

**EL PASO EDUCATION INITIATIVE, INC.
FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT
FOR THE YEAR ENDED AUGUST 31, 2017 AND 2016**

Sammy C. Johnson
Certified Public Accountant

EL PASO EDUCATION INITIATIVE, INC.
EL PASO, TEXAS

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EL PASO EDUCATION INITIATIVE, INC.

CERTIFICATE OF BOARD

<u>Name of School District</u>	<u>County</u>	<u>Co.-Dist. Number</u>
Burnham Wood Charter School District	El Paso County	071-801
Vista del Futuro Charter School	El Paso County	071-809

We, the undersigned, certify that the attached Financial and Compliance Report of the El Paso Education Initiative, Inc., charter holder of the Burnham Wood Charter School District and the Vista del Futuro Charter School was reviewed and (check one): approved _____ disapproved for the year ended August 31, 2017, at a meeting of the governing body of El Paso Education Initiative, Inc. on the 22nd day of Jan, 2018.

Carla Kapa
Signature of Board Secretary

James B Burnham
Signature of Board Officer

If the governing body of the charter holder does not approve the independent auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

Sammy C. Johnson
Certified Public Accountant
Chartered Global Management Accountant

MEMBER
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
New Mexico Society of Certified Public Accountants
Private Companies Practice Section

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
El Paso Education Initiative, Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of El Paso Education Initiative, Inc. (a nonprofit organization) which comprise the statement of financial position as of August 31, 2017 and 2016, and the related statements of activities and 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Paso Education Initiative, Inc. as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of financial position-individual charter schools, statement of activities-individual charter schools, statement of cash flows-individual charter schools, and statement of activities by functional expense are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenses-individual charter schools, schedule of capital assets-individual charter schools, and budgetary comparison schedule-individual charter schools, as required by the Texas Education Agency, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 my 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*, I have also issued my report dated January 18, 2018, on my consideration of El Paso Education Initiative, Inc.'s internal control over financial reporting and on my 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 my 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 El Paso Education Initiative, Inc.'s internal control over financial reporting and compliance.



El Paso, Texas
January 18, 2018

EL PASO EDUCATION INITIATIVE, INC.

Statement of Financial Position

For the year ended August 31, 2017

(With Comparative Totals for 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 6,591,196	\$ 8,194,850
Due from governments	722,077	620,919
Due from others	29,137	218
Inventory	5,486	5,101
Deferred expenses	25,265	2,403
Total current assets	<u>7,373,161</u>	<u>8,823,491</u>
Property and equipment - net	10,268,422	10,567,841
Bond costs - net of amortization	201,028	211,557
	<u>10,469,450</u>	<u>10,779,398</u>
Total assets	<u>\$ 17,842,611</u>	<u>\$ 19,602,889</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 81,523	\$ 50,588
Accrued liabilities	159,159	161,502
Accrued interest	124,375	226,750
Due to governments	9,670	9,831
Deferred revenue	12,470	-
Bonds payable - current portion	-	180,000
Total current liabilities	<u>387,197</u>	<u>628,671</u>
Long-term debt		
Bonds payable	<u>3,980,000</u>	<u>7,145,000</u>
Total liabilities	<u>4,367,197</u>	<u>7,773,671</u>
Net assets		
Unrestricted	782,876	672,862
Temporarily restricted	12,692,538	11,156,356
Total net assets	<u>13,475,414</u>	<u>11,829,218</u>
Total liabilities and net assets	<u>\$ 17,842,611</u>	<u>\$ 19,602,889</u>

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Activities

For the year ended August 31, 2017

(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
REVENUES AND OTHER SUPPORT				
Local support				
Contributions	\$ 5,063	\$ 1,500	\$ 6,563	\$ 4,250
Interest income	-	790	790	4,778
Other revenues from local sources	271,592	229,454	501,046	574,838
Total local support	276,655	231,744	508,399	583,866
State program revenues				
Foundation school program	-	10,780,912	10,780,912	11,230,367
State revenues distributed by the Texas				
Education Agency	-	115,688	115,688	49,983
State Revenues from State of Texas				
Government Agencies	-	-	-	4,206
Total state program revenues	-	10,896,600	10,896,600	11,284,556
Federal program revenues				
ESEA Title I, Part A	-	311,446	311,446	362,071
ESEA Title II, Part A	-	48,705	48,705	76,026
IDEA-B Formula	-	192,735	192,735	203,124
IDEA-B Preschool	-	509	509	449
Title III, Part A, Sub 2	-	54,430	54,430	9,788
National School Lunch and Breakfast Program	-	441,636	441,636	439,486
Summer School LEP	-	4,660	4,660	6,537
Total federal program revenues	-	1,054,121	1,054,121	1,097,481
Net assets released from restrictions				
Restrictions satisfied by payments	10,646,283	(10,646,283)	-	-
Total revenue	10,922,938	1,536,182	12,459,120	12,965,903
EXPENSES AND LOSS				
Program services				
Instruction and instructional related services	5,848,234	-	5,848,234	5,337,432
Instruction and school leadership	787,474	-	787,474	942,657
Support services				
Administrative support services	1,138,552	-	1,138,552	1,058,846
Support services - non-student based	1,755,571	-	1,755,571	1,862,788
Support services - student (pupil)	956,014	-	956,014	1,071,630
Debt Service	327,079	-	327,079	468,029
Total expenses	10,812,924	-	10,812,924	10,741,382
Change in net assets	110,014	1,536,182	1,646,196	2,224,521
Net assets - beginning of year	672,862	11,156,356	11,829,218	9,604,697
Net assets - end of year	\$ 782,876	\$ 12,692,538	\$ 13,475,414	\$ 11,829,218

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Cash Flows

For the year ended August 31, 2017

(With Comparative Totals for 2016)

CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016
State program revenues	\$ 10,725,914	\$ 11,152,753
Grant payments	978,567	1,018,499
Contributions and fund-raising activities	34,437	4,250
Local sources	473,428	579,617
Payments to vendors for goods and services rendered	(3,262,815)	(3,311,610)
Payments to charter school personnel for services rendered	(6,792,467)	(6,566,513)
Interest payments	(351,125)	(226,750)
	<hr/>	<hr/>
Net cash provided by operating activities	1,805,939	2,650,246
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisition costs	(64,593)	(707,749)
	<hr/>	<hr/>
Net cash used for investing activities	(64,593)	(707,749)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of bonds payable	(3,345,000)	-
	<hr/>	<hr/>
Net cash used for financing activities	(3,345,000)	-
	<hr/>	<hr/>
Net increase in cash and cash equivalents	(1,603,654)	1,942,497
Cash and cash equivalents at beginning of year	8,194,850	6,252,353
Cash and cash equivalents at end of year	\$ 6,591,196	\$ 8,194,850
	<hr/> <hr/>	<hr/> <hr/>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH		
CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 1,646,196	\$ 2,224,521
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	374,541	361,115
(Increase) decrease in assets		
Inventory	(385)	(1,223)
Due from others	(28,919)	1,784
Due from governments	(101,158)	(129,726)
Deferred expenses	(22,862)	1,261
Increase (decrease) in liabilities		
Accounts payable	30,935	(35,773)
Accrued liabilities	(2,343)	(2,378)
Accrued interest	(102,375)	226,750
Due to governments	(161)	9,831
Deferred revenue	12,470	(5,916)
	<hr/>	<hr/>
Total cash provided by operating activities	\$ 1,805,939	\$ 2,650,246
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these statements.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of El Paso Education Initiative, Inc. were prepared in conformity with the accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

A. *Organization and Nature of Activities*

El Paso Education Initiative, Inc. (the Charter Holder) is a non-profit organization exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code incorporated in the state of Texas. The Charter Holder operates three campuses under two open-enrollment charters granted by the Texas State Board of Education. The two charters are Vista del Futuro Charter School, offering kindergarten through 6th grade, and Burnham Wood Charter School District, offering kindergarten through 5th grade at Howard Burnham Elementary School and 6th through 12th grade at The Da Vinci School for Science and the Arts, a Texas STEM Academy recognized by the Texas Education Agency.

The charter schools are part of the public school system of the state of Texas and are entitled to distributions from the state's available school fund. The Charter Holder does not have the authority to impose ad valorem taxes or charge tuition.

The Charter Holder had no non-charter activities.

Accounting Policies

The accounting system is organized under the Special Supplement Nonprofit Charter School Chart of Accounts, a Module of the Texas Education Agency Financial Accountability System Resource Guide.

The accompanying financial statements have been prepared using 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. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted - net assets that are not subject to donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

Temporarily restricted - net assets subject to donor-imposed stipulations that may or will be met either by action of the corporation, the charter school 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 - net assets required to be maintained in perpetuity with only the income to be used for the charter school's activities due to donor-imposed restrictions.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Use of Estimates

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

C. Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended August 31, 2016, from which the summarized information was derived.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Charter Holder considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

E. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

F. Inventories

Inventories of food commodities are taken at year end and recorded at market values supplied by the Texas Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Agriculture and recorded as expenditures and revenue when received.

G. Property and Equipment

All assets acquired with a value of \$5,000 or greater are defined by the Charter Holder as fixed assets and are recorded at historical or estimated cost. Such assets are depreciated over the estimated useful lives of the assets, which range from 3 to 39 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. Donated assets are reported at the fair market value at the time of acquisition.

H. Basis of Consolidation

The consolidated financial statements include all of the Charter Holder's accounts. All significant intercompany balances and transactions have been eliminated.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenues

Revenues from the state's available school fund are based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

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

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

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.

J. Fair Value Measurement

The Charter Holder utilizes fair value measurement for financial assets and financial liabilities on a recurring basis and for non-financial items that are measured at fair value on a non-recurring basis. Financial instruments included in the financial statements include cash and cash equivalents, receivables and other assets, accounts payable, accrued liabilities, deferred revenue and bonds payable. Unless otherwise disclosed in the notes to the financial statements, the carrying value of financial instruments is considered to approximate fair value due to the maturity and the characteristics of those instruments. The carrying value of bonds payable approximates fair value as terms approximate those currently available for similar debt instruments.

K. Personal Leave

Faculty and non-faculty employees of the Charter Holder working a minimum of 30 hours per week accrue sick/personal-leave benefits at the rate of five days per year. The Charter Holder does not have a policy requiring the payment of any amounts related to accumulated sick/personal leave when employees separate from service. As such, as of August 31, 2017, there is no liability accrued on the financial statements.

2. CASH AND INVESTMENTS

At August 31, 2017, the carrying amount of the Charter Holder's deposits (cash and interest-bearing savings) were \$6,575,283 and the bank balance was \$6,941,184. Deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At August 31, 2017, the Charter Holder's had cash balances exceeding insurance coverage of \$6,015,487. The Charter Holder maintains its cash with high quality financial institutions which the Charter Holder believes limits these risks.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

2. CASH AND INVESTMENTS (continued)

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the Charter Holder to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Charter Holder to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts (10) and common trust funds. The Act also requires the Charter Holder to have independent auditors perform test procedures related to investment practices as provided by the Act.

Due to the immediate availability of the funds, the Charter Holder's temporary investments are presented as cash and cash equivalents as of August 31, 2017 and, include the following:

	Carrying Value	Market Value	WAM (in days)	Rating
TexPool	\$ 5,239	\$ 5,239	30 days	AAAm
TexSTAR	10,674	10,674	33 days	AAAm
	\$ 15,913	\$ 15,913		

The TexSTAR local government investment pool is an external investment pool overseen by a five-member governing board. The responsibility of the board includes the ability to influence operations, designation of management, and accountability for fiscal matters. In addition, the fund has a Participant Advisory Board which provides input and feedback on the operations and direction of the program. The Pool has received a rating of AAAm from Standard & Poor's as required by the Public Fund's Investment Act. These funds are not insured or guaranteed by the FDIC or any other governmental agency.

TexPool is a local government investment pool in the State of Texas. The State Comptroller of Public Accounts oversees TexPool. There is also a TexPool Advisory Board, composed of participants which advise on TexPool's Investment policy and approve fee increases. TexPool is a pooled investment program administered by First Southwest Asset Management, Inc. and JP Morgan Chase. These funds are not insured or guaranteed by the FDIC or any other governmental agency.

Although TexPool and TexStar are not registered with the SEC as investment companies, they operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB Statement Number 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the Charter Holder's in the TexPool and TexStar is the same as the value of the TexPool and TexStar shares. TexPool and TexStar each issue publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by calling TexPool at 1-866-TEXPOOL and TexStar at 1-800-839-7827.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

3. CAPITAL ASSETS

Capital asset activity for the Charter Holder for the year ended August 31, 2017, was as follows:

Assets	Beginning Balance 8/31/16	Additions	Deletion, Reclassification and Adjustment	Ending Balance 8/31/17	Depreciable Lives
Land	\$ 1,762,353	\$ -	\$ -	\$ 1,762,353	
Building and improvements	10,589,190	15,000	-	10,604,190	39 years
Furniture and equipment	807,076	39,288	(19,193)	827,171	5-10 years
Technology	26,778	10,304	-	37,082	3 years
Vehicles	8,478	-	-	8,478	5 years
Total property and equipment	13,193,875	64,592	(19,193)	13,239,274	
Less accumulated depreciation for:					
Building	(2,006,664)	(284,332)	-	(2,290,996)	
Furniture and equipment	(610,892)	(79,679)	19,193	(671,378)	
Vehicles	(8,478)	-	-	(8,478)	
Total accumulated depreciation	(2,626,034)	(364,011)		(2,970,852)	
Property and equipment, net	\$ 10,567,841	\$ (299,419)	\$ (19,193)	\$ 10,268,422	

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Charter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets. Depreciation expense for the year ended August 31, 2017 was \$364,011.

Depreciation expense was charged to the following functions:

Instruction	\$ 29,426
School Leadership	1,394
Facilities Maintenance and Operations	319,625
Food Services	2,918
Data Processing Services	10,648
	<u>\$ 364,011</u>

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

4. BOND COST

The cost of bonds issued is being amortized over a 30 year period.

Bond Cost	Accumulated Amortization	Unamortized Bond Cost	Current Year Amortization
\$ 315,861	\$ 114,833	\$ 201,028	\$ 10,529

5. DUE FROM TEXAS EDUCATION AGENCY

As of August 31, 2017 the Charter Holder had earned the following unpaid amounts:

ESEA, Title I, Part A	\$ 76,182
IDEA, Part B - Formula	2,900
IDEA, Part B - Preschool	509
National School Breakfast and Lunch Program	16,020
ESEA, Title II, Part A	30,337
Title III, Part A, Sub 2	43,383
Foundation School Program	552,746
	\$ 722,077

6. BONDS PAYABLE

On October 4, 2006, bonds were issued by the Texas Public Finance Authority Charter School Finance Corporation as follows: \$8,360,000 of Education Revenue Bonds, Burnham Wood Charter School Project (Series 2006A), the proceeds of which were loaned to the Charter Holder to be used to finance the acquisition, construction and equipping, rehabilitation and renovations of certain land, buildings, equipment, facilities and improvements located on two campuses in El Paso, TX and to pay certain of the costs of issuing the series 2006 bonds. The issue proceeds were placed in accounts designated for construction and future debt service at Wells Fargo Bank NA (the Trustee). The bonds mature serially each September 1st starting 2008 until 2036 with interest ranging from 5.5% to 6.25%.

The Charter Holder is required to maintain a debt service reserve fund which is currently equal to the maximum annual principal and interest requirements of the bonds. A guaranty agreement dated July 20, 2007, between the Charter Holder and the Texas Public Finance Authority Charter School Finance Corporation provides Reserve Fund guaranty coverage in the amount of \$650,613 as part of the Texas Credit Enhancement Program. Funds held in the Debt Reserve Fund of \$650,613, from the original issue were released for construction and acquisition. The series 2006A Bonds are subject to optional redemption in whole or part on September 1, 2016. The trust agreement contains certain covenants with which the Charter Holder was in compliance during the fiscal period ended August 31, 2017.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

6. BONDS PAYABLE (continued)

Debt service for the Series 2006A bonds are as follows:

Fiscal Year End	Principal	Interest	Totals
2018	\$ -	\$ 248,750	\$ 248,750
2019	-	248,750	248,750
2020	-	248,750	248,750
2021	-	248,750	248,750
2022	-	248,750	248,750
2023-2027	-	1,243,750	1,243,750
2028-2032	1,315,000	1,114,844	2,429,844
2033-2037	2,665,000	436,719	3,101,719
Total	<u>\$ 3,980,000</u>	<u>\$ 4,039,063</u>	<u>\$ 8,019,063</u>

The Charter Holder incurred interest in the amount of \$248,750 which is included in the “Support services-non-student based” expenses.

7. PENSION PLAN

Plan Description: The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8 Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplemental information for the defined benefit pension plan. That report may be obtained by writing the TRS Communications Department, 1000 Red River, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publication heading.

The TRS plan differs from a single-employer plan as follows: (1) charter schools are legally separate entities from the state and each other, (2) 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, (3) the unfunded obligations get passed along to the other charter schools and ISDs, (4) there is no withdrawal penalty for leaving the TRS system.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

7. PENSION PLAN (continued)

The latest TRS Comprehensive Annual Financial Report available dated August 31, 2017 indicated the following:

Name of the Pension Fund	EIN and Plan Number, if Available	Total Plan Assets	Accumulated Benefit Obligations	Funded Percentage
Teacher Retirement System of Texas	N/A	\$165,379,341,964	\$179,336,534,819	82.17%

There is not a collective-bargaining agreement.

Funding Policy: Contribution requirements are not actuarially determined but are legally established and amended by the Texas State Legislature. The state funding policy is: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.4% of the member’s annual compensation and a state contribution rate not less than 6.4% and not more than 10.0% of the aggregate annual compensation of all members of the system and, (2) a state statute prohibits benefit improvements or contributions reductions if, as a result of the particular action, the time required to amortize TRS’s unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 7.7% for the fiscal years 2017, 7.2% for the fiscal year 2016, and 6.7% for the fiscal year 2015, and for a state contribution rate of 6.8% for the fiscal years 2017, 2016 and 2015. In certain instances, the reporting district is required to make all or a portion of the state’s 6.4% contribution. The Charter Holder’s contributions into this plan do not represent more than 5% of the total contributions to the plan and the Charter Holder was not assessed a surcharge.

Contributions made by employees for the fiscal years ended August 31, 2017, 2016, and 2015 were \$446,779, \$391,103, and \$342,570 respectively.

The Charter Holder also offers a 403(b) annuity plan to all eligible employees. No matching employer contributions are required under this plan.

8. HEALTH INSURANCE COVERAGE

During the year ended August 31, 2017, eligible employees of the Charter Holder were covered by TRS Active Care (the Plan) a comprehensive program provided by the Teacher Retirement System of Texas (TRS). The Charter Holder contributed \$200 per month per eligible employee to the Plan. All premiums were submitted to TRS monthly. The state reimbursed the Charter Holder \$75 per month per eligible employee. Coverage that exceeded the Charter Holder contribution was paid by authorized payroll deductions.

9. RETIREE HEALTH PLAN

Plan Description: The Charter Holder contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing, multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

9. RETIREE HEALTH PLAN (continued)

The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants.

TRS issues a publicly available financial report that includes financial statements and required supplemental information for TRS-Care. That report may be obtained by visiting the TRS Internet website, www.trs.state.tx.us, under the TRS Publication heading, by writing the TRS Communications Department, 1000 Red River, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778.

Funding Policy: Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of school payroll, respectively, with the District contributing a percentage of payroll set at .55% for fiscal years 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575.204, school contributions may not be less than .25% or greater than .75% of the salary of each active employee of the school.

Contributions made by the Charter Holder, staff members, and the state to TRS are as follows:

For the years ended August 31	District Contributions to TRS-Care	Staff Members' Contributions to TRS-Care	State TRS-Care Contributions Made on Behalf of the District
2017	\$ 31,911	\$ 37,715	\$ 58,023
2016	29,876	35,308	54,320
2015	28,122	33,235	51,130

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2017 consist of the following:

Foundation School Program	\$ 12,415,954
Local Revenues	24,705
State Programs	6,094
PCS-Start-up Grant Cycle 13	8,610
ESEA Title I, Part A - Improving Basic Programs	21,753
National School Breakfast and Lunch Program	215,422
	\$ 12,692,538

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

11. OPERATING LEASES

The Charter Holder leases various property and equipment under various lease agreements. The original terms on these various leases range from 36 to 120 months.

The following is a lease schedule of future minimum rental payments required under all non-cancelable operating leases as of August 31, 2017:

<u>Year-Ended August 31:</u>	
2018	\$ 394,547
2019	394,480
2020	390,700
2021	390,700
2022	<u>382,225</u>
Total	<u><u>\$ 1,952,652</u></u>

The future minimum annual rental payments are subject to escalation for real estate taxes and certain maintenance costs.

Total rental expense for all operating leases was approximately \$394,218 for the year ended August 31, 2017.

12. LITIGATION

The Charter Holder is subject to various legal claims that arise from time to time in the ordinary course of business. At this time management believes we have substantial defenses in these matters. We could, in the future, incur judgments that could have a material adverse effect on our results of operations in a particular period.

The following summarizes the nature of the litigation and estimates of the loss or range of loss that may occur:

The Charter Holder is involved in litigation with Amex Properties, LLC (“Amex”). The litigation arises from negotiations for the construction and lease of a commercial building. Amex is a property owner that entered into negotiations with El Paso Education Initiative, Inc. (“Charter Holder”) to construct a building to house one of the Charter Holder’s schools and to lease it to the Charter Holder for a period of 10 years. The Charter Holder delivered a proposed contract to Amex but Amex continued to negotiate contract terms. Subsequently, when the negotiations broke down, Amex claimed it had accepted to previously proposed terms. But Amex’s claim of acceptance was not communicated to the Charter Holder in sufficient time to confirm Amex’s ability to perform the construction required and the Charter Holder withdrew the offer.

Subsequently, Amex sued the Charter Holder for breach of contract, promissory estoppels and attorneys’ fees. The Charter Holder has raised the defense that its Board of Directors had not approved the subject contract. Discovery is currently abated as the trial court addressed and granted some but denied other parts of the Charter Holder’s defense of inviolate immunity from these claims for lack of jurisdiction over the non-participating Charter Holder together with other immunity defenses.

El Paso Education Initiative, Inc.
Notes to Financial Statements
August 31, 2017

12. LITIGATION (continued)

For such reasons, the Charter holder cannot estimate a possible loss or even range of loss in connection with this litigation at this time.

13. RELATED PARTIES

The Charter Holder paid Burnham Family, LP, an entity 96% constructively owned by Iris Burnham, an employee of El Paso Education Initiative, Inc., \$362,500 in rent for the year ended August 31, 2017 for the use of facilities by Vista del Futuro Charter School. Iris Burnham is Superintendent-Emeritus of the Charter Schools and President of the Board. The rent was paid pursuant to a lease agreement between Burnham Family, LP and El Paso Education Initiative, Inc. This agreement was approved on August 27, 2009, by the Board of Directors of the El Paso Education Initiative, Inc. The lease agreement was amended effective May 4, 2017, to include an option to purchase fee simple title to the facilities based upon a current fair market value and renewal option to extend for 25 years effective upon expiration of the "Initial Term".

14. ECONOMIC DEPENDENCY

During the year ended August 31, 2017, the Charter Holder earned revenue of \$11,903,742 from the Texas Education Agency (TEA). This constitutes approximately 95.54% of total revenue earned. The loss of this charter agreement with TEA could have material impact on the ability of the Charter Holder to continue to provide the current level of services to its students.

15. EVALUATION OF SUBSEQUENT EVENTS

On December 31, 2017, the Charter Holder redeemed \$2,195,000 of Education Revenue Bonds, Series 2006A and paid early redemption fees of 1%. The early redemption covers principal payments from fiscal year 2034 through 2037. The early redemption will result in interest savings of \$2,365,519.

The Charter Holder has evaluated subsequent events through January 18, 2018 the date which the financial statements were available to be issued.

**SPECIFIC-PURPOSE
FINANCIAL STATEMENTS**

EL PASO EDUCATION INITIATIVE, INC.Statement of Financial Position
Burnham Wood Charter School District
For the year ended August 31, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,477,992	\$ 6,378,065
Due from governments	529,635	453,107
Due from others	32,019	2,285
Inventory	3,031	3,560
Deferred expenses	17,731	1,782
Total current assets	<u>5,060,408</u>	<u>6,838,799</u>
Property and equipment - net	10,217,316	10,509,952
Bond costs - net of amortization	201,028	211,557
	<u>10,418,344</u>	<u>10,721,509</u>
Total assets	<u>\$ 15,478,752</u>	<u>\$ 17,560,308</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 69,130	\$ 49,555
Accrued liabilities	114,846	116,999
Accrued interest	124,375	226,750
Due to governments	10,849	10,898
Deferred revenue	12,470	-
Bonds payable - current portion	-	180,000
Total current liabilities	<u>331,670</u>	<u>584,202</u>
Long-term debt		
Bonds payable	<u>3,980,000</u>	<u>7,145,000</u>
Total liabilities	<u>4,311,670</u>	<u>7,729,202</u>
Net assets		
Unrestricted	479,927	415,437
Temporarily restricted	10,687,155	9,415,669
Total net assets	<u>11,167,082</u>	<u>9,831,106</u>
Total liabilities and net assets	<u>\$ 15,478,752</u>	<u>\$ 17,560,308</u>

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Financial Position

Vista Del Futuro Charter School

For the year ended August 31, 2017

(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,011,997	\$ 1,714,509
Due from governments	193,621	168,879
Inventory	2,455	1,541
Deferred expenses	7,534	621
Total current assets	<u>2,215,607</u>	<u>1,885,550</u>
Property and equipment - net	<u>51,106</u>	<u>57,889</u>
Total assets	<u><u>\$ 2,266,713</u></u>	<u><u>\$ 1,943,439</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 12,393	\$ 1,033
Accrued liabilities	47,195	46,570
Total current liabilities	<u>59,588</u>	<u>47,603</u>
Total liabilities	<u>59,588</u>	<u>47,603</u>
Net assets		
Unrestricted	201,742	155,149
Temporarily restricted	2,005,383	1,740,687
Total net assets	<u>2,207,125</u>	<u>1,895,836</u>
Total liabilities and net assets	<u><u>\$ 2,266,713</u></u>	<u><u>\$ 1,943,439</u></u>

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Activities

Burnham Wood Charter School District

For the year ended August 31, 2017

(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ 161,805	\$ 5,956	\$ 167,761	\$ 107,671
5750 Revenues from Cocurricular, Enterprising Services or Activities	33,597	154,747	188,344	217,329
Total Local Support revenues	195,402	160,703	356,105	325,000
State program revenues				
5810 Foundation School Program Act Revenues	-	7,887,315	7,887,315	8,300,731
5820 State Program Revenues Distributed by Texas Education Agency	-	114,657	114,657	33,100
5830 State Revenues from State of Texas Government Agencies	-	-	-	4,206
Total state program revenues	-	8,001,972	8,001,972	8,338,037
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	-	799,612	799,612	850,944
Net assets released from restrictions:				
Restrictions satisfied by payments	7,690,801	(7,690,801)	-	-
Total revenues	7,886,203	1,271,486	9,157,689	9,513,981
Expenses				
11 Instruction	4,082,783	-	4,082,783	3,725,678
12 Instructional Resources and Media Services	49,739	-	49,739	43,363
13 Curriculum Development and Instructional Staff Development	55,711	-	55,711	58,761
21 Instructional Leadership	120,934	-	120,934	191,314
23 School Leadership	429,895	-	429,895	504,887
31 Guidance, Counseling and Evaluation Services	30,143	-	30,143	128,501
33 Health Services	77,067	-	77,067	51,874
35 Food Services	454,163	-	454,163	412,865
36 Extracurricular Activities	152,145	-	152,145	204,222
41 General Administration	955,640	-	955,640	927,549
51 Facilities Maintenance and Operations	984,812	-	984,812	965,285
52 Security and Monitoring Services	54,398	-	54,398	73,894
53 Data Processing Services	47,204	-	47,204	220,079
71 Debt service	327,079	-	327,079	468,029
Total expenses	7,821,713	-	7,821,713	7,976,301
Change in net assets	64,490	1,271,486	1,335,976	1,537,680
Net assets - beginning of year	415,437	9,415,669	9,831,106	8,293,426
Net assets - end of year	\$ 479,927	\$ 10,687,155	\$ 11,167,082	\$ 9,831,106

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Activities

Vista Del Futuro Charter School

For the year ended August 31, 2017

(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ 56,973	\$ 259	\$ 57,232	\$ 20,397
5750 Revenues from Cocurricular, Enterprising Services or Activities	25,350	70,782	96,132	75,689
Total Local Support revenues	82,323	71,041	153,364	96,086
State program revenues				
5810 Foundation School Program Act Revenues	-	2,893,597	2,893,597	2,929,636
5820 State Program Revenues Distributed by Texas Education Agency	-	1,031	1,031	16,883
Total state program revenues	-	2,894,628	2,894,628	2,946,519
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	-	254,509	254,509	246,537
Net assets released from restrictions:				
Restrictions satisfied by payments	2,955,482	(2,955,482)	-	-
Total revenues	3,037,805	264,696	3,302,501	3,289,142
Expenses				
11 Instruction	1,618,436	-	1,618,436	1,466,506
12 Instructional Resources and Media Services	22,401	-	22,401	21,164
13 Curriculum Development and Instructional Staff Development	19,165	-	19,165	21,960
21 Instructional Leadership	33,894	-	33,894	71,090
23 School Leadership	202,752	-	202,752	175,367
31 Guidance, Counseling and Evaluation Services	15,351	-	15,351	8,997
33 Health Services	25,454	-	25,454	16,528
35 Food Services	183,701	-	183,701	170,860
36 Extracurricular Activities	17,990	-	17,990	17,278
41 General Administration	182,912	-	182,912	131,297
51 Facilities Maintenance and Operations	603,558	-	603,558	541,868
52 Security and Monitoring Services	22,215	-	22,215	23,536
53 Data Processing Services	43,383	-	43,383	38,126
Total expenses	2,991,212	-	2,991,212	2,704,577
Change in net assets	46,593	264,696	311,289	584,565
Net assets - beginning of year	155,149	1,740,687	1,895,836	1,311,271
Net assets - end of year	\$ 201,742	\$ 2,005,383	\$ 2,207,125	\$ 1,895,836

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Cash Flows

Burnham Wood Charter School District

For the year ended August 31, 2017

(With Comparative Totals for 2016)

CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016
State program revenues	\$ 7,851,195	\$ 8,253,673
Grant payments	738,525	800,281
Contributions and fund-raising activities	34,971	2,642
Local sources	320,599	322,358
Payments to vendors for goods and services rendered	(2,220,010)	(2,280,878)
Payments to charter school personnel for services rendered	(4,874,093)	(4,883,670)
Interest payments	(351,125)	(226,750)
	<hr/>	<hr/>
Net cash provided by operating activities	1,500,062	1,987,656
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisition costs	(55,135)	(676,903)
	<hr/>	<hr/>
Net cash used for investing activities	(55,135)	(676,903)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of bonds payable	(3,345,000)	-
	<hr/>	<hr/>
Net cash used for financing activities	(3,345,000)	-
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(1,900,073)	1,310,753
Cash and cash equivalents at beginning of year	6,378,065	5,067,312
Cash and cash equivalents at end of year	\$ 4,477,992	\$ 6,378,065
	<hr/> <hr/>	<hr/> <hr/>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 1,335,976	1,537,680
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	358,300	344,410
(Increase) decrease in assets		
Inventory	529	(281)
Due from others	(29,734)	(283)
Due from governments	(76,528)	(81,411)
Deferred expenses	(15,949)	198
Increase (decrease) in liabilities		
Accounts payable	19,575	(34,630)
Accrued liabilities	(2,153)	(9,759)
Accrued interest	(102,375)	226,750
Due to governments	(49)	10,898
Deferred revenue	12,470	(5,916)
	<hr/>	<hr/>
Total cash provided by operating activities	\$ 1,500,062	\$ 1,987,656
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Cash Flows

Vista Del Futuro Charter School

For the year ended August 31, 2017

(With Comparative Totals for 2016)

CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016
State program revenues	\$ 2,874,719	\$ 2,899,080
Grant payments	240,042	218,218
Contributions	535	558
Local sources	152,829	95,528
Payments to vendors for goods and services rendered	(1,042,805)	(1,024,880)
Payments to charter school personnel for services rendered	(1,918,374)	(1,628,190)
Net cash provided by operating activities	<u>306,946</u>	<u>560,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisition costs	<u>(9,458)</u>	<u>(30,846)</u>
Net cash used for investing activities	<u>(9,458)</u>	<u>(30,846)</u>
Net increase in cash and cash equivalents	297,488	529,468
Cash and cash equivalents at beginning of year	1,714,509	1,185,041
Cash and cash equivalents at end of year	<u>\$ 2,011,997</u>	<u>\$ 1,714,509</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 311,289	\$ 584,565
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	16,241	16,705
(Increase) decrease in assets		
Inventory	(914)	(942)
Due from governments	(24,742)	(49,382)
Deferred expenses	(6,913)	1,063
Increase (decrease) in liabilities		
Accounts payable	11,360	(1,143)
Accrued liabilities	625	9,448
Total cash provided by operating activities	<u>\$ 306,946</u>	<u>\$ 560,314</u>

The accompanying notes are an integral part of these statements.

EL PASO EDUCATION INITIATIVE, INC.

Statement of Activities by Functional Expense

For the year ended August 31, 2017

(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ 217,709	\$ 6,215	\$ 223,924	\$ 290,849
5750 Revenues from Cocurricular, Enterprising Services or Activities	58,947	225,529	284,476	293,018
Total Local Support revenues	276,656	231,744	508,400	583,867
State program revenues				
5810 Foundation School Program Act Revenues	-	10,780,912	10,780,912	11,230,367
5820 State Program Revenues Distributed by Texas Education Agency	-	115,688	115,688	49,983
5830 State Revenues from State of Texas Government Agencies	-	-	-	4,206
Total state program revenues	-	10,896,600	10,896,600	11,284,556
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	-	1,054,121	1,054,121	1,097,481
Total federal program revenues	-	1,054,121	1,054,121	1,097,481
Net assets released from restrictions:				
Restrictions satisfied by payments	10,646,283	(10,646,283)	-	-
Total revenues	10,922,939	1,536,182	12,459,121	12,965,904
Expenses				
11 Instruction	5,701,219	-	5,701,219	5,192,184
12 Instructional Resources and Media Services	72,140	-	72,140	64,527
13 Curriculum Development and Instructional Staff Development	74,876	-	74,876	80,721
21 Instructional Leadership	154,828	-	154,828	262,404
23 School Leadership	632,647	-	632,647	680,254
31 Guidance, Counseling and Evaluation Services	45,494	-	45,494	137,498
33 Health Services	102,521	-	102,521	68,402
35 Food Services	637,864	-	637,864	583,725
36 Extracurricular Activities	170,135	-	170,135	282,005
41 General Administration	1,138,552	-	1,138,552	1,058,846
51 Facilities Maintenance and Operations	1,588,370	-	1,588,370	1,507,153
52 Security and Monitoring Services	76,613	-	76,613	97,430
53 Data Processing Services	90,587	-	90,587	258,205
71 Debt service	327,079	-	327,079	468,029
Total expenses	10,812,925	-	10,812,925	10,741,383
Change in net assets	110,014	1,536,182	1,646,196	2,224,521
Net assets - beginning of year	672,862	11,156,356	11,829,218	9,604,697
Net assets - end of year	\$ 782,876	\$ 12,692,538	\$ 13,475,414	\$ 11,829,218

The accompanying notes are an integral part of these statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

EL PASO EDUCATION INITIATIVE, INC.

Schedule of Expenses

Burnham Wood Charter School District

For the year ended August 31, 2017

(With Comparative Totals for 2016)

Expenses	2017	2016
6100 Payroll Costs	\$ 4,871,941	\$ 4,875,994
6200 Professional and Contracted Services	1,312,851	1,262,952
6300 Supplies and Materials	680,201	727,841
6400 Other Operating Costs	629,641	641,485
6500 Debt	327,079	468,029
Total Expenses	<u>\$ 7,821,713</u>	<u>\$ 7,976,301</u>

EL PASO EDUCATION INITIATIVE, INC.

Schedule of Expenses

Vista Del Futuro Charter School

For the year ended August 31, 2017

(With Comparative Totals for 2016)

Expenses	2017	2016
6100 Payroll Costs	\$ 1,917,005	\$ 1,635,571
6200 Professional and Contracted Services	739,040	690,279
6300 Supplies and Materials	267,873	318,580
6400 Other Operating Costs	67,294	60,146
Total Expenses	<u>\$ 2,991,212</u>	<u>\$ 2,704,576</u>

EL PASO EDUCATION INITIATIVE, INC

Schedule of Capital Assets

Burnham Wood Charter School District

For the year ended August 31, 2017

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1510 Land	\$ -	\$ 1,762,353	\$ -
1520 Buildings and Improvements	-	10,604,190	-
1531 Vehicles	-	8,478	-
1532 Technology	-	33,102	-
1539 Furniture and Fixtures	<u>40,820</u>	<u>371,681</u>	<u>189,822</u>
	<u>\$ 40,820</u>	<u>\$ 12,779,804</u>	<u>\$ 189,822</u>

EL PASO EDUCATION INITIATIVE, INC.

Schedule of Capital Assets
Vista Del Futuro Charter School
For the year ended August 31, 2017

	Ownership Interest		
	Local	State	Federal
1532 Technology	\$ -	\$ 3,980	\$ -
1539 Furniture and Fixtures	-	50,730	174,119
	<u>\$ -</u>	<u>\$ 54,710</u>	<u>\$ 174,119</u>

EL PASO EDUCATION INITIATIVE, INC.

Budgetary Comparison Schedule

Burnham Wood Charter School

For the year ended August 31, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ -	\$ 152,201	\$ 167,761	\$ 15,560
5750 Revenues from Cocurricular, Enterprising Services or Activities	140,500	183,430	188,344	4,914
Total local support revenues	140,500	335,631	356,105	20,474
State program revenues				
5810 Foundation School Program Act Revenues	7,800,481	7,800,481	7,887,315	86,834
5820 State Program Revenues Distributed by Texas Education Agency	3,500	115,500	114,657	(843)
Total state program revenues	7,803,981	7,915,981	8,001,972	85,991
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	316,000	808,563	799,612	(8,951)
Total federal program revenues	316,000	808,563	799,612	(8,951)
Total revenues	8,260,481	9,060,175	9,157,689	97,514
Expenses				
11 Instruction	3,551,324	4,094,844	4,082,783	12,061
12 Instructional Resources and Media Services	3,100	78,371	49,739	28,632
13 Curriculum Development and Instructional Staff Development	18,800	57,885	55,711	2,174
21 Instructional Leadership	185,000	147,709	120,934	26,775
23 School Leadership	410,000	467,479	429,895	37,584
31 Guidance, Counseling and Evaluation Services	120,000	37,905	30,143	7,762
33 Health Services	67,821	86,000	77,067	8,933
35 Food Services	415,497	466,500	454,163	12,337
36 Extracurricular Activities	39,900	178,420	152,145	26,275
41 General Administration	1,357,105	1,001,105	955,640	45,465
51 Facilities Maintenance and Operations	1,066,194	1,071,694	984,812	86,882
52 Security and Monitoring Services	84,460	84,460	54,398	30,062
53 Data Processing Services	231,015	76,015	47,204	28,811
71 Debt Service	490,000	265,000	327,079	(62,079)
81 Fund Raising	200	-	-	-
Total expenses	8,040,416	8,113,387	7,821,713	291,674
Change in net assets	220,065	946,788	1,335,976	389,188
Net assets - beginning of year	9,831,106	9,831,106	9,831,106	
Net assets - end of year	\$ 10,051,171	\$ 10,777,894	\$ 11,167,082	\$ 389,188

EL PASO EDUCATION INITIATIVE, INC.

Budgetary Comparison Schedule

Vista Del Futuro Charter School

For the year ended August 31, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local support				
5740 Other Revenues from Local Sources	\$ -	\$ 56,600	\$ 57,232	\$ 632
5750 Revenues from Cocurricular, Enterprising Services or Activities	52,000	94,500	96,132	1,632
Total local support revenues	52,000	151,100	153,364	2,264
State program revenues				
5810 Foundation School Program Act Revenues	2,740,692	2,875,000	2,893,597	18,597
5820 State Program Revenues Distributed by Texas Education Agency	1,000	1,000	1,031	31
Total state program revenues	2,741,692	2,876,000	2,894,628	18,628
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	130,000	269,801	254,509	(15,292)
Total federal program revenues	130,000	269,801	254,509	(15,292)
Total revenues	2,923,692	3,296,901	3,302,501	5,600
Expenses				
11 Instruction	1,396,830	1,677,208	1,618,436	58,772
12 Instructional Resources and Media Services	3,000	29,229	22,401	6,828
13 Curriculum Development and Instructional Staff Development	8,000	23,346	19,165	4,181
21 Instructional Leadership	61,000	64,400	33,894	30,506
23 School Leadership	165,000	215,600	202,752	12,848
31 Guidance, Counseling and Evaluation Services	10,000	24,000	15,351	8,649
33 Health Services	20,000	35,000	25,454	9,546
35 Food Services	172,566	202,900	183,701	19,199
36 Extracurricular Activities	1,500	17,850	17,990	(140)
41 General Administration	145,000	180,598	182,912	(2,314)
51 Facilities Maintenance and Operations	605,500	640,500	603,558	36,942
52 Security and Monitoring Services	28,500	28,500	22,215	6,285
53 Data Processing Services	40,000	60,000	43,383	16,617
Total expenses	2,656,896	3,199,131	2,991,212	207,919
Change in net assets	266,796	97,770	311,289	213,519
Net assets - beginning of year	1,895,836	1,895,836	1,895,836	
Net assets - end of year	\$ 2,162,632	\$ 1,993,606	\$ 2,207,125	\$ 213,519

FEDERAL AWARDS SECTION

Sammy C. Johnson
Certified Public Accountant
Chartered Global Management Accountant

MEMBER
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
New Mexico Society of Certified Public Accountants
Private Companies Practice Section

**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
El Paso Education Initiative, Inc.

I 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 El Paso Education Initiative, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued my report thereon dated January 18, 2018.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies. Those finding reference numbers are 2017-001 and 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Paso Education Initiative, Inc.'s financial statements are free from material misstatement, I 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 my


audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002.

El Paso Education Initiative, Inc.'s Response to Findings

El Paso Education Initiative Inc.'s response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. El Paso Education Initiative, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



El Paso, Texas
January 18, 2018

Sammy C. Johnson
Certified Public Accountant
Chartered Global Management Accountant

MEMBER
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
New Mexico Society of Certified Public Accountants
Private Companies Practice Section

**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
El Paso Education Initiative, Inc.

Report on Compliance for Each Major Federal Program

I have audited El Paso Education Initiative, Inc.’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of El Paso Education Initiative, Inc.’s major federal programs for the year ended August 31, 2017. El Paso Education Initiative Inc.’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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

My responsibility is to express an opinion on compliance for each of El Paso Education Initiative, Inc.’s major federal programs based on my audit of the types of compliance requirements referred to above.

I conducted my 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 I 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 El Paso Education Initiative, Inc.’s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of El Paso Education Initiative, Inc.’s compliance.

Opinion on Each Major Federal Program

In my opinion, El Paso Education Initiative, Inc. 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, 2017.

Other Matters

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-3, 2017-4, and 2017-5. My opinion on each major federal program is not modified with respect to these matters.

El Paso Education Initiative, Inc.'s response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. El Paso Education Initiative, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control over Compliance

Management of El Paso Education Initiative, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered El Paso Education Initiative, Inc.'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, I do not express an opinion on the effectiveness of El Paso Education Initiative, Inc.'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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

A handwritten signature in cursive script that reads "Jimmy C. Johnson".

El Paso, Texas
January 18, 2018

El Paso Education Initiative, Inc.
Schedule of Findings and Questioned Costs
For the Year ended August 31, 2017

SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an unmodified opinion on the financial statements of El Paso Education Initiative, Inc.
2. There were no material weaknesses identified, however, there were significant deficiencies identified that are not considered to be material weaknesses disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of El Paso Education Initiative, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor’s report on compliance for the major federal award programs for El Paso Education Initiative, Inc. expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:
 - ESEA Title I, Part A – Improving Basic Programs Cluster, CFDA 84.010A
 - Child Nutrition Cluster, School Breakfast and Lunch Programs, CFDA 10.553 and 10.555
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. El Paso Education Initiative, Inc. was determined to be a low-risk auditee.

El Paso Education Initiative, Inc.
Schedule of Findings and Questioned Costs
For the Year ended August 31, 2017

FINDING # 2017-001

CONDITION: The condition noted in payroll time cards was that there were no indications that employees were verifying their time, and there were lack of approvals by a supervisor and/or director. The Payroll Specialist has total control of payroll without any oversight.

CRITERIA: The time card process should indicate the employee verifying the time on their time card, and the supervisor and director approving the time on the time card.

CAUSE: Internal controls were in place but not being followed. There was a significant amount of turnover in the Accounting Manager position and the Payroll Specialist position during the year.

EFFECT: Due to a lack of time card approvals, employees could be paid an improper amount. Because of the pervasiveness of lack of approvals for time cards, the total amount of improper or incorrect payments cannot be determined.

RECOMMENDATION: Require all employees verify their time cards. Require approvals of time cards by supervisors and/or directors.

RESPONSE: Due in part to the turnover in its' accounting department as noted in this Finding, EPEI was not complying with its current written time card protocols, requiring both employee and supervisory verifications in addition to the employee's biometric verification. EPEI is examining and will appropriately amend its' written procedures to account for its' use of biometric technology and will require employee supervisors and directors to verify employee time cards (See attached Response Exhibit 1, Directive from Superintendent)

El Paso Education Initiative, Inc.

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El Paso, TX 79912

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Dr. Joe E. Gonzales
785 Southwestern Drive
El Paso TX, 79912
Phone 915-584-4024 ext 1030
jgonzales@burnhamwood.org

January 21, 2019

URGENT

To: Administrators, Directors, and Supervisors

Over the weekend, I worked with our Legal Counsel and Mrs. Burnham to review and update the Staff and Student Handbooks. As a result of this process, immediate clarification is required for all staff related to time cards and leave requests. I am writing to update all of you on these matters.

As it relates to the time card system, please note that our employee time card system requires verification of time cards by both the employee and the employee's supervisor or director. All directors and supervisors are required to both assure that the time card submitted bears the employee as well as director or supervisor verification. Additionally, all employee requests for vacation, leave or time off must be approved by the employee's supervisor, director or the superintendent. Please immediately issue this as a written notification to all employees under your supervision and ensure all new hires are aware of these requirements.

Should you or any of your staff have any questions or concerns, please direct them to Mrs. Gloria DeLeon or me.

Thank you,
Dr. G

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El Paso Education Initiative, Inc.
Schedule of Findings and Questioned Costs
For the Year ended August 31, 2017

FINDING # 2017-002

CONDITION: Leave records, which consist of vacation, sick leave, and absences is not recorded in the TeXIS system on a consistent basis. In addition, vacation, sick leave, and absences were not approved by a supervisor and/or director. The Payroll Specialist has total control of payroll without any oversight.

CRITERIA: Leave records should be updated regularly to provide employees with accurate amounts of vacation, sick leave, and absences. All vacation, sick leave, and absences must be approved by a supervisor and/or director.

CAUSE: A payroll specialist was not employed by the organization during February and March, 2017. Payroll was processed by the Accounting Manager for those two months. That employee had no training with the payroll system. A Payroll Specialist was hired in early April, 2017 and she had no training by the outgoing Accounting Manager before the Accounting Manager resigned. The new Payroll Specialist was not adequately trained for her position.

EFFECT: Since leave records were not recorded on a consistent basis from February through August, 2017, and approvals were not made the amounts paid for leave could have been over or understated during that time.

RECOMMENDATION: Leave records must be updated monthly into the TeXIS system in order to avoid either over or underpayments to employees for vacation or sick leave. All vacation, sick leave, and absences must be approved by a supervisor and/or director.

RESPONSE: Subsequent to the periods addressed in Finding 2, EPEI Leave records were and have since been updated monthly into the TeXIS system thus avoiding over or underpayments to employees for vacation or sick leave. Additionally, the Superintendent has directed that vacation, sick leave, and absences by approved by a supervisor, director or the Superintendent (See attached Response Exhibit 1, Directive from Superintendent). Moreover, the Payroll Specialist is supervised by the Accounting Manager who, along with the Payroll Specialist reviews and approves all time and attendance data recorded in EPEI's accounting records to ensure that EPEI payroll disbursements properly reflect the salaries and wages to which each employee is entitled (See attached Response Exhibit 2, Payroll Clerk Procedures).

El Paso Education Initiative, Inc.

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January 21, 2019

URGENT

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As it relates to the time card system, please note that our employee time card system requires verification of time cards by both the employee and the employee's supervisor or director. All directors and supervisors are required to both assure that the time card submitted bears the employee as well as director or supervisor verification. Additionally, all employee requests for vacation, leave or time off must be approved by the employee's supervisor, director or the superintendent. Please immediately issue this as a written notification to all employees under your supervision and ensure all new hires are aware of these requirements.

Should you or any of your staff have any questions or concerns, please direct them to Mrs. Gloria DeLeon or me.

Thank you,
Dr. G

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Burnham Wood School District
Payroll Procedure

- 1) Enter absences from AESOP to Time Sheet and Txeis. Ensuring that employee does have PTO available to use.
- 2) Ensure time sheets are accurate and ready for approvals.
- 3) Get time sheet approvals from employee and supervisor/manager.
- 4) Print time sheet reports.
- 5) Enter hours from time sheet reports for hourly employees into Txeis to process payroll.
- 6) Ensure there are no changes to salary (annualized) employees pay.
- 7) Process a payroll pre-post report from Txeis.
- 8) Review with Accounting Manager Gloria De Leon the payroll pre-post report against time sheet reports, ensuring that both reports match.
- 9) Run payroll in Txeis and print the final payroll report and email EFT file to Mrs. De Leon.
- 10) Prepare Bank Transfer of funds form for Mrs. De Leon, to transfer funds to the payroll account and ensuring that all document totals match.
- 11) Transfer of funds is performed solely by Mrs. De Leon.
- 12) EFT payroll file is uploaded by Mrs. De Leon to the bank for funds distribution.
- 13) Issue Mrs. De Leon a copy of all forms.
- 14) Payroll run is complete.

Vista Del Futuro School District
Payroll Procedure

- 1) Enter absences from AESOP to Time Sheet and Txeis. Ensuring that employee does have PTO available to use.
- 2) Ensure time sheets are accurate and ready for approvals.
- 3) Get time sheet approvals from employee and supervisor/manager.
- 4) Print time sheet reports.
- 5) Enter hours from time sheet reports for hourly employees into Txeis to process payroll.
- 6) Ensure there are no changes to salary (annualized) employees pay.
- 7) Process a payroll pre-post report from Txeis.
- 8) Review with Accounting Manager Gloria De Leon the payroll pre-post report against time sheet reports, ensuring that both reports match.
- 9) Run payroll in Txeis and print the final payroll report
- 10) Print PDF format of the EFT File.
- 11) Prepare Bank Transfer of funds form for Mrs. De Leon, to transfer funds to the payroll account and ensuring that all document totals match.
- 12) Enter into Chase Bank the net pay for each employee using the PDF format EFT File.
- 13) Print Chase Bank transaction report, ensuring all totals match.
- 14) Issue Mrs. De Leon a copy of all forms.
- 15) Payroll run is complete.

El Paso Education Initiative, Inc.
Schedule of Findings and Questioned Costs
For the Year ended August 31, 2017

FINDING # 2017-003

CONDITION: The general ledger did not contain all minimum required elements as required by the federal grants reporting requirements. The charter school did not record appropriations of grant budgeted amounts for each class object code to ensure that actual expenditures did not exceed the approved budget.

CRITERIA: The general ledger must contain all minimum required elements as required by the federal grants reporting requirements. Appropriations of grant budgeted amounts for each class object code must be recorded in the general ledger to ensure that actual expenditures do not exceed the approved budget.

CAUSE: The Accounting Manager who was responsible for recording appropriations of grant budgeted amounts failed to record that information.

EFFECT: Actual expenditures could exceed the approved budget.

RECOMMENDATION: The organization should employ or assign an individual that has the basic qualifications, including knowledge and experience, necessary to manage and supervise the program.

RESPONSE: Toward the end of the fiscal year 2017, the EPEI Accounting Manager resigned prior to the upload of all required General Ledger entries, including budget entries under a specific Title I grant into TeXIS. In response, EPEI contracted with a CPA familiar with the School to update the General Ledger and continues that engagement today. With the assistance of the CPA, the EPEI General Ledger was successfully updated and completed prior to the close of the fiscal year, including the upload of these formerly missing entries. Additionally, an individual with requisite qualifications, including knowledge and experience, was employed as Accounting Manager. The Accounting Manager continues to receive training and support as needed from the consulting CPA (See attached Response Exhibit 3, Corrective Action Plan).

El Paso Education Initiative, Inc.
Schedule of Findings and Questioned Costs
For the Year ended August 31, 2017

FINDING # 2017-004

CONDITION: Grant funds were used for expenditures incurred outside the approved grant period. Specifically, grant funds were expended and charged to the Program three months of a 12 month license for educational software. The total charge was \$8,397.50. The appropriate charge for nine months was \$6,098.02. The excess charge, or unallowable cost, was \$2,099.58.

CRITERIA: Grant funds shall not be obligated for expenditure before the beginning date of the grant or after the ending date of the grant unless pre-award costs are expressly permitted for the individual grant program. Also, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

CAUSE: The Accounting Manager who was responsible for managing and supervising the program failed to review the invoice adequately.

EFFECT: An unallowable charge to the program was incurred for \$2,099.58.

RECOMMENDATION: The organization should employ or assign an individual that has the basic qualifications, including knowledge and experience, necessary to manage and supervise the program.

RESPONSE: In conducting a Monitoring Review of the Burnham Wood Charter School's Title 1, Part A – Improving Basic Programs grant, the Texas Education Agency also noted the same expense over a 12-month license agreement for educational software related to the grant programs had been incorrectly charged for the entire 12-month period of the license when only nine months of that period were within the grant period. In response, the expense was reclassified so the unallowable charge to the program was addressed through grant fund reductions in subsequent reimbursement requests, reconciling the total unallowable amount and complying with applicable grant cash management and other requirements. EPEI's current Accounting Manager is the individual who responded to the Monitoring Review and who has the qualifications, including knowledge and experience, necessary to manage and supervise the program as recommended. Additionally, the Superintendent has recently identified a qualified individual to oversee Federal Programs and Grants (See attached Exhibit 4, Job Description).

El Paso Education Initiative, Inc.

785 Southwestern Drive

El Paso, TX 79912

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www.burnhamwood.org

Job Title: Coordinator of Federal & Special Programs

Reports to: Superintendent or designee

Terms of Employment: 227 days

Exemption Status: Exempt

Primary Purpose:

The primary purpose of this position is to support monitor, assure compliance and coordinate the development and implementation of effective federal and special program practices in the district.

Qualifications:

Education/Certification in Related field preferred

Masters preferred in Related field - (2) years' experience in education and/or administration.

Valid Texas Teacher and Administrative certification preferred

Special Knowledge/Skills:

Understanding of the individual needs of special needs persons

Demonstrated knowledge of the rules and regulations mandated by federal, state and local agencies

Demonstrated ability to communicate effectively with general public, vendors, and district employees

Specific knowledge of subjects assigned

Advanced computer and technology skills

Ability to be accurate and efficient in all phases of assigned responsibilities

Ability to work with campus leadership

Ability to interpret policy, procedures, and data

Major Responsibilities and Duties:

Federal Program Responsibilities

1. Ensure compliance with all legal aspects of the federal grant programs including but not limited to Title I, Title II and Title III
2. Monitor the implementation of the federal grant programs including but not limited to Title I, Title II and Title III to ensure compliance at the district and campus level
3. Work closely with the business office throughout the year in the setting up budgets and monitoring expenditures

Special Program Responsibilities

1. Ensure implementation of the process of special education in the district
2. Ensure that student progress is evaluated on a systematic basis, and that the findings are used to make special education program more effective
3. Provide assistance in the continuity of the instructional program by making organizational arrangements toward the integration of students with special needs into regular classes
4. Monitor the special education referral process; arrange for or conduct student assessments; make recommendations regarding placement and program management for individual students
5. Compile, maintain, and file all physical and computerized reports, records, and other documents required

Local Routines & Responsibilities

1. Facilitate all phases of state assessments including test administration compliance, coordinating training, collection, and distribution shipping of materials
2. Works collaboratively with others in developing district mission, district goals, and articulating a vision for the district's special programs; monitors special programs on all campuses; provides opportunities for staff development for the administrative staff and teachers; researches programs and provides analysis of such programs to determine possible implementation in the district aligned to RTI, 504 and dyslexia
3. Confer regularly with teachers, counselors, principals, and other staff as well as parents to identify problems of student behavior and discipline; counsel students at risk to make a reasonable effort to gain their cooperation to improve performance
4. Represent the school district in expulsion hearings resulting from various student discipline issues; maintain contact and act as liaison to community agencies in the area of student discipline

Generic Responsibilities

1. Knowledgeable of school boards policy, administrative regulations and legal requirements related to assignment
2. Maintains accurate and complete records.
3. Participates in professional development and training programs.
4. Participates in organizations for professionals; gathers and disseminates ideas and information with other professionals.
5. Maintains and encourages good working relationships with all stakeholders.
6. Initiates and maintains effective liaison with District and community resources to keep abreast of ideas and developments affecting the District.
7. Supports the goals and objectives of the school district and follows all district policies.
8. Performs any other duties as assigned by the appropriate supervisor.
9. Demonstrates the ability to attend work on a regular and routine basis to avoid disruption to district operations.
10. Demonstrates a high level of independent, ethical, and professional conduct.
11. Provides optimal customer service to all students, employees, parents, community, members and any other stakeholders of the district.

Mental Demands/ Physical Demands/Environmental Factors:

Mental Demands: Reading; ability to perform basic arithmetic; ability to communicate effectively (verbal and written); maintain emotional control under stress.

Physical Demands/Environmental Factors: Prolonged use of computer and works with frequent interruptions.

This job description describes the general purpose and responsibilities assigned to this job and is not an exhaustive list of all responsibilities and duties that may be assigned or skills that may be required.

Evaluation: Performance of this job will be evaluated in accordance with the provisions of board policy.

El Paso Education Initiative, Inc.
Schedule of Findings and Questioned Costs
For the Year ended August 31, 2017

FINDING # 2017-005

CONDITION: Grant funds were used for expenditures incurred outside the approved grant period. Specifically, grant funds were expended and charged to the Program for an invoice dated 5/15/2016, which is prior to the start of the approved grant period. The organization can only charge fees that were for the grant period of 9/1/2016 to 9/30/2017.

CRITERIA: Grant funds shall not be obligated for expenditure before the beginning date of the grant or after the ending date of the grant unless pre-award costs are expressly permitted for the individual grant program. Also, a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

CAUSE: The Accounting Manager who was responsible for managing and supervising the program failed to review the invoice adequately.

EFFECT: An unallowable charge to the program was incurred for \$8,785.43.

RECOMMENDATION: The organization should employ or assign an individual that has the basic qualifications, including knowledge and experience, necessary to manage and supervise the program.

RESPONSE: The Superintendent and staff is addressing this finding through review of this year's annual audit report and existing policy and procedure, adoption of best practice in compliance with applicable law and authoritative standard, training of staff in the proper understanding of policy and procedure and monitoring of the implementation of that policy and procedure. To that end the Superintendent has developed a Corrective Action Plan (See attached Exhibit 3) and identified a qualified individual to oversee Federal Programs and Grants (See attached Exhibit Federal Programs and Grants (See attached Exhibit 4, Job Description).

El Paso Education Initiative, Inc.

785 Southwestern Drive

El Paso, TX 79912

Tel: (915) 584-584-4024 ■ FAX: (915) 881-4237

www.burnhamwood.org

Job Title: Coordinator of Federal & Special Programs

Reports to: Superintendent or designee

Terms of Employment: 227 days

Exemption Status: Exempt

Primary Purpose:

The primary purpose of this position is to support monitor, assure compliance and coordinate the development and implementation of effective federal and special program practices in the district.

Qualifications:

Education/Certification in Related field preferred

Masters preferred in Related field - (2) years' experience in education and/or administration.

Valid Texas Teacher and Administrative certification preferred

Special Knowledge/Skills:

Understanding of the individual needs of special needs persons

Demonstrated knowledge of the rules and regulations mandated by federal, state and local agencies

Demonstrated ability to communicate effectively with general public, vendors, and district employees

Specific knowledge of subjects assigned

Advanced computer and technology skills

Ability to be accurate and efficient in all phases of assigned responsibilities

Ability to work with campus leadership

Ability to interpret policy, procedures, and data

Major Responsibilities and Duties:

Federal Program Responsibilities

1. Ensure compliance with all legal aspects of the federal grant programs including but not limited to Title I, Title II and Title III
2. Monitor the implementation of the federal grant programs including but not limited to Title I, Title II and Title III to ensure compliance at the district and campus level
3. Work closely with the business office throughout the year in the setting up budgets and monitoring expenditures

Special Program Responsibilities

1. Ensure implementation of the process of special education in the district
2. Ensure that student progress is evaluated on a systematic basis, and that the findings are used to make special education program more effective
3. Provide assistance in the continuity of the instructional program by making organizational arrangements toward the integration of students with special needs into regular classes
4. Monitor the special education referral process; arrange for or conduct student assessments; make recommendations regarding placement and program management for individual students
5. Compile, maintain, and file all physical and computerized reports, records, and other documents required

Local Routines & Responsibilities

1. Facilitate all phases of state assessments including test administration compliance, coordinating training, collection, and distribution shipping of materials
2. Works collaboratively with others in developing district mission, district goals, and articulating a vision for the district's special programs; monitors special programs on all campuses; provides opportunities for staff development for the administrative staff and teachers; researches programs and provides analysis of such programs to determine possible implementation in the district aligned to RTI, 504 and dyslexia
3. Confer regularly with teachers, counselors, principals, and other staff as well as parents to identify problems of student behavior and discipline; counsel students at risk to make a reasonable effort to gain their cooperation to improve performance
4. Represent the school district in expulsion hearings resulting from various student discipline issues; maintain contact and act as liaison to community agencies in the area of student discipline

Generic Responsibilities

1. Knowledgeable of school boards policy, administrative regulations and legal requirements related to assignment
2. Maintains accurate and complete records.
3. Participates in professional development and training programs.
4. Participates in organizations for professionals; gathers and disseminates ideas and information with other professionals.
5. Maintains and encourages good working relationships with all stakeholders.
6. Initiates and maintains effective liaison with District and community resources to keep abreast of ideas and developments affecting the District.
7. Supports the goals and objectives of the school district and follows all district policies.
8. Performs any other duties as assigned by the appropriate supervisor.
9. Demonstrates the ability to attend work on a regular and routine basis to avoid disruption to district operations.
10. Demonstrates a high level of independent, ethical, and professional conduct.
11. Provides optimal customer service to all students, employees, parents, community, members and any other stakeholders of the district.

Mental Demands/ Physical Demands/Environmental Factors:

Mental Demands: Reading; ability to perform basic arithmetic; ability to communicate effectively (verbal and written); maintain emotional control under stress.

Physical Demands/Environmental Factors: Prolonged use of computer and works with frequent interruptions.

This job description describes the general purpose and responsibilities assigned to this job and is not an exhaustive list of all responsibilities and duties that may be assigned or skills that may be required.

Evaluation: Performance of this job will be evaluated in accordance with the provisions of board policy.

El Paso Education Initiative, Inc.
Schedule of Status of Prior Year Findings
For the Year ended August 31, 2017

Reference Number	Prior Year Finding/Noncompliance	Status of Prior Year's Finding/Noncompliance
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FINANCIAL STATEMENT FINDINGS

There were no financial statement findings in the prior year.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal awards findings and questioned costs in the prior year.

EL PASO EDUCATION INITIATIVE, INC.

Schedule of Federal Expenditures
For the year ended August 31, 2017

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
<u>Passed through Texas Education Agency</u>			
ESEA Title I, Part A - Improving Basic Programs*	84.010A	16610101071801	\$ 2,714
ESEA Title I, Part A - Improving Basic Programs*	84.010A	17610101071801	253,605
ESEA Title I, Part A - Improving Basic Programs*	84.010A	17610101071809	66,552
Total CFDA Number 84.010A			<u>322,871</u>
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	16694501071801	100
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	17694501071801	39,144
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	17694501071809	9,462
Total CFDA Number 84.367A			<u>48,706</u>
IDEA-B Formula**	84.027A	166600010718016600	1,437
IDEA-B Formula**	84.027A	176600010718016600	155,199
IDEA-B Formula**	84.027A	176600010718096600	36,099
Total CFDA Number 84.027A			<u>192,735</u>
Title III, Part A, Sub 2 - LEP	84.365A	16671001071801	20,664
Title III, Part A, Sub 2 - LEP	84.365A	17671001071801	33,766
Total CFDA Number 84.365A			<u>54,430</u>
Summer School LEP	84.369A	69551602	2,330
Summer School LEP	84.369A	69551602	2,330
Total CFDA Number 84.369A			<u>4,660</u>
IDEA-B Preschool**	84.173A	176610010718016610	509
PCS-Start up Grant Cycle 13	84.282A	085900017110022	7,588
Total U.S. Department of Education			<u><u>631,499</u></u>
U.S. Department of Agriculture			
<u>Passed through Texas Department of Agriculture</u>			
National School Lunch and Breakfast Program			
School Breakfast Program***	10.553	71401701	54,590
School Breakfast Program***	10.553	71401701	26,044
Total CFDA Number 10.553			<u>80,634</u>
School Lunch Program***	10.555	71301701	361,765
School Lunch Program***	10.555	71301701	147,851
Total CFDA Number 10.555			<u>509,616</u>
Commodity Supplemental Food Program	10.565	N/A	37,762
Commodity Supplemental Food Program	10.565	N/A	9,233
Total CFDA Number 10.565			<u>46,995</u>
Total U.S. Department of Agriculture			<u><u>637,245</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 1,268,744</u></u>

* Clustered Programs as required by the Compliance Supplement April, 2017

** Clustered Programs as required by the Compliance Supplement April, 2017

*** Clustered Programs as required by the Compliance Supplement April, 2017

See accompanying notes to schedule of expenditures of federal awards.

EL PASO EDUCATION INITIATIVE, INC.
Notes to the Schedule of Expenditures of Federal Awards
August 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal Expenses include allowable expenses funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include costs that are recognized as expenses in the Charter Holder's financial statements in conformity with generally accepted accounting principles. The Charter Holder has elected not to use the 10% de minimus rate for indirect costs.

Because the schedule presents only a selected portion of the operations of the Charter Holder, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Charter Holder.

El Paso Education Initiative, Inc.
Management Letter
For the Year ended August 31, 2017

Sammy C. Johnson
Certified Public Accountant

Sammy C. Johnson
Certified Public Accountant
Chartered Global Management Accountant

MEMBER
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
New Mexico Society of Certified Public Accountants
Private Companies Practice Section

January 18, 2018

The El Paso Education Initiative, Inc.
Board of Trustees and the Superintendent
785 Southwestern Dr.
El Paso, Texas 79912

I have audited the financial statements of El Paso Education Initiative, Inc. for the year ended August 31, 2017, and have issued my report thereon dated January 18, 2018. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated July 5, 2017. Professional standards also require that I communicate to you the following information related to my 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 El Paso Education Initiative, Inc. 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 fiscal year 2017. I noted no transactions entered into by the Organization 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 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. However, I did not note any particularly sensitive accounting estimates.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. I encountered no known and likely misstatements.

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 my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated January 18, 2018.

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 Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

My comments, and principal recommendations are summarized below:

Internal Controls

Issue:

During my audit, it was found that there were no indications that employees were verifying their time, and there were lack of approvals by a supervisor and/or director on the time cards.

Recommendation:

I recommend a requirement that all employees verify their time cards, and that all employee time cards be approved by a supervisor and/or director.

Issue:

Leave records, which consist of vacation, sick leave, and absences is not recorded in the TeXIS system on a consistent basis. In addition, vacation, sick leave, and absences were not approved by a supervisor and/or director. The Payroll Specialist has total control of payroll without any oversight.

Recommendation:

Leave records must be updated monthly into the TeXIS system in order to avoid either over or underpayments to employees for vacation or sick leave. All vacation, sick leave, and absences must be approved by a supervisor and/or director.

Issue:

Three separate computer applications exist for processing payroll. None of the systems interface with each other, therefore, the Payroll Specialist must manually enter summary information for each employee into the TeXIS system in order to generate payments for payroll. There were no approvals by a supervisor and/or director for entering this information into TeXIS.

Recommendation:

Information entered from the computer applications into TeXIS must be approved by a supervisor and/or director.

Title I Program

Issue:

The general ledger did not contain all minimum required elements as required by the federal grants reporting requirements. The charter school did not record appropriations of grant budgeted amounts for each class object code to ensure that actual expenditures did not exceed the approved budget.

Recommendation:

The organization should employ or assign an individual that has the basic qualifications, including knowledge and experience, necessary to manage and supervise the program.

Issue:

Grant funds were used for expenditures incurred outside the approved grant period.

Recommendation:

The organization should employ or assign an individual that has the basic qualifications, including knowledge and experience, necessary to manage and supervise the program.

Other Matters

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors, officers of the Board, and management of El Paso Education Initiative, Inc., and should not be used by anyone other than these specified parties.

Very truly yours,



Sammy C. Johnson
Certified Public Accountant