | \$ 579,122 | \$ 579,122 | \$ 492,148 | \$ 492,148 |
| Deferred Revenue | \$ 8,112 | \$ 8,112 | \$ 10,997 | \$ 10,997 |
| Other Liabilities | \$ 51,568 | \$ 51,568 | \$ 36,767 | \$ 36,767 |
| Loans Payable - current | \$ 14,670 | \$ 14,670 | \$ 2,710 | \$ 2,710 |
| Bonds Payable - current | \$ 285,000 | \$ 285,000 | \$ 285,000 | \$ 285,000 |
| Capital Lease Payable - current | \$ - | \$ - | \$ 66,492 | \$ 66,492 |

The carrying amounts reported in the consolidated statements of financial position approximate fair values because of the short maturities of those instruments.

The Charter Holder's financial instruments also include investments. The fair values of investments are based on quoted market prices for those or similar investments (Note 2).

SPECIFIC-PURPOSE FINANCIAL STATEMENTS

ORENDA EDUCATION (CHARTER HOLDER)
STATEMENTS OF FINANCIAL POSITION
August 31, 2016 and 2015

| | 2016 | 2015 |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 3,465,311 | \$ 3,065,586 |
| Investments | 929,698 | 860,745 |
| Due from Orenda Education Charter School | 68,253 | 95,555 |
| Total Current Assets | 4,463,262 | 4,021,886 |
| LONG-TERM ASSETS | | |
| Restricted Cash | 5,184,118 | 5,252,969 |
| Sinking Fund for Bonds Payable | 836,887 | 671,350 |
| Bond Issuance Costs, net | 1,863,905 | 2,091,776 |
| Property and Equipment, net | 16,080,151 | 16,436,296 |
| Total Long-Term Assets | 23,965,061 | 24,452,391 |
| TOTAL ASSETS | \$ 28,428,323 | \$ 28,474,277 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 219,953 | \$ 287,713 |
| Accrued Expenses | 10,620 | 10,530 |
| Bonds Payable - current | 285,000 | 285,000 |
| Total Current Liabilities | 515,573 | 583,243 |
| LONG-TERM LIABILITIES | | |
| Bonds Payable - long-term | 25,050,000 | 25,335,000 |
| Total Long-Term Liabilities | 25,050,000 | 25,335,000 |
| TOTAL LIABILITIES | 25,565,573 | 25,918,243 |
| NET ASSETS | | |
| Unrestricted | 2,857,550 | 2,555,834 |
| Temporarily Restricted | 5,200 | 200 |
| TOTAL NET ASSETS | 2,862,750 | 2,556,034 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 28,428,323 | \$ 28,474,277 |

See independent auditor's report.

ORENDA EDUCATION (CHARTER SCHOOL)
STATEMENTS OF FINANCIAL POSITION
August 31, 2016 and 2015

| | 2016 | 2015 |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 3,950,444 | \$ 2,638,748 |
| Investments | 297,134 | 295,323 |
| Accounts Receivable | 10,942 | 13,104 |
| Due from Texas Education Agency | 672,595 | 1,146,190 |
| Other Receivables | 103,759 | 115,674 |
| Prepaid Expenses | 120,013 | 75,379 |
| Total Current Assets | 5,154,887 | 4,284,418 |
| Property and Equipment, net | 1,058,054 | 984,417 |
| TOTAL ASSETS | \$ 6,212,941 | \$ 5,268,835 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 4,090 | \$ 76,889 |
| Accrued Expenses | 568,502 | 481,618 |
| Due to Orenda Education (Charter Holder) | 68,253 | 95,555 |
| Deferred Revenue | 8,112 | 10,997 |
| Other Liabilities | 51,568 | 36,767 |
| Loans Payable - current | 14,670 | 2,710 |
| Capital Lease Payable - current | - | 66,492 |
| Total Current Liabilities | 715,195 | 771,028 |
| LONG-TERM LIABILITIES | | |
| Loans Payable - long-term | 49,379 | - |
| Capital Lease Payable - long-term | - | 2,744 |
| Total Long-Term Liabilities | 49,379 | 2,744 |
| TOTAL LIABILITIES | 764,574 | 773,772 |
| NET ASSETS | | |
| Unrestricted | 1,014,244 | 1,014,245 |
| Temporarily Restricted | 4,434,123 | 3,480,818 |
| TOTAL NET ASSETS | 5,448,367 | 4,495,063 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,212,941 | \$ 5,268,835 |

See independent auditor's report.

ORENDA EDUCATION (CHARTER HOLDER)
STATEMENT OF ACTIVITIES
August 31, 2016
(with comparative totals for 2015)

| | 2016 | | | 2015 Total |
|---|---------------------|-----------------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| REVENUES AND OTHER SUPPORT | | | | |
| Rent | \$ 1,241,158 | \$ - | \$ 1,241,158 | \$ 1,337,282 |
| Contributions | 508,433 | 10,250 | 518,683 | 469,175 |
| Interest Income | 119,121 | - | 119,121 | 379 |
| Unrealized Gain on Escrow | 108,074 | - | 108,074 | 8,224 |
| Professional Services | 85,000 | - | 85,000 | 115,000 |
| Unrealized Gain (Loss) on Investments | 68,943 | - | 68,943 | (15,237) |
| Miscellaneous Income | 7,800 | - | 7,800 | 3,492 |
| Net Assets Released from Restrictions | 5,250 | (5,250) | - | - |
| TOTAL REVENUES AND OTHER SUPPORT | 2,143,779 | 5,000 | 2,148,779 | 1,918,315 |
| EXPENSES | | | | |
| Bond Interest | 1,085,646 | - | 1,085,646 | 830,972 |
| Depreciation and Amortization | 636,850 | - | 636,850 | 907,486 |
| Miscellaneous Expense | 65,027 | - | 65,027 | 40,859 |
| Salaries and Benefits | 46,490 | - | 46,490 | 72,774 |
| Professional Fees | 2,800 | - | 2,800 | 6,723 |
| Supplies and Equipment | 5,250 | - | 5,250 | 706 |
| TOTAL EXPENSES | 1,842,063 | - | 1,842,063 | 1,859,520 |
| CHANGE IN NET ASSETS | 301,716 | 5,000 | 306,716 | 58,795 |
| NET ASSETS, Beginning of Year | 2,555,834 | 200 | 2,556,034 | 2,497,239 |
| NET ASSETS, End of Year | \$ 2,857,550 | \$ 5,200 | \$ 2,862,750 | \$ 2,556,034 |

See independent auditor's report.

ORENDA EDUCATION (CHARTER SCHOOL)
STATEMENT OF ACTIVITIES
August 31, 2016
(with comparative totals for 2015)

| | 2016 | | | 2015 Total |
|---|---------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| REVENUES AND OTHER SUPPORT | | | | |
| Local Support: | | | | |
| 5742 Earnings from Temporary Deposits and Investments | \$ 1,810 | \$ - | \$ 1,810 | \$ 1,862 |
| 5749 E-Rate Revenue | 107,301 | - | 107,301 | 115,674 |
| 5751 Food Service Activity | 338,475 | - | 338,475 | 299,864 |
| 5752 Athletic Activities | 42,936 | - | 42,936 | 32,151 |
| 5769 Miscellaneous Revenue from Intermediate Sources | 156,442 | - | 156,442 | 234,056 |
| Total Local Support | <u>646,964</u> | <u>-</u> | <u>646,964</u> | <u>683,607</u> |
| State Program Revenues: | | | | |
| 5810 Foundation School Program Act Revenues | - | 10,961,652 | 10,961,652 | 11,066,615 |
| 5820 State Program Revenues Distributed by Texas Education Agency | - | 105,201 | 105,201 | 197,130 |
| Total State Program Revenues | <u>-</u> | <u>11,066,853</u> | <u>11,066,853</u> | <u>11,263,745</u> |
| Federal Program Revenues: | | | | |
| 5920 Federal Revenues Distributed by Texas Education Agency | - | 327,950 | 327,950 | 510,671 |
| Total Federal Program Revenues | <u>-</u> | <u>327,950</u> | <u>327,950</u> | <u>510,671</u> |
| Net Assets Released From Restrictions | | | | |
| Restrictions Satisfied By Payments | 10,441,498 | (10,441,498) | - | - |
| TOTAL REVENUES AND OTHER SUPPORT | <u>11,088,462</u> | <u>953,305</u> | <u>12,041,767</u> | <u>12,458,023</u> |
| EXPENSES | | | | |
| 11 Instruction | 5,340,665 | - | 5,340,665 | 5,699,483 |
| 12 Instructional Resources and Media Services | 86,623 | - | 86,623 | 67,446 |
| 13 Curriculum Development and Instructional Staff Development | 65,817 | - | 65,817 | 74,065 |
| 21 Instructional Leadership | 227,451 | - | 227,451 | 177,251 |
| 23 School Leadership | 721,827 | - | 721,827 | 748,206 |
| 31 Guidance, Counseling, and Evaluation Services | 223,444 | - | 223,444 | 364,977 |
| 33 Health Services | 59,498 | - | 59,498 | 60,836 |
| 34 Student Transportation | 92,695 | - | 92,695 | 76,705 |
| 35 Food Services | 293,046 | - | 293,046 | 269,980 |
| 36 Extracurricular Activities | 317,978 | - | 317,978 | 312,530 |
| 41 General Administration | 565,631 | - | 565,631 | 503,174 |
| 51 Plant Maintenance and Operations | 1,270,264 | - | 1,270,264 | 1,176,881 |
| 52 Security and Monitoring Services | 2,907 | - | 2,907 | - |
| 53 Data Processing Services | 395,273 | - | 395,273 | 410,640 |
| 71 Debt Service | 1,245,333 | - | 1,245,333 | 1,345,624 |
| 81 Fundraising | 180,011 | - | 180,011 | 175,687 |
| TOTAL EXPENSES | <u>11,088,463</u> | <u>-</u> | <u>11,088,463</u> | <u>11,463,485</u> |
| CHANGE IN NET ASSETS | (1) | 953,305 | 953,304 | 994,538 |
| NET ASSETS, Beginning of Year | <u>1,014,245</u> | <u>3,480,818</u> | <u>4,495,063</u> | <u>3,500,525</u> |
| NET ASSETS, End of Year | <u>\$ 1,014,244</u> | <u>\$ 4,434,123</u> | <u>\$ 5,448,367</u> | <u>\$ 4,495,063</u> |

See independent auditor's report.

ORENDA EDUCATION (CHARTER HOLDER)
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in Net Assets From Operations | \$ 306,716 | \$ 58,795 |
| Adjustments to Reconcile Net Excess to Net Cash | | |
| Provided by Operations: | | |
| Depreciation and Amortization | 636,850 | 907,486 |
| Unrealized (Gain) Loss on Investments | (68,943) | 15,237 |
| Decrease in Assets: | | |
| Due from Orenda Education Charter School | 27,302 | 32,384 |
| (Decrease) Increase in Liabilities: | | |
| Accounts Payable | (67,760) | (595,532) |
| Accrued Expenses | 90 | 90 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 834,255 | 418,460 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Property and Equipment | (52,834) | (401,796) |
| Purchases of Investments | (10) | - |
| NET CASH USED BY INVESTING ACTIVITIES | (52,844) | (401,796) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Issuance of Bonds | - | 15,480,000 |
| Refinance of Bonds Payable | - | (10,455,000) |
| Payments into Sinking Fund | (165,537) | (164,557) |
| Payment of Bond Issue Costs | - | (629,732) |
| Payments on Bonds Payable | (285,000) | (379,000) |
| NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES | (450,537) | 3,851,711 |
| NET INCREASE IN CASH FLOWS | 330,874 | 3,868,375 |
| CASH AND CASH EQUIVALENTS, Beginning of Year | 3,065,586 | 4,450,180 |
| RESTRICTED CASH, Beginning of Year | 5,252,969 | - |
| LESS RESTRICTED CASH, End of Year | (5,184,118) | (5,252,969) |
| CASH AND CASH EQUIVALENTS, End of Year | \$ 3,465,311 | \$ 3,065,586 |
| Supplemental Disclosures | | |
| Interest | \$ 1,085,646 | \$ 830,972 |

See independent auditor's report.

ORENDA EDUCATION (CHARTER SCHOOL)

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Foundation School Program Payments | \$ 11,159,309 | \$ 10,980,611 |
| Grant Payments | 709,089 | 481,152 |
| Miscellaneous Sources | 643,543 | 544,427 |
| Payments to Vendors for Goods and Services Rendered | (3,392,841) | (3,507,946) |
| Payments to Charter School Personnel for Services Rendered | (6,288,959) | (6,439,761) |
| Interest Payments | (1,245,333) | (1,345,624) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,584,808</u> | <u>712,859</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Property and Equipment | (189,294) | (28,372) |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(189,294)</u> | <u>(28,372)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Capital Lease Obligation | (69,236) | (59,492) |
| Payments on Long-Term Debt | (14,582) | (35,187) |
| NET CASH USED BY FINANCING ACTIVITIES | <u>(83,818)</u> | <u>(94,679)</u> |
| NET INCREASE IN CASH FLOWS | <u>1,311,696</u> | <u>589,808</u> |
| CASH AND CASH EQUIVALENTS, Beginning of Year | <u>2,638,748</u> | <u>2,048,940</u> |
| CASH AND CASH EQUIVALENTS, End of Year | <u>\$ 3,950,444</u> | <u>\$ 2,638,748</u> |
| Reconciliation of Change in Net Assets to Net Cash | | |
| Provided by Operations: | | |
| Change in Net Assets | \$ 953,304 | \$ 994,538 |
| Adjustments to Reconcile Change in Net Assets to Net Cash | | |
| Provided by Operations: | | |
| Depreciation | 191,577 | 178,830 |
| Investment Income | (1,810) | (1,862) |
| Decrease (Increase) in Assets: | | |
| Accounts Receivable | 2,162 | 274 |
| Due from Texas Education Agency | 473,595 | (281,959) |
| Other Receivables | 11,915 | (82,346) |
| Prepaid Expenses | (44,634) | 6,452 |
| (Decrease) Increase in Liabilities: | | |
| Accounts Payable | (72,799) | (51,707) |
| Accrued Expenses | 86,884 | 44,694 |
| Due to Orenda Education (Charter Holder) | (27,302) | (32,384) |
| Deferred Revenue | (2,885) | (55,440) |
| Other Liabilities | 14,801 | (6,231) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 1,584,808</u> | <u>\$ 712,859</u> |
| Supplemental Disclosures | | |
| Interest | \$ 4,175 | \$ 8,342 |
| Asset Acquired through Loan Obligation | \$ 75,920 | \$ - |

See independent auditor's report.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOL
SCHEDULE OF EXPENSES
For the Years Ended August 31, 2016 and 2015

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Orenda Education (Consolidated) | | |
| Expenses | | |
| 6100 Payroll Costs | \$ 6,723,070 | \$ 6,808,860 |
| 6200 Professional and Contracted Services | 1,830,939 | 1,775,864 |
| 6300 Supplies and Materials | 804,874 | 1,068,039 |
| 6400 Other Operating Costs | 922,543 | 866,146 |
| 6500 Debt | 1,317,692 | 1,351,814 |
| | 11,599,118 | 11,870,723 |
| Total Expenses | \$ 11,599,118 | \$ 11,870,723 |

| | | |
|--|---------------------|---------------------|
| Orenda Education (Charter Holder) | | |
| Expenses | | |
| 6100 Payroll Costs | \$ 46,490 | \$ 72,774 |
| 6200 Professional and Contracted Services | 2,800 | 6,723 |
| 6300 Supplies and Materials | - | 706 |
| 6400 Other Operating Costs | 474,006 | 435,845 |
| 6500 Debt | 1,313,517 | 1,343,472 |
| | 1,836,813 | 1,859,520 |
| Total Expenses (net of eliminating entries) | \$ 1,836,813 | \$ 1,859,520 |

| | | |
|--|---------------------|----------------------|
| Orenda Education (Charter School) | | |
| Expenses | | |
| 6100 Payroll Costs | \$ 6,676,580 | \$ 6,736,086 |
| 6200 Professional and Contracted Services | 1,828,139 | 1,769,141 |
| 6300 Supplies and Materials | 804,874 | 1,067,333 |
| 6400 Other Operating Costs | 448,537 | 430,301 |
| 6500 Debt | 4,175 | 8,342 |
| | 9,762,305 | 10,011,203 |
| Total Expenses (net of eliminating entries) | \$ 9,762,305 | \$ 10,011,203 |

See independent auditor's report.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
SCHEDULE OF CAPITAL ASSETS
August 31, 2016

Capital assets acquired with public funds, which constitute public property pursuant to Chapter 12 of the Texas Education Code, are as follows:

| Orenda Education (Consolidated) | Ownership Interest | | |
|--|---------------------------|----------------------|----------------|
| | Local | State | Federal |
| 1110 Cash | \$ 3,465,311 | \$ 3,950,444 | \$ - |
| 1510 Land and Improvements | 1,161,622 | - | - |
| 1515 Construction in Progress | - | 80,760 | - |
| 1520 Buildings and Improvements | 1,599,634 | 15,149,839 | - |
| 1531 Vehicles | - | 331,844 | - |
| 1539 Furniture and Equipment | 44,253 | 629,632 | - |
| Total Capital Assets | \$ 6,270,820 | \$ 20,142,519 | \$ - |

| Orenda Education (Charter Holder) | Ownership Interest | | |
|--|---------------------------|----------------------|----------------|
| | Local | State | Federal |
| 1110 Cash | \$ 3,465,311 | \$ - | \$ - |
| 1510 Land and Improvements | 1,161,622 | - | - |
| 1515 Construction in Progress | - | 80,760 | - |
| 1520 Buildings and Improvements | 1,599,634 | 14,259,990 | - |
| 1539 Furniture and Equipment | 44,253 | - | - |
| Total Capital Assets | \$ 6,270,820 | \$ 14,340,750 | \$ - |

| Orenda Charter School | Ownership Interest | | |
|---------------------------------|---------------------------|---------------------|----------------|
| | Local | State | Federal |
| 1110 Cash | \$ - | \$ 3,950,444 | \$ - |
| 1520 Buildings and Improvements | - | 889,849 | - |
| 1531 Vehicles | - | 331,844 | - |
| 1539 Furniture and Equipment | - | 629,632 | - |
| Total Capital Assets | \$ - | \$ 5,801,769 | \$ - |

See independent auditor's report.

ORENDA CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
Year Ended August 31, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance From</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u> |
|--|-------------------------|---------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES AND OTHER SUPPORT | | | | |
| Local Support: | | | | |
| 5740 Other Revenues from Local Sources | \$ 115,000 | \$ 115,000 | \$ 109,111 | \$ (5,889) |
| 5750 Revenue from Cocurricular/Enterprising | 333,850 | 333,850 | 381,411 | 47,561 |
| 5760 Revenues from Intermediate Sources | 143,650 | 143,650 | 156,442 | 12,792 |
| Total Local Support | <u>592,500</u> | <u>592,500</u> | <u>646,964</u> | <u>54,464</u> |
| State Program Revenues: | | | | |
| 5810 Foundation School Program Act Revenues | 10,991,168 | 10,991,168 | 10,961,652 | (29,516) |
| 5820 State Program Revenues Distributed by Texas Education Agency | 153,000 | 153,000 | 105,201 | (47,799) (1) |
| Total State Program Revenues | <u>11,144,168</u> | <u>11,144,168</u> | <u>11,066,853</u> | <u>(77,315)</u> |
| Federal Program Revenues: | | | | |
| 5920 Federal Revenues Distributed by Texas Education Agency | 275,768 | 516,812 | 327,950 | (188,862) (2) |
| Total Federal Program Revenues | <u>275,768</u> | <u>516,812</u> | <u>327,950</u> | <u>(188,862)</u> |
| TOTAL REVENUES AND OTHER SUPPORT | <u>12,012,436</u> | <u>12,253,480</u> | <u>12,041,767</u> | <u>(211,713)</u> |
| EXPENSES | | | | |
| 11 Instructional | 5,469,244 | 5,426,266 | 5,340,665 | 85,601 |
| 12 Instructional Resources and Media Services | 63,026 | 96,626 | 86,623 | 10,003 |
| 13 Curriculum Development and Instructional Staff Development | 69,525 | 77,000 | 65,817 | 11,183 |
| 21 Instructional Leadership | 164,203 | 210,671 | 227,451 | (16,780) |
| 23 School Leadership | 713,321 | 717,821 | 721,827 | (4,006) |
| 31 Guidance, Counseling and Evaluation Services | 264,625 | 224,658 | 223,444 | 1,214 |
| 33 Health Services | 71,221 | 71,221 | 59,498 | 11,723 |
| 34 Student Transportation | 84,684 | 91,684 | 92,695 | (1,011) |
| 35 Food Services | 244,260 | 314,660 | 293,046 | 21,614 |
| 36 Extracurricular Activities | 363,530 | 353,530 | 317,978 | 35,552 |
| 41 General Administration | 536,049 | 567,530 | 565,631 | 1,899 |
| 51 Plant Maintenance and Operations | 1,328,280 | 1,379,641 | 1,270,264 | 109,377 |
| 52 Security and Monitoring Services | - | 3,500 | 2,907 | 593 |
| 53 Data Processing Services | 336,005 | 375,195 | 395,273 | (20,078) |
| 71 Debt Service | 1,278,496 | 1,278,496 | 1,245,333 | 33,163 |
| 81 Fundraising | 178,790 | 178,790 | 180,011 | (1,221) |
| TOTAL EXPENSES | <u>11,165,259</u> | <u>11,367,289</u> | <u>11,088,463</u> | <u>278,826</u> |
| CHANGE IN NET ASSETS | 847,177 | 886,191 | 953,304 | 67,113 |
| NET ASSETS, Beginning of Year | <u>4,495,063</u> | <u>4,495,063</u> | <u>4,495,063</u> | <u>-</u> |
| NET ASSETS, End of Year | <u>\$ 5,342,240</u> | <u>\$ 5,381,254</u> | <u>\$ 5,448,367</u> | <u>\$ 67,113</u> |

(1) Unfavorable variance due to the instructional materials allotment covering a 2-year period and more funds spent in the first year.

(2) Unfavorable variance due to less residential facility students, and the budget amount matched the awarded Title I funds.

See independent auditor's report.

SUPPLEMENTARY INFORMATION

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
August 31, 2016
(with comparative totals for 2015)

| | 2016 | | | | 2015 |
|--|--|---------------------------------------|------------------------|----------------------|----------------------|
| | Orenda Education (Charter Holder) | Orenda Education Charter School | Eliminating Entries | Total | Total |
| <u>ASSETS</u> | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 3,465,311 | \$ 3,950,444 | \$ - | \$ 7,415,755 | \$ 5,704,334 |
| Investments | 929,698 | 297,134 | - | 1,226,832 | 1,156,068 |
| Accounts Receivable | - | 10,942 | - | 10,942 | 13,104 |
| Due from Texas Education Agency | - | 672,595 | - | 672,595 | 1,146,190 |
| Due from Orenda Education Charter School | 68,253 | - | (68,253) | - | - |
| Other Receivables | - | 103,759 | - | 103,759 | 115,674 |
| Prepaid Expenses | - | 120,013 | - | 120,013 | 75,379 |
| Total Current Assets | <u>4,463,262</u> | <u>5,154,887</u> | <u>(68,253)</u> | <u>9,549,896</u> | <u>8,210,749</u> |
| LONG-TERM ASSETS | | | | | |
| Restricted Cash | 5,184,118 | - | - | 5,184,118 | 5,252,969 |
| Sinking Fund for Bonds Payable | 836,887 | - | - | 836,887 | 671,350 |
| Bond Issuance Costs, net | 1,863,905 | - | - | 1,863,905 | 2,091,776 |
| Property and Equipment, net | 16,080,151 | 1,058,054 | - | 17,138,205 | 17,420,713 |
| Total Long-Term Assets | <u>23,965,061</u> | <u>1,058,054</u> | <u>-</u> | <u>25,023,115</u> | <u>25,436,808</u> |
| TOTAL ASSETS | <u>\$ 28,428,323</u> | <u>\$ 6,212,941</u> | <u>\$ (68,253)</u> | <u>\$ 34,573,011</u> | <u>\$ 33,647,557</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable | \$ 219,953 | \$ 4,090 | \$ - | \$ 224,043 | \$ 364,602 |
| Accrued Expenses | 10,620 | 568,502 | - | 579,122 | 492,148 |
| Due to Orenda Education (Charter Holder) | - | 68,253 | (68,253) | - | - |
| Deferred Revenue | - | 8,112 | - | 8,112 | 10,997 |
| Other Liabilities | - | 51,568 | - | 51,568 | 36,767 |
| Loans Payable - current | - | 14,670 | - | 14,670 | 2,710 |
| Bonds Payable - current | 285,000 | - | - | 285,000 | 285,000 |
| Capital Lease Payable - current | - | - | - | - | 66,492 |
| Total Current Liabilities | <u>515,573</u> | <u>715,195</u> | <u>(68,253)</u> | <u>1,162,515</u> | <u>1,258,716</u> |
| LONG-TERM LIABILITIES | | | | | |
| Loans Payable - long-term | - | 49,379 | - | 49,379 | - |
| Bonds Payable - long-term | 25,050,000 | - | - | 25,050,000 | 25,335,000 |
| Capital Lease Payable - long-term | - | - | - | - | 2,744 |
| Total Long-Term Liabilities | <u>25,050,000</u> | <u>49,379</u> | <u>-</u> | <u>25,099,379</u> | <u>25,337,744</u> |
| TOTAL LIABILITIES | <u>25,565,573</u> | <u>764,574</u> | <u>(68,253)</u> | <u>26,261,894</u> | <u>26,596,460</u> |
| NET ASSETS | | | | | |
| Unrestricted | 2,857,550 | 1,014,244 | - | 3,871,794 | 3,570,079 |
| Temporarily Restricted | 5,200 | 4,434,123 | - | 4,439,323 | 3,481,018 |
| TOTAL NET ASSETS | <u>2,862,750</u> | <u>5,448,367</u> | <u>-</u> | <u>8,311,117</u> | <u>7,051,097</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 28,428,323</u> | <u>\$ 6,212,941</u> | <u>\$ (68,253)</u> | <u>\$ 34,573,011</u> | <u>\$ 33,647,557</u> |

See independent auditor's report.

ORENDA EDUCATION
dba ORENDA CHARTER SCHOOLS
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2016
(with comparative totals for 2015)

| | 2016 | | | Total | 2015 Total |
|---|--|--|------------------------|---------------------|---------------------|
| | Orenda Education (Charter Holder) | Orenda Education Charter School | Eliminating Entries | | |
| REVENUES AND OTHER SUPPORT | | | | | |
| Local Support: | | | | | |
| Contributions | \$ 518,683 | \$ - | \$ - | \$ 518,683 | \$ 469,175 |
| Food Service Activity | - | 338,475 | - | 338,475 | 299,864 |
| Miscellaneous Revenue from Intermediate Sources | - | 156,442 | - | 156,442 | 234,056 |
| Interest Income | 119,121 | - | - | 119,121 | 379 |
| Unrealized Gain on Escrow | 108,074 | - | - | 108,074 | 8,224 |
| E-Rate Revenue | - | 107,301 | - | 107,301 | 115,674 |
| Unrealized Gain (Loss) on Investments | 68,943 | - | - | 68,943 | (15,237) |
| Athletic Activities | - | 42,936 | (5,250) | 37,686 | 32,151 |
| Other Local Revenue | 7,800 | - | - | 7,800 | 3,492 |
| Earnings from Temporary Deposits and Investments | - | 1,810 | - | 1,810 | 1,862 |
| Professional Services | 85,000 | - | (85,000) | - | - |
| Rent | 1,241,158 | - | (1,241,158) | - | - |
| Total Local Support | <u>2,148,779</u> | <u>646,964</u> | <u>(1,331,408)</u> | <u>1,464,335</u> | <u>1,149,640</u> |
| State Program Revenues: | | | | | |
| Foundation School Program Act Revenues | - | 10,961,652 | - | 10,961,652 | 11,066,615 |
| State Program Revenues Distributed by Texas Education Agency | - | 105,201 | - | 105,201 | 197,130 |
| Total State Program Revenues | <u>-</u> | <u>11,066,853</u> | <u>-</u> | <u>11,066,853</u> | <u>11,263,745</u> |
| Federal Program Revenues: | | | | | |
| Federal Revenues Distributed by Texas Education Agency | - | 327,950 | - | 327,950 | 510,671 |
| Total Federal Program Revenues | <u>-</u> | <u>327,950</u> | <u>-</u> | <u>327,950</u> | <u>510,671</u> |
| TOTAL REVENUES AND OTHER SUPPORT | <u>2,148,779</u> | <u>12,041,767</u> | <u>(1,331,408)</u> | <u>12,859,138</u> | <u>12,924,056</u> |
| EXPENSES | | | | | |
| Program Services (Charter School): | | | | | |
| Instruction | - | 5,340,665 | - | 5,340,665 | 5,699,483 |
| Instructional Resources and Media Services | - | 86,623 | - | 86,623 | 67,446 |
| Curriculum Development and Instructional Staff Development | - | 65,817 | - | 65,817 | 74,065 |
| Instructional Leadership | - | 227,451 | - | 227,451 | 177,251 |
| School Leadership | - | 721,827 | - | 721,827 | 748,206 |
| Guidance, Counseling, and Evaluation Services | - | 223,444 | - | 223,444 | 364,977 |
| Health Services | - | 59,498 | - | 59,498 | 60,836 |
| Student Transportation | - | 92,695 | - | 92,695 | 76,705 |
| Food Services | - | 293,046 | - | 293,046 | 269,980 |
| Extracurricular Activities | - | 317,978 | - | 317,978 | 312,530 |
| General Administration | - | 565,631 | (85,000) | 480,631 | 388,174 |
| Plant Maintenance and Operations | - | 1,270,264 | - | 1,270,264 | 1,176,881 |
| Security and Monitoring Services | - | 2,907 | - | 2,907 | - |
| Data Processing Services | - | 395,273 | - | 395,273 | 410,640 |
| Debt Service | - | 1,245,333 | (1,241,158) | 4,175 | 8,342 |
| Fundraising | - | 180,011 | - | 180,011 | 175,687 |
| Support Services (Charter Holder): | | | | | |
| Bond Interest | 1,085,646 | - | - | 1,085,646 | 830,972 |
| Depreciation and Amortization | 636,850 | - | - | 636,850 | 907,486 |
| Miscellaneous Expense | 65,027 | - | - | 65,027 | 40,859 |
| Salaries and Benefits | 46,490 | - | - | 46,490 | 72,774 |
| Professional Fees | 2,800 | - | - | 2,800 | 6,723 |
| Supplies and Equipment | 5,250 | - | (5,250) | - | 706 |
| TOTAL EXPENSES | <u>1,842,063</u> | <u>11,088,463</u> | <u>(1,331,408)</u> | <u>11,599,118</u> | <u>11,870,723</u> |
| CHANGE IN NET ASSETS | <u>306,716</u> | <u>953,304</u> | <u>-</u> | <u>1,260,020</u> | <u>1,053,333</u> |
| NET ASSETS, Beginning of Year | <u>2,556,034</u> | <u>4,495,063</u> | <u>-</u> | <u>7,051,097</u> | <u>5,997,764</u> |
| NET ASSETS, End of Year | <u>\$ 2,862,750</u> | <u>\$ 5,448,367</u> | <u>\$ -</u> | <u>\$ 8,311,117</u> | <u>\$ 7,051,097</u> |

See independent auditor's report.

OTHER REQUIRED REPORTING

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

To the Board of Directors
Orenda Education dba Orenda
Charter Schools
Georgetown, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orenda Education (the Charter Holder) dba Orenda Charter Schools, a nonprofit organization, which comprise the consolidated statement of financial position as of August 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2017.

Internal Control Over Financial Reporting

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

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

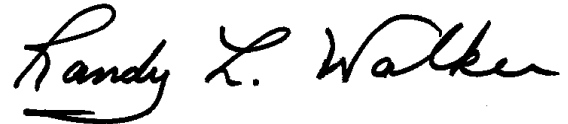
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a prominent underline under the first letter of the first name.

San Antonio, Texas
January 16, 2017