

Faith Family Kids, Inc.

Financial Statements

For the years ended August 31, 2016 and 2015

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CERTIFICATE OF BOARD

**Faith Family Academy of Waxahachie
County-District Number: 070-801**

We, the undersigned, certify that the attached annual financial reports of the above named charter holder were reviewed and:

Approved _____ disapproved

for the year ended August 31, 2016, at a meeting of the board of trustees of such charter holder on the 13th day of December 2016.



Signature of Board President



Signature of Board Secretary

If the board of trustees/directors disapproved of the auditors' report, the reason(s) for disapproving it (is/are):



Independent Auditor's Report

To the Board of Directors of
Faith Family Kids, Inc.

We have audited the accompanying financial statements of Faith Family Kids, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Other Matter***Prior Period Financial Statements***

The financial statements and accompanying supplementary information of Faith Family Kids, Inc. as of August 31, 2015, was audited by other auditors whose report dated December 11, 2015, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents are presented for purposes of additional analysis as required by the Texas Education Agency, and is not a required part of the financial statements. Similarly, the accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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, this information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of Faith Family Kids, Inc.'s internal control over financial reporting and 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 Faith Family Kids, Inc.'s internal control over financial reporting and compliance.

McConell & Jones LLP

Houston, Texas
December 12, 2016

FAITH FAMILY KIDS, INC.
Statements of Financial Position
As of August 31, 2016 and 2015

	Assets	
	2016	2015
Current assets		
Cash and cash equivalents	\$ 4,239,545	\$ 7,724,138
Restricted cash - debt service reserve	1,266,119	1,145,964
Due from grantor agencies	1,623,072	1,733,067
Other receivables	9,720	9,720
Other assets	6,909	6,909
Total current assets	7,145,365	10,619,798
Noncurrent assets		
Deferred charges	1,327,941	1,418,318
Property and equipment, net	16,242,110	14,829,950
Total noncurrent assets	17,570,051	16,248,268
Total assets	\$ 24,715,416	\$ 26,868,066
	Liabilities and Net Assets	
Current liabilities		
Accounts payable	\$ 27,531	\$ 524,241
Accrued liabilities	822,949	464,363
Accrued expenses	30,422	31,288
Due to student groups	49,439	34,454
Capital lease payable - current portion	139,604	-
Notes payable - current portion	49,080	175,535
Bonds payable - current portion	390,000	380,000
Total current liabilities	1,509,025	1,609,881
Long-term liabilities		
Capital lease payable - less current portion	424,491	-
Notes payable - less current portion	79,767	1,828,149
Bonds payable - less current portion	13,685,000	14,075,000
Total long-term liabilities	14,189,258	15,903,149
Total liabilities	15,698,283	17,513,030
Net assets		
Unrestricted	2,580,517	2,398,698
Temporarily restricted	6,436,616	6,956,338
Total net assets	9,017,133	9,355,036
Total liabilities and net assets	\$ 24,715,416	\$ 26,868,066

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

FAITH FAMILY KIDS, INC.
Statements of Activities
For the years ended August 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
Revenues				
<i>Local support:</i>				
5740 Other revenues from local sources	\$ 50,897	\$ -	\$ 50,897	\$ 89,851
5750 Revenue from co-curricular or enterprising	130,922	-	130,922	149,001
Total local support	<u>181,819</u>	<u>-</u>	<u>181,819</u>	<u>238,852</u>
<i>State program revenues:</i>				
5811 Available school fund	-	117,156	117,156	599,970
5812 Foundation school program	-	20,078,447	20,078,447	23,414,165
5820 State program revenues distributed by the TEA	-	341,777	341,777	53,677
Total state program revenues	<u>-</u>	<u>20,537,380</u>	<u>20,537,380</u>	<u>24,067,812</u>
<i>Federal program revenues:</i>				
5920 Federal revenues distributed by the TEA	-	3,109,085	3,109,085	3,470,944
Total federal program revenues	<u>-</u>	<u>3,109,085</u>	<u>3,109,085</u>	<u>3,470,944</u>
Net assets released from restrictions	<u>24,166,187</u>	<u>(24,166,187)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>24,348,006</u>	<u>(519,722)</u>	<u>23,828,284</u>	<u>27,777,608</u>
Expenses				
<i>Program services:</i>				
11 Instruction	12,949,486	-	12,949,486	13,243,002
12 Instructional resources and media services	58,170	-	58,170	101,099
13 Curriculum and instructional staff development	438,227	-	438,227	456,271
21 Instructional leadership	271,029	-	271,029	62,709
23 School leadership	1,144,644	-	1,144,644	920,886
<i>Support services:</i>				
31 Guidance, counseling and evaluation services	235,475	-	235,475	331,087
33 Health services	185,000	-	185,000	184,377
34 Student (pupil) transportation	185,142	-	185,142	190,898
35 Food service	1,821,414	-	1,821,414	1,977,603
36 Extracurriculars	183,075	-	183,075	191,253
41 General administration	1,502,804	-	1,502,804	2,227,002
51 Plant maintenance and operations	2,989,651	-	2,989,651	3,528,686
52 Security and monitoring services	302,982	-	302,982	472,139
53 Data processing services	590,578	-	590,578	347,913
61 Community services	388,772	-	388,772	305,271
71 Interest expense	919,738	-	919,738	919,031
Total expenses	<u>24,166,187</u>	<u>-</u>	<u>24,166,187</u>	<u>25,459,227</u>
Change in net assets	181,819	(519,722)	(337,903)	2,318,381
Net assets, beginning of year	<u>2,398,698</u>	<u>6,956,338</u>	<u>9,355,036</u>	<u>7,036,655</u>
Net assets, end of year	<u>\$ 2,580,517</u>	<u>\$ 6,436,616</u>	<u>\$ 9,017,133</u>	<u>\$ 9,355,036</u>

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

FAITH FAMILY KIDS, INC.
Statements of Cash Flows
For the years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<i>Cash flows from operating activities</i>		
<i>Change in net assets</i>	\$ (337,903)	\$ 2,318,381
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
<i>Depreciation expense</i>	945,664	947,375
<i>Amortization expense</i>	90,377	70,605
<i>(Increase) decrease in funds due from grantor agencies</i>	109,995	(1,075,003)
<i>(Increase) decrease in other receivables</i>	-	(3,264)
<i>Increase (decrease) in accounts payable</i>	(496,710)	416,687
<i>Increase (decrease) in accrued liabilities</i>	358,586	119,481
<i>Increase (decrease) in accrued expenses</i>	(866)	(1,308)
<i>Increase (decrease) in due to student groups</i>	14,985	7,005
<i>Net cash provided by operating activities</i>	<u>684,128</u>	<u>2,799,959</u>
 <i>Cash flows from investing activities</i>		
<i>Payments for depreciable assets</i>	<u>(2,357,823)</u>	<u>(1,212,030)</u>
<i>Net cash used by investing activities</i>	<u>(2,357,823)</u>	<u>(1,212,030)</u>
 <i>Cash flows from financing activities</i>		
<i>Proceeds from borrowings</i>	636,138	91,211
<i>Payments of long-term debt</i>	<u>(2,326,881)</u>	<u>(660,931)</u>
<i>Net cash used by financing activities</i>	<u>(1,690,743)</u>	<u>(569,720)</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	(3,364,438)	1,018,209
 <i>Cash and cash equivalents at beginning of year</i>	<u>8,870,102</u>	<u>7,851,893</u>
 <i>Cash and cash equivalents at end of year</i>	<u>\$ 5,505,664</u>	<u>\$ 8,870,102</u>
 <i>Supplemental disclosures of cash flow information:</i>		
<i>Cash paid during the year for:</i>		
<i>Interest</i>	<u>\$ 830,227</u>	<u>\$ 849,734</u>
<i>Income taxes</i>	<u>\$ -</u>	<u>\$ -</u>

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

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

1. Summary of Significant Accounting Policies

Reporting Entity

Faith Family Kids, Inc. (the "Charter Holder") is governed by a Board of Directors comprised of three members. The Board of Directors are selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions and is responsible for the fiscal affairs of the Charter Holder as well as its two campuses.

Nature of activities

In March 1998, the State Board of Education of the State of Texas granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program approved by the State Board of Education and the terms of the charter application Contract for Charter, Faith Family Academy of Oak Cliff and Waxahachie Faith Family Academy were opened. Faith Family Kids, Inc. is the administrative vehicle that provides administrative and operational support to both Charter Schools. Faith Family Academy of Oak Cliff and Waxahachie Faith Family Academy were organized to provide educational services to students in grades Pre-K through 12th Grade and the Charter Holder's Board of Directors governs their programs, services, activities, and functions.

During the fiscal year-ended August 31, 2015 the separate charters for the Oak Cliff and Waxahachie campuses were held by the Charter Holder ("Faith Family Kids, Inc."). During the fiscal year ended August 31, 2015, the Oak Cliff charter was revoked pursuant to Texas Education Code §12.115(c). As a result, the Charter Holder petitioned, and the TEA granted, a plan to consolidate the Oak Cliff and Waxahachie campuses to enable the uninterrupted operation of both campuses under the Waxahachie charter. As of September 1, 2015, all assets, liabilities, fund balances, revenues, and expenditures for both campuses will be recorded on the books of the Waxahachie charter.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter Holder and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or net assets subject to donor-imposed restrictions that have been met by the Charter Holder within the same year received.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder and/or the passage of time. When a restriction is met in the year following receipt, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. State and federal revenues are reported as temporarily restricted net assets and reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. This accounting treatment has been applied consistently from period to period.

Permanently restricted – Net assets required to be maintained in perpetuity with only the income to be used for the charter school activities due to donor-imposed restrictions. No permanently restricted net assets are held by the Charter Holder as of August 31, 2016 and 2015.

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Texas Education Agency Financial Accountability Guide

For all federal and state programs, the Charter Holder uses the net asset classes and codes specified by the Texas Education Agency in the Special Supplement to Financial Accountability System and Resource Guide for nonprofit charter schools. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance for the charter school received through the Texas Education Agency is generally accounted for in temporarily restricted net asset codes.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in the next year, are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Cash equivalents

Cash equivalents consist of short term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated absences

Compensated absences cannot be reasonably estimated and are therefore recorded at cost when paid.

Depreciable assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general purpose and specific purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated lives of assets, which range from three to twenty 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.

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit and Business Risks

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover its deposits. The Charter Holder maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. Balances in interest bearing accounts at the banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The total cash maintained by the School in all banks as of August 31, 2016 was \$5,771,782. Any amounts that exceeded the FDIC insured limit were secured by securities pledged by the financial institution or were otherwise insured. Cash and cash equivalents reported in the statement of financial position is different from the cash and cash equivalents at banks due to outstanding checks and similar reconciling items.

The State of Texas and Federal Government provided a total of 99.2% and 99.1% of the Charter Holder's total revenues for the years ended August 31, 2016 and 2015, respectively. The Foundation School Program represents 84.7% and 84.3% of total revenue.

Income taxes

The Charter Holder is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3), and therefore has made no provision for Federal income taxes in the accompanying financial statements. In addition, the Charter Holder has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

The Charter Holder is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years beginning prior to September 1, 2012.

2. Due from Grantor Agencies

As of August 31, 2016 and 2015, the Charter Holder had earned the following revenues which were not received until after the end of the fiscal year:

	<u>2016</u>	<u>2015</u>
<i>State Foundation Program</i>	<i>\$ 1,375,785</i>	<i>\$ 1,083,660</i>
<i>State Available School Fund Program</i>	<i>44,907</i>	<i>2,436</i>
<i>ESEA Title I Part A - Improving Basic Programs</i>	<i>77,129</i>	<i>454,073</i>
<i>IDEA - Part B, Formula & Preschool</i>	<i>20,991</i>	<i>4,678</i>
<i>Child Nutrition Program</i>	<i>51,053</i>	<i>103,841</i>
<i>Title II Part A - Teacher and Principal Training</i>	<i>43,881</i>	<i>8,855</i>
<i>Career and Technology Grant</i>	<i>2,395</i>	<i>2,896</i>
<i>Title III Part A - English Language Acquisition</i>	<i>4,690</i>	<i>9,381</i>
<i>Other State grants</i>	<i>2,241</i>	<i>63,247</i>
Total	<u>\$ 1,623,072</u>	<u>\$ 1,733,067</u>

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

3. Depreciable Assets

The following is a summary of property and equipment as of the end of the fiscal year:

	2016	2015
Land	\$ 1,507,393	\$ 144,116
Construction in progress	6,273	762,686
Buildings and improvements	20,259,839	18,774,569
Vehicles	774,682	722,187
Equipment	770,064	742,320
Total property and equipment	<u>23,318,251</u>	<u>21,145,878</u>
Less accumulated depreciation	<u>7,076,141</u>	<u>6,315,928</u>
Property and equipment, net	<u>\$ 16,242,110</u>	<u>\$ 14,829,950</u>

Depreciation expense for the year ended August 31, 2016 and 2015 was \$945,664 and \$947,375, respectively.

4. Contingent Liabilities

The Charter Holder participates in numerous programs that are subject to audit by the Texas Education Agency (the "TEA") and various federal audit agencies. These programs have complex compliance requirements, and should state or federal auditors find areas of substantial noncompliance, those funds may be subject to refund if so determined by administrative audit review.

5. Notes payable

The Charter Holder's loan activity during the year ended August 31, 2016 was as follows:

<u>Lender</u>	<u>Collateral</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
Wells Fargo	77 Passenger Bus	4.89%	2018	\$ 44,220	\$ -	\$ 18,336	\$ 25,884
Wells Fargo	77 Passenger Bus	4.86%	2020	77,503	-	17,198	60,305
Wells Fargo	Maintenance Truck	4.79%	2020	-	49,269	6,611	42,658
Regions Bank	Construction loan	4.34%	2019	<u>1,881,961</u>	-	<u>1,881,961</u>	-
				<u>\$2,003,684</u>	<u>\$ 49,269</u>	<u>\$ 1,924,106</u>	<u>\$ 128,847</u>

Presented below is a summary of note payment requirements to maturity:

<u>Year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 49,080	\$ 5,157	\$ 54,237
2018	37,929	2,913	40,842
2019	32,845	1,299	34,144
2020	<u>8,993</u>	<u>88</u>	<u>9,081</u>
	<u>\$ 128,847</u>	<u>\$ 9,457</u>	<u>\$ 138,304</u>

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

6. Bonds Payable

Faith Family Kids, Inc. had two outstanding bond issues which were issued on July 20, 2006 through the Bank of New York. The proceeds of these bonds were used to purchase, repair, and renovate certain buildings used for instructional and administrative purposes at both Faith Family Academy campuses. The bonds are secured by a deed of trust against those properties.

The Charter Holder's bond activity during the year ended August 31, 2016 was as follows:

	Interest Rate	Maturity Date	Beginning Balance	Additions	Repayments	Ending Balance
Series 2006A	4.75% -5.125%	2015-2036	\$14,335,000	\$ -	\$ 260,000	\$14,075,000
Series 2006B	6.75%	2015-2016	<u>120,000</u>	-	<u>120,000</u>	<u>-</u>
			<u>\$14,455,000</u>	<u>\$ -</u>	<u>\$ 380,000</u>	<u>\$14,075,000</u>

At August 31, 2016, future debt service requirements pursuant to these bond issues were as follows:

Year ended August 31,	Principal	Interest	Total Requirements
2017	\$ 390,000	\$ 730,131	\$ 1,120,131
2018	410,000	710,631	1,120,631
2019	430,000	690,131	1,120,131
2020	450,000	668,631	1,118,631
2021	470,000	646,131	1,116,131
2022-2026	2,745,000	2,845,888	5,590,888
2027-2031	3,535,000	2,057,738	5,592,738
2032-2036	<u>5,645,000</u>	<u>1,026,375</u>	<u>6,671,375</u>
	<u>\$ 14,075,000</u>	<u>\$ 9,375,656</u>	<u>\$ 23,450,656</u>

All scheduled debt payments were made in a timely manner and the Charter Holder is in compliance with all debt covenants as of August 31, 2016.

7. Capital Leases

In 2016 the School entered into a capital lease for portable classrooms. Future minimum lease payments under the capital leases are as follows:

Year ending August 31,		
	2017	\$ 139,604
	2018	114,815
	2019	150,219
	2020	<u>129,457</u>
Total minimum lease payment		534,095
Less: current portion		<u>(139,604)</u>
Long-term portion	\$	<u>394,491</u>

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

7. Capital Leases (continued)

The following assets, are subject to the above capital leases whereby the School recognized an asset and a liability upon contract inception:

Buildings and improvements	\$	586,869
Less: accumulated depreciation		-
Net assets under capital leases	\$	<u>586,869</u>

8. Health Care Coverage

During the year ended August 31, 2016 and 2015, employees of the Charter Holder were covered by a private health insurance plan (the "Plan"). The Charter Holder contributed \$150 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

9. Retirement Benefits

Plan Description - The School contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System 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.

Participating employers in the System are legal separate entities from the State and from each other. Contributions to the System by one employer may be used for the benefit of a plan member of another participating employer. The unfunded obligations are passed along to the participating employers. There is no withdrawal penalty for a plan member for leaving the System.

The risk of participating in this multiemployer defined benefit pension plan are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if an entity chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from its multiemployer plan.

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

9. Retirement Benefits (continued)

Information with respect to the System is shown in the following table:

Name of Plan	Federal Employer ID/Plan Number	Certified Zone Status	Expiration Date of Collective Bargaining Agreement	Improvement or Rehabilitation Plan	Surcharge Paid 2015-2016	Contributions Made 2015-2016
Teacher Retirement System of Texas	n/a	Unknown	n/a	n/a	\$ 16,104	\$ <u>224,018</u>
Total contributions made					\$	<u>224,018</u>

Notes to the table:

1. Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status are as follows:
 - i. Total plan assets - \$149,780,061,824
 - ii. Accumulated benefit obligations - \$163,887,375,172
 - iii. The System is 78.43% funded.
2. There is no collective-bargaining agreement.
3. Based on the audited GASB 68 allocation schedules from the TRS website as of August 31, 2015, the year-end of the System, contributions made to the System did not represent more than 5% of the total contributions received by the System.
4. Contribution rates:

Member	7.2%
State	6.8%
Employer	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year. The System's annual financial report and other required disclosure information are available by writing the General Accounting Department, Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698.

In addition, employees may contribute 0.65% of their salary and the School must contribute 0.55% of the salary of each active employee to TRS-Care (the TRS health plan for retired employees). The total amount contributed to TRS-Care for the years ending August 31, 2016 and 2015 was \$179,395 and \$176,368, respectively. These contributions are equal to the employees' contributions and the School's required contributions for each year.

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

10. Operating Leases

The Charter Holder leases equipment under non-cancelable operating leases which expire between December of 2016 and May of 2019. Minimum annual rental commitments at August 31, 2016, are as follows:

	2017	\$ 214,266
	2018	111,386
	2019	<u>43,151</u>
Total minimum lease commitments under non-cancellable operating leases	\$	<u>368,803</u>
Total rent expense during 2016	\$	<u>359,319</u>
Total rent expense during 2015	\$	<u>491,795</u>

11. Temporarily Restricted Net Assets

As of August 31, 2016, and 2015 the Charter Holder had \$6,436,616 and \$6,956,338, in temporarily restricted net assets related to the Foundation School Program, respectively.

12. State Foundation Program Revenue

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the TEA and the reports are subject to audit by the TEA. The final State foundation program earnings may be adjusted as a result of any such audit. A reconciliation of cash paid to revenue recognized for the periods ended August 31, 2016 and 2015, is as follows:

	2016	2015
Cash paid during fiscal year	\$ 19,786,322	\$ 22,494,614
Revenue accrued at year-end	1,375,785	1,083,660
Revenue accrued in prior year	<u>(1,083,660)</u>	<u>(164,109)</u>
Revenue recognized during current year	<u>\$ 20,078,447</u>	<u>\$ 23,414,165</u>

FAITH FAMILY KIDS, INC.
Notes to Financial Statements
For the years ended August 31, 2016 and 2015

13. Budget Amendments

Prior to the beginning of each school year, Faith Family Kids, Inc. prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the program, the budget must be amended on a regular basis. In addition, funding for State Comprehensive Education funds were reduced significantly during the year. This has resulted in the significant variances between the original adopted budget and final amended budget presented on the Budgetary Comparison Schedule.

Function 12 (Instructional resources and media services) contained an unfavorable variance of \$8,620 from budget. The variance was primarily due accrual of instructional day salaries not accounted for in final budget amendment. In addition, function 34 (Student transportation) contained an unfavorable variances of \$32,192 from budget. The variance was primarily due to recording of depreciation expense which was budgeted in another function rather than student transportation.

Management has taken steps to ensure that future related budgets are amended on a frequent basis to reflect changes in actual and budgeted amounts.

14. Subsequent Event

In November of 2016, the Charter Holder purchased a building in DeSoto for approximately \$900,000. This property is to be used as a new Administration building. The building was purchased with funds from cash reserves.

FAITH FAMILY KIDS, INC.
Schedule of Expenses
For the years ended August 31, 2016 and 2015

<i>Expenses</i>	<u>2016</u>	<u>2015</u>
6100 Payroll costs	\$ 17,060,627	\$ 16,764,406
6200 Professional and contracted services	2,575,697	3,100,466
6300 Supplies and materials	2,267,515	3,291,340
6400 Other operating costs	1,342,610	1,375,437
6500 Debt	919,738	927,578
Total expenses	<u>\$ 24,166,187</u>	<u>\$ 25,459,227</u>

FAITH FAMILY KIDS, INC.
Schedule of Capital Assets
As of August 31, 2016

	<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1510 Land and improvements	\$ -	\$ 1,507,393	\$ -	\$ 1,507,393
1520 Buildings and improvements	-	20,218,524	41,315	20,259,839
1541 Vehicles	-	774,682	-	774,682
1549 Furniture and equipment	-	330,439	439,625	770,064
1580 Construction in progress	-	6,273	-	6,273
Total property and equipment	\$ -	\$ 22,837,311	\$ 480,940	\$ 23,318,251

FAITH FAMILY KIDS, INC.
Budgetary Comparison Schedule
For the year ended August 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local support				
5740 Other revenues - local sources	\$ 29,187	\$ 49,105	\$ 50,897	\$ 1,792
5750 Revenue from co-curricular or enterprising	141,000	129,365	130,922	1,557
Total local support	<u>170,187</u>	<u>178,470</u>	<u>181,819</u>	<u>3,349</u>
State program revenues				
5811 Available school fund	499,000	73,077	117,156	44,079
5812 Foundation school program	20,896,882	20,177,842	20,078,447	(99,395)
5820 State program revenues distributed by the TEA	139,268	594,073	341,777	(252,296)
Total state program revenues	<u>21,535,150</u>	<u>20,844,992</u>	<u>20,537,380</u>	<u>(307,612)</u>
Federal program revenues				
5920 Federal revenues distributed by the TEA	1,598,249	3,034,684	3,109,085	74,401
Total federal program revenues	<u>1,598,249</u>	<u>3,034,684</u>	<u>3,109,085</u>	<u>74,401</u>
Total revenues	<u>23,303,586</u>	<u>24,058,146</u>	<u>23,828,284</u>	<u>(229,862)</u>
Expenses				
11 Instruction	10,590,098	13,045,541	12,949,486	96,055
12 Instructional resources and media services	207,050	49,550	58,170	(8,620)
13 Curriculum and instructional staff development	521,100	438,100	438,227	(127)
21 Instructional leadership	118,175	318,175	271,029	47,146
23 School leadership	988,200	1,063,200	1,144,644	(81,444)
31 Guidance, counseling and evaluation services	349,336	257,034	235,475	21,559
33 Health services	198,790	198,790	185,000	13,790
34 Student (pupil) transportation	418,300	152,950	185,142	(32,192)
35 Food service	1,825,145	1,825,145	1,821,414	3,731
36 Cocurricular/extracurricular activities	235,719	205,719	183,075	22,644
41 General administration	1,857,175	1,857,175	1,502,804	354,371
51 Plant maintenance and operations	3,515,581	3,507,671	2,989,651	518,020
52 Security and monitoring services	307,500	325,500	302,982	22,518
53 Data processing services	485,193	588,547	590,578	(2,031)
61 Community services	319,050	400,124	388,772	11,352
71 Interest expense	1,367,174	916,001	919,738	(3,737)
Total expenses	<u>23,303,586</u>	<u>25,149,222</u>	<u>24,166,187</u>	<u>983,035</u>
Change in net assets	-	(1,091,076)	(337,903)	753,173
Net assets, beginning of year	<u>9,355,036</u>	<u>9,355,036</u>	<u>9,355,036</u>	-
Net assets, end of year	<u>\$ 9,355,036</u>	<u>\$ 8,263,960</u>	<u>\$ 9,017,133</u>	<u>\$ 753,173</u>

**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 of
Faith Family Kids, Inc.

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 Faith Family Kids, Inc. (the "Organization"), a nonprofit organization, which comprise the statement of financial position as of August 31, 2016, and the related statement 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 December 12, 2016 which contained an unmodified opinion on these financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConell & Jones LLP

Houston, Texas
December 12, 2016

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

To the Board of Directors of
Faith Family Kids, Inc.

Report on Compliance for Each Major Federal Program

We have audited Faith Family Kids, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended August 31, 2016. The Organization's major federal programs are identified in the summary of Auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Organization as of and for the year ended August 31, 2016, and have issued our report thereon dated December 12, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

McConell & Jones LLP

Houston, Texas
December 12, 2016

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016**

PART 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Section

- | | |
|--|------------|
| 1. Type of Auditor’s report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a) Material weakness identified? | No |
| b) Significant deficiency identified that is not considered to be a material weakness? | No |
| c) Noncompliance material to financial statements noted? | No |

Federal Awards Section

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a) Material weakness identified? | No |
| b) Significant deficiency identified that is not considered to be a material weakness? | No |
| 2. Type of Auditor’s report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed, which are required to be reported in accordance with 2 CFR section 200.6.516(a)? | No |

4. Identification of major programs:

<u>Federal CFDA Number</u>	<u>Name of Federal Program/Cluster</u>
10.553	National School Breakfast Program
10.555	National School Lunch Program

- | | |
|---|------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$ 750,000 |
| 6. Auditee qualified as low-risk auditee under 2 CFR section 200.520? | Yes |

FAITH FAMILY KIDS, INC.
(A Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016**

PART II: FINDINGS - FINANCIAL STATEMENT

None reported.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016**

**PART III: FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD
PROGRAMS**

None reported.

FAITH FAMILY KIDS, INC.
(A Texas Nonprofit Corporation)

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2015**

PART IV: STATUS OF PRIOR YEAR FINDINGS

None reported.

FAITH FAMILY KIDS, INC.
Schedule of Expenditures of Federal Awards
August 31, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs</i>			
ESEA, Title VI, Part B - Rural Education	84.358	S358A116464	\$ <u>34,129</u>
Total Direct Programs			<u>34,129</u>
<i>Pass-through programs from:</i>			
<i>Texas Education Agency</i>			
ESEA, Title I, Part A - Improving Basic Programs	84.010	16610101070801	861,492
IDEA - Part B, Formula	84.027	166600010708016000	383,823
IDEA - Part B, Preschool	84.173	166610010708016000	1,816
ESEA, Title III, Part A - English Language Acquisition	84.365	16671001070801	52,898
ESEA, Title II, Part A - Teacher and Principal Training	84.367	16694501070801	138,819
Carl D. Perkins - Career and Technology Grant	84.048	16420006070801	36,463
Total Passed Through Texas Education Agency			<u>1,475,311</u>
Total U.S. Department of Education			<u>1,509,440</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Pass-through programs from:</i>			
<i>Texas Education Agency</i>			
National School Breakfast Program	10.553	71401201	518,739
National School Lunch Program	10.555	71301201	966,465
National School Lunch Program -non cash support	10.555		114,441
Total Passed Through Texas Education Agency			<u>1,599,645</u>
Total U.S. Department of Agriculture			<u>1,599,645</u>
Total Federal Awards			<u>\$ 3,109,085</u>

The accompanying notes are an integral part of this schedule

FAITH FAMILY KIDS, INC.

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2016**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the Federal grant activity of Faith Family Kids, Inc. and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operation of the Charter Holder, it is not intended to and does not present the financial position, changes in net assets, and cash flows of the Charter Holder.

2. Summary of Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Commitments and Contingencies

Federal grants received by the Organization are subject to review and audit by grantor agencies. The Organization's management believes that the results of such audits will not have a material effect on the Schedule.

December 12, 2016

To the Board of Directors of
Faith Family Kids, Inc

We have audited the financial statements of Faith Family Kids, Inc. (the "School") for the year ended August 31, 2016, and have issued our report thereon dated December 12, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended August 31, 2016. We noted no transactions entered into by the 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.

Accounting Estimates

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. Significant estimates included in the financial statements are depreciation expense, revenue and receivable for Foundation School Program and the functional allocation of expenses. We evaluated the key factors and assumptions used to develop those accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements appear neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School's financial reporting process (that is cause future financial statements to be materially misstated). There were no audit adjustments proposed by us for the fiscal year ended

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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter December 12, 2016. A copy of the management representation letter is attached to this letter.

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 School's financial statements or a determination of the type of auditor's 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.

Fraud Risk

We have performed the procedures required by Statement on Auditing Standards AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*, including discussion with management regarding the policies and procedures to prevent fraud. Management has represented to us that they have no knowledge of any fraud or suspected fraud affecting the School involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements. Management has further represented to us that they

have no knowledge of any allegations of fraud or suspected fraud affecting the School received in communications from employees, former employees, or others.

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 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.

Other Matters

With respect to the Supplementary Information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing such 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 also compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

McConell & Jones LLP