

New Frontiers Charter School, Inc.

Financial and Compliance Report

August 31, 2014 and 2013

New Frontiers Charter School, Inc.

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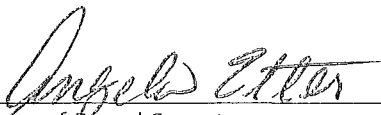
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New Frontiers Charter School, Inc.

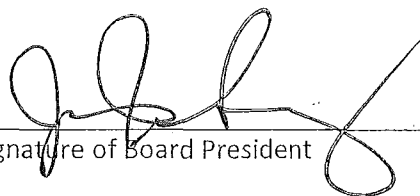
Federal Employer Identification Number: 31-1598661

Certificate of Board

We, the undersigned, certify that the attached financial and compliance report of the above-named charter holder was reviewed and (check one) approved disapproved for the year ended August 31, 2014, at a meeting of the governing body of the charter holder on the 17th day of December, 2014.



Signature of Board Secretary



Signature of Board President

If the governing body of the charter holder disapproved the independent auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)

Independent Auditor's Report

To the Board of Directors
New Frontiers Charter School, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of New Frontiers Charter School, Inc. ("NFCS, Inc."), which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities and changes in net assets 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 NFCS, Inc.'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 NFCS, Inc.'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NFCS, Inc. as of August 31, 2014 and 2013, and the changes in net assets and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Empahsis of Matter

As described in Note 15 to the financial statements, NFCS, Inc. restated the 2013 and prior years financial statements to record foundation school program revenue for days of instruction for the initial portion of the new school year occurring in August. Our opinion is not modified for this matter.

Other Matters – Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Other Supplemental Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of NFCS, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NFCS, Inc.'s internal control over financial reporting and compliance.

Padgett, Statemann + Co., L.L.P.

San Antonio, Texas
December 17, 2014

Financial Statements

New Frontiers Charter School, Inc.

Statements of Financial Position

August 31, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u> (Restated)
Current Assets		
Cash and cash equivalents – unrestricted	\$ 2,052,608	\$ 1,671,238
Due from state	350,484	145,663
Due from federal agencies	87,479	137,412
Capital campaign – pledge receivables	12,100	-
Prepaid expenses and other assets	20,997	4,513
	<u>2,523,668</u>	<u>1,958,826</u>
Total current assets		
Noncurrent Assets		
Restricted cash:		
Debt Service Reserve Fund	45,118	45,348
Repair and Replacement Fund	122,970	121,759
Bond issuance costs – net of accumulated amortization of \$135,352 (\$114,698 in 2013)	270,408	291,677
Property and equipment – net	6,706,892	7,106,909
Property held for future use	840,463	840,463
	<u>7,985,851</u>	<u>8,406,156</u>
Total noncurrent assets		
Total assets	<u>\$ 10,509,519</u>	<u>\$ 10,364,982</u>

Notes to the financial statements form an integral part of these statements.

Liabilities and Net Assets

Current Liabilities	2014	2013 (Restated)
Trade payable	\$ 4,297	\$ 99,384
Payroll deductions and withholdings	9,493	5,050
Accrued interest	20,663	21,436
Due to student groups	482	6,554
Current maturities of bonds payable	<u>220,000</u>	<u>215,000</u>
Total current liabilities	254,935	347,424
Noncurrent Liabilities – bonds payable – less current maturities	<u>6,600,000</u>	<u>6,820,000</u>
Total liabilities	<u>6,854,935</u>	<u>7,167,424</u>
Net Assets		
Unrestricted	63,807	57,454
Unrestricted – designated	-	21,147
Temporarily restricted	<u>3,590,777</u>	<u>3,118,957</u>
Total net assets	<u>3,654,584</u>	<u>3,197,558</u>
Total liabilities and net assets	<u>\$ 10,509,519</u>	<u>\$ 10,364,982</u>

New Frontiers Charter School, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2014</u>
Revenues and Other Support			
Local support:			
E-Rate Program	\$ -	\$ 29,684	\$ 29,684
Capital campaign	-	22,870	22,870
Gain on sale of property	-	3,000	3,000
Food service	-	18,164	18,164
Interest income	4,701	-	4,701
Co-curricular, enterprising services, or activities	<u>33,870</u>	<u>-</u>	<u>33,870</u>
Total local support	<u>38,571</u>	<u>73,718</u>	<u>112,289</u>
State program revenues:			
Foundation School Program	-	5,320,790	5,320,790
Textbook Allotment	-	49,409	49,409
Food Service	<u>-</u>	<u>2,387</u>	<u>2,387</u>
Total state program revenues	<u>-</u>	<u>5,372,586</u>	<u>5,372,586</u>
Federal program revenues:			
Title I, Part C – Migrant	-	2,878	2,878
Title I, Part A – Grants to Local Education Agencies	-	346,440	346,440
Title III, Part A – English Language Enhancement	-	3,253	3,253
Child Nutrition Cluster	-	325,730	325,730
IDEA B-Formula	-	133,204	133,204
IDEA B-Preschool	-	2,410	2,410
Title II, Part A – Improving Teacher Quality	-	47,943	47,943
United States Department of Agriculture Donated Commodities	-	24,897	24,897
Federal Interest Subsidy	<u>-</u>	<u>178,997</u>	<u>178,997</u>
Total federal program revenues	<u>-</u>	<u>1,065,752</u>	<u>1,065,752</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>6,040,236</u>	<u>(6,040,236)</u>	<u>-</u>
Total revenues and other support	<u>6,078,807</u>	<u>471,820</u>	<u>6,550,627</u>

Notes to the financial statements form an integral part of these statements.

New Frontiers Charter School, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2014

(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2014</u>
Expenses			
11 Instructional	\$ 3,183,276	\$ -	\$ 3,183,276
13 Curriculum development and instructional staff development	1,539	-	1,539
21 Instructional leadership	340	-	340
23 School leadership	334,424	-	334,424
31 Guidance, counseling, and evaluation services	84,696	-	84,696
33 Health services	64,712	-	64,712
35 Food services	314,289	-	314,289
41 General administration	920,297	-	920,297
51 Plant maintenance and operations	593,774	-	593,774
52 Security and monitoring services	1,015	-	1,015
53 Data processing services	24,400	-	24,400
71 Debt service	542,101	-	542,101
81 Fundraising	28,738	-	28,738
	<u>6,093,601</u>	<u>-</u>	<u>6,093,601</u>
Total expenses			
Change in net assets	(14,794)	471,820	457,026
Net assets at beginning of year – restated	<u>78,601</u>	<u>3,118,957</u>	<u>3,197,558</u>
Net assets at end of year	<u>\$ 63,807</u>	<u>\$ 3,590,777</u>	<u>\$ 3,654,584</u>

Notes to the financial statements form an integral part of these statements.

New Frontiers Charter School, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2013 (Restated)</u>
Revenues and Other Support			
Local support:			
E-Rate Program	\$ -	\$ 58,705	\$ 58,705
Food service	-	23,958	23,958
Interest income	5,787	-	5,787
Co-curricular, enterprising services, or activities	<u>43,311</u>	<u>-</u>	<u>43,311</u>
Total local support	<u>49,098</u>	<u>82,663</u>	<u>131,761</u>
State program revenues:			
Foundation School Program	-	4,808,622	4,808,622
Textbook Allotment	-	5,207	5,207
Food Service	-	2,250	2,250
SSI Grants to Schools	<u>-</u>	<u>5,529</u>	<u>5,529</u>
Total state program revenues	<u>-</u>	<u>4,821,608</u>	<u>4,821,608</u>
Federal program revenues:			
Title I, Part C – Migrant	-	2,166	2,166
Title I, Part A – Grants to Local Education Agencies	-	350,916	350,916
Title III, Part A – English Language Enhancement	-	5,265	5,265
Child Nutrition Cluster	-	295,763	295,763
IDEA B-Formula	-	141,995	141,995
IDEA B-Preschool	-	2,695	2,695
Title II, Part A – Improving Teacher Quality	-	50,501	50,501
United States Department of Agriculture Donated Commodities	-	15,815	15,815
Federal Interest Subsidy	<u>-</u>	<u>189,766</u>	<u>189,766</u>
Total federal program revenues	<u>-</u>	<u>1,054,882</u>	<u>1,054,882</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>6,122,851</u>	<u>(6,122,851)</u>	<u>-</u>
Total revenues and other support	<u>6,171,949</u>	<u>(163,698)</u>	<u>6,008,251</u>

Notes to the financial statements form an integral part of these statements.

New Frontiers Charter School, Inc.

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2013

(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2013 (Restated)</u>
Expenses			
11 Instructional	\$ 3,143,363	\$ -	\$ 3,143,363
13 Curriculum development and instructional staff development	7,629	-	7,629
21 Instructional leadership	254	-	254
23 School leadership	364,137	-	364,137
31 Guidance, counseling, and evaluation services	56,755	-	56,755
33 Health services	54,475	-	54,475
35 Food services	337,917	-	337,917
41 General administration	875,115	-	875,115
51 Plant maintenance and operations	709,517	-	709,517
52 Security and monitoring services	1,011	-	1,011
53 Data processing services	24,249	-	24,249
61 Community services	157	-	157
71 Debt service	566,535	-	566,535
81 Fundraising	<u>6,789</u>	<u>-</u>	<u>6,789</u>
Total expenses	<u>6,147,903</u>	<u>-</u>	<u>6,147,903</u>
Change in net assets	24,046	(163,698)	(139,652)
Net assets at beginning of year – restated	<u>54,555</u>	<u>3,282,655</u>	<u>3,337,210</u>
Net assets at end of year	<u>\$ 78,601</u>	<u>\$ 3,118,957</u>	<u>\$ 3,197,558</u>

Notes to the financial statements form an integral part of these statements.

New Frontiers Charter School, Inc.

Statements of Cash Flows

Years Ended August 31, 2014 and 2013

	2014	2013 (Restated)
Cash Flows From Operating Activities		
Change in net assets	\$ 457,026	\$ (139,652)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	390,917	394,044
Amortization	21,269	29,871
Gain on sale of property	(3,000)	-
Changes in current assets and liabilities:		
Due from state	(204,821)	7,557
Due from government agencies	49,933	(4,944)
Other receivables	-	28,016
Capital campaign – pledge receivables	(12,100)	-
Prepaid expenses and other assets	(16,484)	(4,513)
Trade payable	(95,087)	46,096
Payroll deductions and withholdings	4,443	(2,218)
Accrued interest	(773)	(1,216)
Due to student groups	(6,072)	-
Net cash provided by operating activities	585,251	353,041
Cash Flows Used In Investing Activities		
Construction and other capital expenditures	(17,900)	(97,996)
Proceeds from sale of property	30,000	-
Property held for future use	-	(840,463)
Net cash provided by (used in) investing activities	12,100	(938,459)

Notes to the financial statements form an integral part of these statements.

New Frontiers Charter School, Inc.

Statements of Cash Flows

Years Ended August 31, 2014 and 2013

(Continued)

	<u>2014</u>	2013 <u>(Restated)</u>
Cash Flows Used In Financing Activities – bond principal payment	\$ <u>(215,000)</u>	\$ <u>(205,000)</u>
Net cash used in financing activities	<u>(215,000)</u>	<u>(205,000)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	382,351	(790,418)
Cash, cash equivalents, and restricted cash at beginning of year	<u>1,838,345</u>	<u>2,628,763</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u><u>2,220,696</u></u>	\$ <u><u>1,838,345</u></u>
Cash and cash equivalents – unrestricted	\$ 2,052,608	\$ 1,671,238
Restricted cash:		
Debt Service Reserve Fund	45,118	45,348
Repair and Replacement Fund	<u>122,970</u>	<u>121,759</u>
	\$ <u><u>2,220,696</u></u>	\$ <u><u>1,838,345</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ <u><u>520,832</u></u>	\$ <u><u>536,664</u></u>

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 1 – Organization and Significant Accounting Policies

Organization

New Frontiers Charter School, Inc. (“NFCS, Inc.”) is a Texas nonprofit corporation located in San Antonio, Texas. NFCS, Inc. is governed by a Board of Directors (the “Board”) comprised of five members, in accordance with the open-enrollment charter described below. The Board is selected pursuant to the bylaws of NFCS, Inc. and has the authority to make decisions, appoint the chief executive officer, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of NFCS, Inc.

In 1998, the State Board of Education of the state of Texas granted NFCS, Inc. an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, NFCS, Inc. established New Frontiers Charter School (the “School”), formerly San Antonio Advantage Charter School, in the summer of 1998. The School serves kindergarten through 9th grade, but is authorized to render services to pre-kindergarten through 12th grade, with a maximum enrollment of 1,176 students. The terms of the current applicable Contract for Charter are from August 1, 2008 to July 31, 2018.

NFCS, Inc. only operates the School and does not conduct any other charter or noncharter activities. NFCS, Inc.’s sole mission is to provide educational services to students in the community in which the School operates. Therefore, the School’s resources are expended solely for the benefit of its students.

NFCS, Inc. receives substantially all its funding from the Texas Education Agency (“TEA”) based on the School’s average daily attendance. Since NFCS, Inc. receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Basis of Presentation

The financial statements of NFCS, Inc. have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with the accounting principles generally accepted in the United States of America (“GAAP”).

The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Basis of Presentation (continued)

Revenue and other support are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, as applicable, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Unrestricted

Net assets that are not subject to donor imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board. At August 31, 2013, designated net assets of \$21,147 represent funds held for the benefit of others in campus activity funds (\$0 in 2014).

Temporarily Restricted

Temporarily restricted net assets are those resources subject to donor-imposed restrictions that will be satisfied by the actions of NFCS, Inc. or the passage of time. This temporarily restricted description requires NFCS, Inc. to use state funding for the benefit of educating students enrolled in the School. Compliance with this requirement allows NFCS, Inc. to use these funds as unrestricted to further educate its students. At fiscal year-end, temporarily restricted net assets represent the net assets of the food service fund, which must be used for future food service activities, state funds that may be used in the following fiscal year, and any unspent state foundation monies.

Permanently Restricted

Permanently restricted net assets are those resources subject to donor-imposed restriction that will be maintained permanently by NFCS, Inc. The donors of these resources require that the principal be invested in perpetuity and permit the income earned, including unrealized appreciation, to be used, all or in part, for unrestricted or temporarily restricted purposes. As of August 31, 2014 and 2013, NFCS, Inc. had no permanently restricted net assets.

Cash and Cash Equivalents

NFCS, Inc. considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents consist of all cash on hand and in banks and money market accounts.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Restricted Cash

Restricted cash is limited as to its use under the terms of the bond indenture. The restricted cash represents amounts restricted for payment of long-term debt, interest expense, and repair and replacement expenses.

Revenue Recognition

Capitation received, including base capitation, entitlements, and special services, is recognized in the period services are provided. Revenues from the state of Texas are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

E-Rate Program revenue is earned by a discount received from certain vendors for technology related expenses. The expenses are grossed up to the amount that would have been paid without the applicable discount and local revenue is recorded in the amount of the discount.

Due From State

Due from state consists of the instructional days accrual and underpayments for the foundation school program made to NFCS, Inc. from TEA.

Due From Federal Agencies

NFCS, Inc. considers all government grants and contracts as exchange transactions rather than contributions. NFCS, Inc. recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. NFCS, Inc. considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Bond Issuance Costs

Bond issuance costs are amortized over the term of the respective financing.

Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value if donated. Additions and improvements are capitalized, while ordinary repairs and maintenance are charged to expense as incurred. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful life of the asset. The capitalization threshold for NFCS, Inc. is \$5,000.

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Buildings and improvements	25 years
Improvements – other than building	5 years
Furniture and equipment	10 years
Computer software	5 years

Property Held for Future Use

Property held for future use represents property and land purchased by the School that has not been put into service as of August 31, 2014. The property will be used for future expansion and will not be depreciated until it is put into its intended use.

Due to Student Groups

Due to student groups represents cash that belongs to various student fundraising groups that is being held by NFCS, Inc.

Federal Income Taxes

NFCS, Inc. is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. No such provision has been made in the accompanying financial statements. NFCS, Inc. generally is no longer subject to income tax examinations by federal authorities for the years prior to August 31, 2011.

Use of Estimates

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

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Advertising Costs

NFCS, Inc. expenses advertising costs when they are incurred. Advertising costs for the year ended August 31, 2014 totaled \$29,397 (\$54,795 in 2013).

Functional Allocation of Expenses

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

Subsequent Events

NFCS, Inc. has evaluated subsequent events that occurred after August 31, 2014 through the date of this report on December 17, 2014. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the financial statements.

Reclassification

Reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Note 2 – Capital Campaign – Pledges Receivable

In 2014, NFCS, Inc. started the "Improving our Future by Investing in Theirs" capital campaign to cover start-up costs for the new Early College High School campus. As of August 31, 2014, NFCS, Inc. has received \$22,870 in pledge commitments of which \$12,100 are unpaid and are included as pledges receivable.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 3 – Due From State / Due From Government Agencies

Due from state and due from government agencies consists of the following:

	August 31,	
	<u>2014</u>	<u>2013</u>
Due from state:		
Foundation School Program		
Days of instruction	\$ 328,807	\$ 144,118
Settlement of current year underpayment	<u>21,677</u>	<u>1,545</u>
Total due from state	<u>\$ 350,484</u>	<u>\$ 145,663</u>
Due from federal agencies:		
Child Nutrition Cluster	27,936	-
Title I, Part A – Grants to Local Education Agencies	37,342	8,820
Title II, Part A – Improving Teacher Quality	12,142	85,702
IDEA B-Cluster	-	14,293
Education Jobs Fund	-	28,597
E-Rate Program	<u>10,059</u>	<u>-</u>
Total due from federal agencies	<u>\$ 87,479</u>	<u>\$ 137,412</u>

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 4 – Property and Equipment

Property and equipment consist of the following:

	August 31,	
	<u>2014</u>	<u>2013</u>
Land purchases and improvements	\$ 210,664	\$ 210,664
Buildings and improvements	7,213,947	7,240,347
Furniture and equipment	888,606	883,186
Computer software	<u>35,576</u>	<u>26,696</u>
	<u>8,348,793</u>	8,360,893
Less accumulated depreciation	<u>1,641,901</u>	<u>1,253,984</u>
Net property and equipment	<u>\$ 6,706,892</u>	<u>\$ 7,106,909</u>

Depreciation expense totaled \$390,917 for the year ended August 31, 2014 (\$394,044 in 2013).

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 5 – Bonds Payable

In October 2010, NFCS, Inc. received a total of \$7,580,000 in bond proceeds to fund the purchase of school facilities; major renovations of the purchased building, including the construction of additional parking spaces and a covered outdoor physical education pavilion; and the purchase and installation of portable modular classroom buildings.

The bonds outstanding are in the form of Education Revenue Bonds Series 2010A and 2010Q, issued by the Texas Public Finance Authority Charter School Finance Corporation (“TPFACSC”). The Series 2010A bonds qualify for tax-exempt status.

Bonds payable consist of the following:

	2014	2013
Series 2010A	\$ 3,185,000	\$ 3,185,000
Series 2010Q	3,635,000	3,850,000
	6,820,000	7,035,000
Less current maturities	220,000	215,000
Bonds payable	\$ (220,000)	\$ (215,000)

Aggregate maturities required on bonds payable at August 31, 2014 are as follows:

	Principal
Year ending August 31,	
2015	\$ 220,000
2016	230,000
2017	240,000
2018	250,000
2019	260,000
Thereafter	5,620,000
	\$ 6,820,000

The Series 2010A bonds, total \$3,185,000 and bear interest at 5.80% per annum, which is payable semiannually on February 15 and August 15 of each year. The Series 2010A bonds mature during 2040 and are secured by a first lien on substantially all assets of NFCS, Inc.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 5 – Bonds Payable (continued)

The Series 2010B bonds originally totaled \$435,000 and bore interest at 7.00% per annum, which was payable semiannually on February 15 and August 15 of each year. The Series 2010B bonds matured during 2013 and were secured by substantially all assets of NFCS, Inc.

The Series 2010Q bonds outstanding total \$3,635,000 and bear interest at 8.75% per annum, which is payable semiannually on February 15 and August 15 of each year. The Series 2010Q bonds mature during 2027 and are secured by substantially all assets of NFCS, Inc.

As part of the loan agreements for the bonds, NFCS, Inc. is required to establish and maintain several trustee-held funds, which are not available for general use. The loan agreements contain certain financial covenants.

NFCS, Inc. receives an annual Qualified School Construction Bond federal subsidy to assist in the payment of interest on the bonds. During the year ended August 31, 2014, NFCS, Inc. received the subsidy benefit of \$178,997, which was paid directly to the bond trustee on behalf of NFCS, Inc. (\$189,766 in 2013).

In 2014, the net interest cost of these bonds was \$341,835, which consists of interest expense of \$520,832 less the federal subsidy benefit of \$178,997 (net interest cost of these bonds was \$346,898, which consists of interest expense of \$536,664 less the federal subsidy benefit of \$189,766 in 2013).

Debt Covenants

The bonds contain certain financial covenants with which the School must stay in compliance.

Revenue Fund

NFCS, Inc. is required to transfer revenues from its operating account to the revenue fund on a monthly basis. These revenues are transferred on a monthly basis to the Debt Service Reserve Fund and, therefore, the balance is zero at August 31, 2014 and 2013.

Debt Service Reserve Fund

Amounts in this fund are used to meet debt service requirements of the bonds payable and are reserved by NFCS, Inc. These funds totaled \$45,118 as of August 31, 2014 (\$45,348 in 2013).

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 5 – Bonds Payable (continued)

Reserve Fund Guaranty

In addition, in connection with the Texas Credit Enhancement Program for Charter Schools and a guaranty agreement dated October 1, 2010 between NFCS, Inc. and TPFACSF, a reserve fund guaranty was established on behalf of NFCS, Inc. for the maximum amount of \$600,000. The reserve fund guaranty is held on deposit with the Texas Comptroller of Public Accounts solely to provide security for repayment of the bonds. The funds are not available for the current debt service payments of NFCS, Inc., but serve as a guarantee if future payments are unable to be made by NFCS, Inc. If the trustee draws on the guaranty to make a payment, NFCS, Inc. is then obligated to reimburse TPFACSF for any amounts paid on its behalf. This guaranty expires on the earlier of August 15, 2040 or upon full payments of the bonds.

Repair and Replacement Fund

This fund is used to pay for major repairs and renovations on an as-needed basis. As of August 31, 2014, the balance in this fund totaled \$122,970 (\$121,759 in 2013).

Construction and Expense Fund

This fund is used to pay construction and expense activity related to the renovation of the School building. As of August 31, 2014 and 2013, the balance in this fund totaled \$0.

Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	August 31,	
	2014	2013
Child Nutrition Program	\$ 117,905	\$ 40,682
Title 1, Part A	624	598
IDEA B	2,686	2,686
State fiscal stabilization	9,906	19,492
Foundation School Program	3,447,556	3,055,499
Capital campaign	12,100	-
	<u>\$ 3,590,777</u>	<u>\$ 3,118,957</u>

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 6 – Temporarily Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	Years Ended August 31,	
	2014	2013
Child Nutrition Program	\$ 293,955	\$ 315,059
Federal Programs	545,688	552,407
Foundation School Program	4,981,142	5,006,914
E-Rate Program	29,684	58,705
Federal Interest Subsidy	178,997	189,766
Capital campaign	10,770	-
	<u>\$ 6,040,236</u>	<u>\$ 6,122,851</u>

Note 7 – Operating Leases

NFCS, Inc. leases property and equipment under noncancellable operating leases. Rental expense for the years ended August 31, 2014 and 2013 totaled \$21,699 and \$60,292, respectively.

Future minimum payments on long-term noncancellable operating leases at August 31, 2014 are as follows:

Year ending August 31,	
2015	\$ 72,146
2016	65,258
2017	30,819
2018	30,549
2019	30,278
	<u>\$ 229,050</u>

Note 8 – Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 8 – Contingencies (continued)

Grants

NFCS, Inc. receives a portion of its funding from federal and state programs that are governed by various rules and regulations of the grantors. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Note 9 – Commitments

NFCS, Inc. signed a contract for accounting software and support. The contract covers a period of two years with two annual payments of \$23,000 in 2013 and 2014. Subsequently, the contract converted to a month-to-month commitment.

Note 10 – Regulated Industry

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

Note 11 – Pension Plan Obligations

Plan Description

NFCS, Inc. began contributing to the Teacher Retirement System of Texas ("TRS"), a public employee retirement system, in fiscal year 2006. TRS is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by NFCS, Inc., but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, *Public Retirement Systems*, Subtitle C, *Teacher Retirement System of Texas*, which is subject to amendment by the Texas legislature. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. The report may be obtained by writing the Teacher Retirement System of Texas at 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123 or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under TRS Publications.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 11 – Pension Plan Obligations (continued)

Funding Policy

Under provisions in state law, plan members are required to contribute 6.4% of their annual covered salary, and the state of Texas contributes an amount equal to 6.8% (6.4% in 2013) of NFCS, Inc.'s covered payroll. NFCS, Inc.'s employees' contributions to TRS for the year ended August 31, 2014 were \$247,320, equal to the required contributions for the year (\$246,221 in 2013).

Note 12 – Healthcare Coverage

During the years ended August 31, 2014 and 2013, employees of NFCS, Inc. were covered by a health insurance plan. NFCS, Inc. contributed 95% of the employee's premium and none of dependent's premium during the years ended August 31, 2014 and 2013. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. During the year ended August 31, 2014 and 2013, NFCS, Inc. paid medical premiums of \$272 and dental premiums of \$12 per month, per employee with an aggregate cost of \$328,845 for the year (\$229,851 in 2013). All premiums were paid to licensed insurers.

Note 13 – State Compliance Matters

The final budgeted amounts varied by more than 10% of the original budgeted as follows:

- Revenues and other support – other local and intermediate sources were decreased by \$272,519 to adjust for additional state revenue in excess of initial projections.
- Function 51 budgeted expenses were decreased by \$90,000 due to anticipated E-Rate expenses that did not materialize due to funding cuts at the federal level.

The actual expenses varied by more than 10% from the final amended budget as follows:

- Functions 21 and 81 were not budgeted and their actual balance at year-end totaled \$340 and \$28,738, respectively.

Note 14 – Cash Balance and Credit Risk

NFCS, Inc. maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Interest-bearing accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$250,000. In addition, NFCS, Inc. has an agreement with its bank institution where the bank provides pledged collateral in NFCS, Inc.'s name in the event deposits exceed FDIC limits. NFCS, Inc. has not experienced any losses in such accounts.

New Frontiers Charter School, Inc.

Notes to the Financial Statements

Note 15 – Prior Period Adjustment

NFCS, Inc. generally commences the new academic year before its fiscal year-end, August 31. In fiscal year 2014 and 2013, NFCS, Inc. earned ten days and five days, respectively, of instruction prior to the end of its fiscal year. In prior years, these amounts earned for days of instruction for the initial portion of the new school year, occurring in August, have not been reflected in the accompanying financial statements. Accordingly, 2013 and prior years financial statements have been restated to reflect this earned revenue by increasing due from state by \$144,118; temporarily restricted net assets at the beginning of the year by \$136,987; and foundation school program revenues by \$7,131. The net effect on the change in net assets for 2013 was not significant.

Also, in fiscal year 2014, NFCS, Inc. accrued approximately \$180,000 of earned revenue for the additional five days of instruction (i.e., five days in 2013 to ten days in 2014) prior to the end of the 2014 fiscal year.

Other Supplemental Information

New Frontiers Charter School, Inc.

Schedules of Expenses

Years Ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Expenses		
6100 Payroll costs	\$ 3,878,232	\$ 3,827,421
6200 Professional and contracted services	750,692	805,727
6300 Supplies and materials	305,072	418,147
6400 Other operating costs	617,504	530,073
6500 Debt service costs	<u>542,101</u>	<u>566,535</u>
Total expenses	<u>\$ 6,093,601</u>	<u>\$ 6,147,903</u>

New Frontiers Charter School, Inc.

Schedule of Ownership Interest

August 31, 2014

Object Code	Asset Classification	Ownership Interest		
		Local	State	Federal
1090	Property held for future use	\$ -	\$ 840,463	\$ -
1510	Land and improvements	-	210,665	-
1520	Buildings and improvements	-	7,213,948	-
1531	Vehicles	-	-	8,878
1539	Furniture and equipment	-	861,951	53,351
1571	Accumulated depreciation – buildings	-	(994,491)	-
1573	Accumulated depreciation – furniture and fixtures	-	(602,673)	(44,737)
		<u>\$ -</u>	<u>\$ 7,529,863</u>	<u>\$ 17,492</u>

New Frontiers Charter School, Inc.

Budgetary Comparison Schedule

Year Ended August 31, 2014

	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
Revenues and Other Support				
5700 Other local and intermediate sources	\$ 558,207	\$ 285,688	\$ 112,289	\$ (173,399)
5800 State program revenues	4,860,027	5,100,826	5,372,586	271,760
5900 Federal program revenues	489,586	489,586	1,065,752	576,166
	<u>5,907,820</u>	<u>5,876,100</u>	<u>6,550,627</u>	<u>674,527</u>
Expenses				
11 Instructional	2,868,898	2,943,898	3,183,276	(239,378)
13 Curriculum development and instructional staff development	3,750	3,750	1,539	2,211
21 Instructional leadership	-	-	340	(340)
23 School leadership	310,329	320,329	334,424	(14,095)
31 Guidance, counseling, and evaluation services	140,778	140,778	84,696	56,082
33 Health services	54,503	59,503	64,712	(5,209)
35 Food services	313,215	313,215	314,289	(1,074)
41 General administration	868,286	868,286	920,297	(52,011)
51 Plant maintenance and operations	783,311	693,311	593,774	99,537
52 Security and monitoring services	2,500	2,500	1,015	1,485
53 Data processing services	24,000	24,000	24,400	(400)
71 Debt service	847,000	787,799	542,101	245,698
81 Fundraising	-	-	28,738	(28,738)
	<u>6,216,570</u>	<u>6,157,369</u>	<u>6,093,601</u>	<u>63,768</u>
Total expenses				
Change in net assets	(308,750)	(281,269)	457,026	738,295
Net assets at beginning of year – restated	3,197,558	3,197,558	3,197,558	-
Net assets at end of year	<u>\$ 2,888,808</u>	<u>\$ 2,916,289</u>	<u>\$ 3,654,584</u>	<u>\$ 738,295</u>

Compliance 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
New Frontiers Charter School, Inc.
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Frontiers Charter School, Inc. ("NFCS, Inc.") as of August 31, 2014, which comprise the statement of financial position, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated December 17, 2014, which included a reference to a restatement of beginning net assets.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NFCS, 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NFCS, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of NFCS, 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 NFCS, Inc.'s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether NFCS, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, Public Funds Investment Act, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Public Funds Investment Act; except for a procurement noncompliance matter, as described in the accompanying Schedule of Findings and Questioned Costs (2014-001).

NFCS, Inc.'s Response to Finding

NFCS, Inc.'s response to the finding identified in our audit is described in the accompanying Corrective Action Plan. NFCS, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NFCS, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NFCS, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas
December 17, 2014

Independent Auditor's Report on Compliance for the
Major Federal Program and Report on Internal Control
Over Compliance as Required by OMB Circular A-133

To the Board of Directors
New Frontiers Charter School, Inc.
San Antonio, Texas

Report on Compliance for the Major Federal Program

We have audited New Frontiers Charter School, Inc.'s ("NFCS, Inc.") compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on NFCS, Inc.'s major federal program for the year ended August 31, 2014. NFCS, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for NFCS, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NFCS, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on the Major Federal Program

In our opinion, NFCS, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2014.

Report on Internal Control Over Compliance

Management of NFCS, 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 our audit of compliance, we considered NFCS, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NFCS, 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.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas
December 17, 2014

New Frontiers Charter School, Inc.

Schedule of Findings and Questioned Costs

Year Ended August 31, 2014

I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

Federal Awards

Internal control over major programs:		
Type of auditor’s report issued on compliance for major programs:	<u>Unmodified</u>	
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None Reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	_____ Yes	_____ <u>X</u> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010A	Title I, Part A – Grants to Local Education Agencies

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>	
Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes	_____ No

New Frontiers Charter School, Inc.

Schedule of Findings and Questioned Costs

Year Ended August 31, 2014

(Continued)

II – Financial Statement Finding and Questioned Costs

Finding: 2014-001 – Procurement

Condition and Context: Testing of compliance with bidding requirements disclosed a vendor paid in excess of \$50,000 was not competitively procured. The vendor in question provided NFCS, Inc. substitute teachers during the year and was paid approximately \$61,000, inclusive of the related teachers payroll costs.

Cause: NFCS, Inc. believed that the bidding requirements did not apply in this situation due to the nature of the service. Of the \$61,000 paid to the vendor in question, approximately \$50,000 was paid in salaries to substitute teachers, a cost that NFCS, Inc. has historically paid to substitutes directly.

Effect: Noncompliance with bidding state requirements.

Questioned Costs: None

Recommendation: We recommend NFCS, Inc. ensure vendors are properly procured in accordance with policies and procedures.

Views of Responsible Officials: As substitute salaries have been a historical/allowable cost, our position is that the contracting of the service did not change the nature of the expense and, thus, would not trigger a procurement action, as outlined in the TEA *Financial Accountability System Resource Guide*. However, NFCS, Inc. will ensure documentation is maintained, sources of such contracted personnel services are very limited, and the cost differential for such services is negligible.

Implementation Date: February 28, 2015

Responsible Person: Jesse Jimenez/Jennifer Oropeza

III – Federal Awards Findings and Questioned Costs

None noted.

New Frontiers Charter School, Inc.

Corrective Action Plan

Year Ended August 31, 2014

Finding: 2014-001 – Procurement

As substitute salaries have been a historical/allowable cost, our position is that the contracting of the service did not change the nature of the expense and, thus, would not trigger a procurement action, as outlined in the TEA *Financial Accountability System Resource Guide*. However, NFCS, Inc. will ensure documentation is maintained, sources of such contracted personnel services are very limited, and the cost differential for such services is negligible.

New Frontiers Charter School, Inc.

Summary Schedule of Prior Audit Findings

Year Ended August 31, 2014

None.

New Frontiers Charter School, Inc.

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Agriculture:</u>			
Passed Through the State Department of Education:			
United States Department of Agriculture Donated Commodities	10.555	N/A	\$ 24,897
National School Breakfast Program	10.553	71401401	54,852
National School Lunch Program	10.555	71301401	<u>270,878</u>
Total Passed Through the State Department of Education			<u>350,627</u>
Total United States Department of Agriculture			<u>350,627</u>
<u>United States Department of Education:</u>			
Passed Through the State Department of Education:			
Title I, Part A – Grants to Local Education Agencies	84.010A	14610101015805	346,440
IDEA B-Formula	84.027A	146600010158056000	133,204
IDEA B-Preschool	84.173A	146610010158056000	2,410
Title II, Part A – Improving Teacher Quality	84.367A	14694501015805	<u>47,943</u>
Total Passed Through the State Department of Education			<u>529,997</u>
Passed Through Education Service Center Region 20:			
Title III, Part A – English Language Enhancement	84.365	N/A	3,253
Title I, Part C – Migrant	84.011	N/A	<u>2,878</u>
Total Passed Through Education Service Center Region 20			<u>6,131</u>
Total United States Department of Education			<u>536,128</u>
Total Expenditures of Federal Awards			<u><u>\$ 886,755</u></u>

The accompanying notes are an integral part of this schedule.

New Frontiers Charter School, Inc.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended August 31, 2014

1. Federal Program Revenues Reconciliation

	<u>August 31, 2014</u>
Federal Program Revenues per Schedule of Expenditures of Federal Awards	\$ 886,755
Federal Interest Subsidy	<u>178,997</u>
Total Federal Program Revenues	<u>\$ 1,065,752</u>

2. Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
3. For all federal programs, the School used the net asset classes and codes specified by TEA in the Special Supplement to Financial Accounting and Reporting, Non-Profit Charter School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.