

# **Kauffman Leadership Academy (A Nonprofit Organization)**

Report on Audit of Financial Statements  
and Supplementary Information

For the Years Ended August 31, 2019 and 2018



A. Bricks Coggin CPA, PLLC

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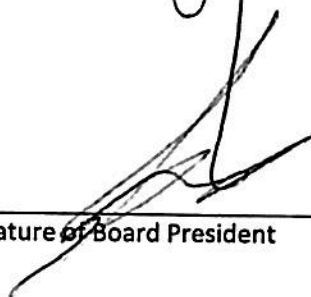
# INTRODUCTORY SECTION

**CERTIFICATE OF BOARD**

Kauffman Leadership Academy  
(Federal Employer Identification Number: 27-3371961)  
Charter Holder for  
Kauffman Leadership Academy  
(County – District Number: 126-801)

We, the undersigned, certify that the attached Annual Financial Report and Compliance Report of the Kauffman Leadership Academy were reviewed and (check one) XX approved \_\_\_\_\_ disapproved for the year ended August 31, 2019 at a special called meeting of the Executive and Compensation Committee of the Kauffman Leadership Academy Board of Directors who has authority to exercise the powers of the Kauffman Leadership Academy Board of Directors, the governing body of the charter holder, on the 21 day of January, 2020.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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



A. Bricks Coggin CPA, PLLC

## Independent Auditor's Report

To the Board of Directors of  
Kauffman Leadership Academy  
Cleburne, TX

### Report on the Financial Statements

We have audited the accompanying financial statements of Kauffman Leadership Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kauffman Leadership Academy as of August 31, 2019 and 2018, 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.

## **Prior Period Financial Statements**

The financial statements of Kauffman Leadership Academy as of August 31, 2018, were audited by other auditors whose report dated January 18, 2019, expressed an unmodified opinion on those statements.

## **Emphasis of Matter**

As discussed in note 3 to the financial statements, for the year ended August 31, 2019, the Organization adopted new accounting guidance Accounting Standards Update No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities". Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state 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, and the State of Texas Single Audit Circular are 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 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 November 30, 2019, on our consideration of Kauffman Leadership Academy'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kauffman Leadership Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Kauffman Leadership Academy's internal control over financial reporting and compliance.

## **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Organization will continued as a going concern. As discussed in Note 9 to the financial statements, the Organization has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.



A Bricks Coggin CPA, PLLC  
Irving, Texas  
November 30, 2019

# **Financial Statements**

**Kauffman Leadership Academy**  
**Statements of Financial Position**  
**August 31, 2019 and 2018**

	31-Aug-18			31-Aug-17
	Charter School	Non-Profit	Consolidated	Consolidated
<b>ASSETS</b>				
Current Assets				
Checking/Savings	11,498	574	12,072	4,791
Total Current Assets	<u>11,498</u>	<u>574</u>	<u>12,072</u>	<u>4,791</u>
Fixed Assets				
Accumulated Depreciation	(25,514)	(132,830)	(158,344)	(131,081)
Total Fixed Assets	<u>118,626</u>	<u>625,000</u>	<u>743,626</u>	<u>743,626</u>
Fixed Assets-Net	<u>93,112</u>	<u>492,170</u>	<u>585,282</u>	<u>612,545</u>
<b>TOTAL ASSETS</b>	<b><u>104,610</u></b>	<b><u>492,744</u></b>	<b><u>597,354</u></b>	<b><u>617,336</u></b>
<b>LIABILITIES &amp; NET ASSETS</b>				
Liabilities				
Current Liabilities				
Accrued Expenses	20,493	-	20,493	52,656
Payroll Taxes Payable	91,150	-	91,150	68,178
Unearned Revenue	-	-	-	-
Due to Fund	(2,500)	2,500	-	-
Notes Payable	38,887	-	38,887	48,906
Total Current Liabilities	<u>148,030</u>	<u>2,500</u>	<u>150,530</u>	<u>169,740</u>
Total Liabilities	<u>148,030</u>	<u>2,500</u>	<u>150,530</u>	<u>169,740</u>
Net Assets				
Net Assets without Donors Restrictions	<u>(43,420)</u>	<u>490,244</u>	<u>446,824</u>	<u>447,596</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>104,610</u></b>	<b><u>492,744</u></b>	<b><u>597,354</u></b>	<b><u>617,336</u></b>

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



**Kauffman Leadership Academy**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended August 31, 2019 and 2018**

	2019				2018			
	Charter School with Donor Restrictions	Charter School without Donor Restrictions	Non Profit	Total	Charter School with Donor Restrictions	Charter School without Donor Restrictions	Non Profit	Total
Revenue and Other Support								
Local Support								
Program Service Fees	-	-	-	-	-	3,173	-	3,173
Contributions and Other Revenue	-	-	18,478	18,478	-	-	14,485	14,485
Total Local Support	-	-	18,478	18,478	-	3,173	14,485	17,658
Program Revenues								
Grant Revenue - State Grants	1,063,783	-	-	1,063,783	692,597	-	-	692,597
Total Program Revenues	1,063,783	-	-	1,063,783	692,597	-	-	692,597
Revenue and local support	1,063,783	-	18,478	1,082,261	692,597	3,173	14,485	710,255
Support provided by expiring time and purpose restrictions	(1,063,783)	1,063,783	-	-	(692,597)	692,597	-	-
Total revenues and local support	-	1,063,783	18,478	1,082,261	-	695,770	14,485	710,255
Expenses								
Program Services:								
Charter School	-	1,033,189	-	1,033,189	-	720,788	-	720,788
Non Profit	-	-	29,544	29,544	-	-	31,709	31,709
Administrative and General	-	18,750	1,550	20,300	-	18,630	1,462	20,092
Total Other Expenses	-	1,051,939	31,094	1,083,033	-	739,418	33,171	772,589
Change in Net Assets	-	11,844	(12,616)	(772)	-	(43,648)	(18,686)	(62,334)
Net Assets Beginning of year	-	(55,264)	502,860	447,596	-	(11,616)	521,546	509,930
Net Assets Ending of year	-	(43,420)	490,244	446,824	-	(55,264)	502,860	447,596

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

**Kauffman Leadership Academy**  
**Statements of Functional Expenses**  
**For the Years Ended August 31, 2019 and 2018**

	2019				2018			
	Charter School	Non Profit	Administrative and General	Total	Charter School	Non Profit	Administrative and General	Total
Salaries and Benefits	764,663	-	9,000	773,663	477,096	-	9,000	486,096
Payroll Taxes	64,072	-	900	64,972	24,680	-	900	25,580
<b>Total</b>	<b>828,735</b>	<b>-</b>	<b>9,900</b>	<b>838,635</b>	<b>501,776</b>	<b>-</b>	<b>9,900</b>	<b>511,676</b>
Facility Expenses	31,781	3,930	3,531	39,242	31,043	828	2,875	34,746
Operations	23,154	1,091	2,401	26,646	-	8,647	2,000	10,647
Office Expenses	1,884	2,226	209	4,319	-	2,609	1,462	4,071
Books, Teaching Supplies and Testing	45,229	163	-	45,392	33,604	-	-	33,604
Food and Supplies	37,344	1,962	-	39,306	75,346	4,180	-	79,526
Insurance	6,100	-	677	6,777	6,664	-	-	6,664
Utilities, Telephone and Internet	30,194	4,771	3,582	38,547	33,626	44	3,855	37,525
Professional Fees	14,090	-	-	14,090	25,241	-	-	25,241
Interest	2,816	-	-	2,816	9,123	-	-	9,123
Depreciation	11,862	15,401	-	27,263	4,365	15,401	-	19,766
<b>Total</b>	<b>1,033,189</b>	<b>29,544</b>	<b>20,300</b>	<b>1,083,033</b>	<b>720,788</b>	<b>31,709</b>	<b>20,092</b>	<b>772,589</b>

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

**Kauffman Leadership Academy**  
**Statements of Cash Flows**  
For the Years Ended August 31, 2019 and 2018

	Charter School	Non-Profit	2019	2018
<b>OPERATING ACTIVITIES</b>				
Cash Inflows from operations:				
State Grants	1,063,783	-	1,063,783	692,597
Contributions and Other Revenue	-	18,478	18,478	17,658
Cash outflows from operations:				
Payments for salaries, benefits and payroll taxes	(891,607)	-	(891,607)	(462,321)
Payments to vendors	(165,180)	(18,193)	(183,373)	(212,241)
Net Cash Provided by operating activities	6,996	285	7,281	35,693
<b>INVESTING ACTIVITIES</b>				
Purchase of long-term assets	-	-	-	(31,179)
<b>FINANCING ACTIVITIES</b>				
	-	-	-	-
Net Cash increase (decrease) for year	6,996	285	7,281	4,514
Beginning Cash	4,502	289	4,791	277
Ending Cash	11,498	574	12,072	4,791
Interest Paid	-	-	2,816	9,123
Taxes Paid	-	-	-	-

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

## **Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

### **NOTE 1. Nature of Organization**

Kauffman Leadership Academy (The "Academy"), is a Texas state approved charter school offering learning opportunity to the 6th through 11th grades. The Academy currently offers the opportunities at its sole facility in Cleburne, Tx. The Academy features small class size, longer class periods, a longer school day and no homework. The Academy gives back to the community through service and a bully free environment to learn.

The charter holder, Kauffman leadership Academy, operated as a single charter school. The Academy, which is a nonprofit 501c (3) organization, owns the facility which houses the Charter School. As such, the Academy has income other than the School to support the operations of the building in which the Charter School operated rent free.

Accordingly, non-charter school activities were conducted during the year ended August 31, 2019 and 2018. These activities are noted in the financial statements noted as "Non-Profit".

### **NOTE 2. Date of Management's Review and Subsequent Events**

In preparing the financial statements, Management has evaluated events and transactions for potential recognition or disclosure through November 30, 2019, the date that the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

### **NOTE 3. Significant Accounting Policies**

This summary of significant accounting policies of the Academy is presented to assist in understanding the Academy's financial statements. The financial statements and notes are representations of the Academy's management, which is responsible for their integrity and objectivity. These accounting policies confirm to accounting principles generally accepted in the United States of America.

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

#### **Basis of Accounting**

The organization prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 3. Significant Accounting Policies, continued**

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements.

On an ongoing basis, the organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

**Net Assets**

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

**Net Assets Without Donor Restrictions**

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

**Net Assets With Donor Restrictions**

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the organization, unless the donor provides more specific directions about the period of its use.

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 3. Significant Accounting Policies, continued**

**Classification of Transactions**

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions.

**Cash and Cash Equivalents**

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature. The organization maintains cash balances at a financial institution located in Cleburne, TX and its suburbs. Deposit accounts at the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. The balances could occasionally exceed those limits.

**Accounts Receivable-Grants**

Accounts receivable are primarily unsecured non-interest-bearing amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for uncollectible receivables has been provided.

**Short Term Investments**

The organization invests cash in excess of its immediate needs in money market funds and U.S Government and Government Agency issues. Short term investments are reported at fair value.

The investment policy specific to these investments is monitored by the Investment Committee of the organization's Board of Directors. The policy requires that investments be readily marketable and nonvolatile.

**Land, Buildings, and Equipment**

Land, buildings, and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$5,000 or more and a useful life when acquired for more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, as follows:

<b>Building</b>	40 years, or remaining lease term, if shorter
<b>Furnishing and equipment</b>	10 years
<b>Computer</b>	10 years

## **Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

### **NOTE 3. Significant Accounting Policies, continued**

During Fiscal year 2018 the Academy purchased a computer and equipment for \$31,179 which is reflected in the assets section of the Statement of Financial Position.

Land, buildings, and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

#### **Grant Revenue**

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants, contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget's audit requirements for federal awards and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the organization.

#### **Expense Recognition and Allocation**

The cost of providing the organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on management estimates.
- Occupancy, depreciation, and amortization, and interest are allocated based upon management estimates.
- Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of average cost allocations to each program and supporting activity.

Every three years, or more often when new space or programs are added, the bases on which costs are allocated are evaluated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs, if any, are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities.

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 3. Significant Accounting Policies, continued**

In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

**Tax Status**

The organization is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

**Compensated Absences**

Kauffman Leadership Academy has not accrued for compensated absences, as that amount cannot be reasonably estimated and is not considered material at August 31, 2019 and 2018.

**Advertisings Costs**

Advertising costs are expensed as incurred. Total advertising cost was \$-0- for August 31, 2019 year end and \$82,516 for August 31, 2018 year end.

**Income Taxes**

If it is probable that an uncertain tax position will result in a material liability and the amount of the liability can be estimated, the estimated liability is accrued. If the Clinic were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense, and penalties on any income tax would be reported as income taxes. As of August 31, 2019, and 2018, there were no uncertain tax positions.

**Donated Assets and Services**

The Academy had various assets and services donated for operations during the twelve months ended August 31, 2019 and 2018.

In accordance with FASB ASC Topic 958-605, accounting for contributions received and contributions made, during the year ended August 31, 2019 and 2018, an immaterial amount of contributed services meeting the requirements for recognition in the financial statements has been recorded as revenue and expense, However, a number of individuals have donated certain amounts of their time in the Academy's programs and supporting services which have not been recorded as revenue and expense. Donations of property and equipment are recorded at the estimated fair value as of the date the contribution is received. The Charter School is currently paying no rent to Kauffman Leadership Academy. The Charter School is a division of



**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 3. Significant Accounting Policies, continued**

Kauffman Leadership Academy, a non-profit organization. As such, there has been no determination of a lease value.

**Unearned Revenue**

As of the financial statement date the Academy had no payments from students for classes not completed. The unearned revenue at August 31, 2019 and 2018 was nil.

**Sources of Revenue and Organization Activities**

The sources of revenue for the Academy consist of Program Services, State Grants and contributions.

During the year end 2019 the Academy received additional grants from the Texas Education Agency. The grants are comprised of two components, Idea-B formula and Title I and Title II. These grants are passthrough grants. The management of the Academy represents, as a sub recipient, that the Academy is fully compliant with all requirements and guidelines.

**Change in Accounting Principles**

The organization implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The format of the statement of cash flows have changed to the direct method of reporting cash flows from operations, which we believe to be more understandable for the users of our financial statements
- The financial statements include a disclosure about liquidity and availability of resources

The changes have the following effect on net assets at August 31, 2018:

<b>Net Assets Class</b>	<b>As Originally Presented</b>	<b>After Adoption of ASU 2016-14</b>
Unrestricted net assets	\$ 447,596	-
Temporarily restricted net assets	-	-
Permanently restricted net assets	-	-
Net assets without donor restrictions	-	\$ 447,596
Net assets with donor restrictions	-	-
<b>Total net assets</b>	<b>\$ 447,596</b>	<b>\$ 447,596</b>

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 3. Significant Accounting Policies, continued**

**Concentrations**

A majority of receipts are from grants and contracts issued to the Academy based upon its agreements with the states. Failure to renew these grants would have an undeterminable outcome on the Academy. Also, the Academy is dependent upon the Cleburne area. Any downturn in economic activity in this locality could negatively impact the Academy.

**Functional Expenses**

Expenses are charged directly to program or general and administrative categories based on specific identification. Indirect expenses have been allocated based on management estimates and other similar allocation methods.

**Fundraising Expenses**

The Academy presently has no fundraising activities either external or internal to the organization.

**NOTE 4. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2019 are:

<b>Financial assets</b>	
Cash and cash equivalents	\$ 12,072
Account Receivable, net	<u>-</u>
Total financial assets available for general expenditures within one year	<u>\$ 12,072</u>

As part of the liquidity management plan, investment cash in excess of daily requirements are in short-term saving accounts.

**NOTE 5. Fair Value Measurements**

The organization reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1 inputs: Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 5. Fair Value Measurements, continued**

Level 2 inputs: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets in markets that are not active;
- observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
- inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3 inputs: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

When available, the organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the organization is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the organization's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of short-term investments.
- recurring measurement of endowment and long-term investments.
- recurring measurement of beneficial interests in trusts.

The organization is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to the organization's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of the August 31, 2019, including investments measured at net asset value (NAV) if the NAV is determined as the fair value per share (unit) is published, and is the basis for current transactions. Level 2 is for investments measured using inputs such as quoted prices for similar assets or quoted prices for the identical asset in inactive markets. Level 3 is for investments measured using inputs that are unobservable and is used in situations for which there is little, if any, market activity for the investment. The organization uses the following ways to determine the fair value of its investments:

**Kauffman Leadership Academy**  
Notes to Financial Statements  
August 31, 2019 and 2018

**NOTE 6. Fixed Assets**

The components of fixed assets are as follows:

Type	Life	Method	Cost of FMV	Accumulated Depreciation
Building at FMV	40	Straight Line	476,023	
Land at FMV			113,977	
Computer and equipment	10	Straight Line	131,501	
Facility Improvement	10	Straight Line	22,125	
Total			743,626	158,344

The total depreciation expense during the year end August 31, 2019 and 2018 was \$27,263 and \$19,766, respectively.

Property is stated at fair market value (FMV) and equipment is stated at cost, while maintenance and repairs are expensed when incurred. Upon retirement or other disposal of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in the results of operations.

Assets shown as FMV represent Fair Market Value at date the asset was donated to the Academy.

Currently there is no property insurance in the facility nor on the Organization's assets. Liability insurance in the amount of \$1,000,000 is maintained.

**NOTE 7. Risk, Commitments, Contingencies and Uncertainties – Agencies and Authorities**

The Organization is subject to various litigation and other claims in the normal course of business. The Organization establishes liabilities in connection with legal actions that management deems to be probable and estimable. The Organization had no litigation in process at August 31, 2019 and 2018.

The Academy's activities are subject to review by Federal, State, and Local agencies and income taxing authorities. Thus far the Clinic has completed an audit by the State of Texas relating to grants. No other reviews are to be carried out in the near future. As of the date of the financials the results of the audit had not been published. In discussions with management, no material findings are anticipated.

In evaluating the Academy's review and status of income tax provisions and accruals, the Academy believes that its estimates are appropriate based on current facts and circumstances. It is at least reasonably possible that a change in estimates reflected in the financial statements will occur in the near term. The estimates are material as related to the financial condition of the Academy.

The Academy enters into contracts that contain a variety of indemnifications for which the maximum exposure is unknown. Management expects the risk due to such contracts, if any, to be remote. The Organization has no current claims or losses in relation to these contracts.

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 7. Risk, Commitments, Contingencies and Uncertainties – Agencies and Authorities, continued**

The Academy has no purchase commitments with vendors other than short term purchase orders for ongoing requirements. There are no future annual minimum purchase agreements.

**NOTE 8. Conditional Promises to Give**

The Academy has no promises to give as of August 31, 2019 or 2018.

**NOTE 9. Related Party Transactions**

During the year there were no related party transactions.

**NOTE 10. Leases**

The Academy had no leases in place as of August 31, 2019 or 2018. The Charter School, a division of The Academy, pays no rent to The Academy for the use of the facility. As of the financial date the value of this lease has not been determined.

**NOTE 11. Accrued Liabilities**

The accrued liabilities balance consists of amounts owed to vendors for program and related costs as of August 31, 2019 and 2018.

**NOTE 12. Notes Payable**

The notes payable is comprised of the following notes:

Maker	Security Pledged	Interest Rate	Maturity	Balance
Bank	Building	6.75%	On Demand	23,887
Individual	None	10.00%	On Demand	15,000

All notes are due on demand and accordingly are reflected as current liabilities with no long-term debt portion noted on the financial statements. There are no special borrowing arrangements. The interest rates are variable and could change based on the prime rate. The bank loan for the building has an option for monthly payments of \$857 per month with payments due in 2020 of \$10,284, 2021 of \$10,284 and 2022 of \$1,819 based on interest rates.

## Kauffman Leadership Academy

Notes to Financial Statements

August 31, 2019 and 2018

### **NOTE 13. Pension Plan**

#### **Teacher Retirement System**

##### Plan Description

All employees of the Charter School, who are not exempt from membership under the Texas Constitution and Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost sharing multiple-employer defined benefit pension plan with the risk being different from a single-employer plan because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributions to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS. All the Charter School employees, except those employed for less than one half of standard workload and who are not exempt by law, are required to participate in TRS as a condition of employment. Benefits are established by state statute and vary based on age at retirement along with number of years of state service.

##### Funding Policy

The percentages are established by the Texas Legislature and may fluctuate over time. Members' contribution rate for fiscal year 2019 and 2018 was 7.7% for TRS members. For fiscal year 2019 and 2018, the State contribution rate was 7.5% and 6.8% for TRS, respectively. The TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, TRS, which is subject to amendment by the Texas Legislature. The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling 800-877-0123.

The Charter School's total contribution to the TRS for the year ended August 31, 2019 and 2018 was \$77,503 and \$39,297, respectively. Total TRS plan assets were \$181.8 billion and \$176.9 billion as of August 31, 2019 and 2018, respectively. Accumulated benefits payable were \$109.9 billion and \$120.5 billion as of August 31, 2019 and 2018, respectively. The plan was 76.4% and 76.9% funded at August 31, 2019 and 2018, respectively.

### **NOTE 14. Medical Reimbursement Plan**

The Academy currently has no employee benefit health insurance plan. The Organization has implemented a \$500 per month maximum medical reimbursement plan. In order to qualify for the plan, the employee signs the enrollment paperwork and submits the expenditure documentation to management who reimburses the employee for medical outlays.

**Kauffman Leadership Academy**

Notes to Financial Statements

August 31, 2019 and 2018

**NOTE 15. Going Concern**

There is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued. Additionally, consistent with the considerations provided in U.S. auditing standards, required disclosure of information should enable users of the financial statements to understand details of the Organization's plans.

Management has determined that various causes related to the entity's operations include principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern that include negative working capital and past due employer tax withholding payments and the filing of the required payroll tax returns. It is uncertain the entity will have the ability to meet its obligations.

Management plans to address these issues as follows:

1. Contract with an outside firm to prepare all past due payroll tax returns
2. Use current excess funds to pay approximately one half of the past due taxes
3. Work with the State on securing grants for assets as well as for operations as a large amount of the grant to date has been spent on long term assets for the Charter School
4. Revise and update the budget to assure operating success ongoing
5. Work with the Board to secure donations to the facility to enhance cash flow
6. Seek loans using the building as security for long term financing
7. Reduce operating overhead, postpone maintenance and lease assets vs purchasing

## **Supplemental Information**



**Kauffman Leadership Academy**  
Schedule of Expenses  
For the Years Ended August 31, 2019 and 2018

	2019	2018
<b>EXPENSES</b>		
6100 Payroll Costs	838,635	501,776
6200 Professional & Contracted Services	14,090	25,241
6300 Supplies & Materials	37,344	75,346
6400 Other Operating Costs	131,258	114,060
6500 Debt	11,862	4,365
Total Expenses	<u>1,033,189</u>	<u>720,788</u>

**Kauffman Leadership Academy**  
 Schedule of Capital Assets  
 For the Years Ended August 31, 2019 and 2018

	Ownership Interest	
	Local	
	2019	2018
1100 Cash & Cash Equivalents	\$ 11,498	\$ 4,502
1530 Furniture & Equipment	118,626	118,626
Total Capital Assets	<u>\$ 130,124</u>	<u>\$ 123,128</u>

**Kauffman Leadership Academy**  
**Budgetary Comparison Schedule**  
**For the Year Ended August 31, 2019**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>Total Revenue</b>	1,063,783	1,018,078	45,705
<b>Expenses</b>			
Program Services			
Payroll and related expenses	828,735	881,188	-
Food and Supplies	37,344	29,065	-
Computer, Software and Internet	30,194	-	-
Facility related	31,781	-	-
Professional Services and Contract Labor	14,090	76,930	-
Testing, Education Services and Other	70,267	3,000	-
Insurance	6,100	-	-
<b>Supporting Services</b>			
Management and General	18,750	-	-
<b>Total Program and Supporting Services Expenses</b>	<u>1,037,261</u>	<u>990,183</u>	<u>(47,078)</u>
<b>Other Expense</b>			
Interest Expense	2,816	-	-
Depreciation	11,862	-	-
<b>Total Other Expenses</b>	<u>14,678</u>	<u>-</u>	<u>(14,678)</u>
<b>Increase in Unrestricted Net Assets</b>	<u>11,844</u>	<u>27,895</u>	<u>(16,051)</u>

**Kauffman Leadership Academy**  
Statement of Expenditures of Federal and State Awards  
August 31, 2019

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity ID Number</u>	<u>Federal Expenditures</u>
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>			
<u>Pass Through Texas Education Agency</u>			
Charter School Program Grant	84.282		<u>1,001,087</u>
IDEA -Part B, Formula	84.027A	H027A18008	12,227
ESEA, Title I, Part A,	84.010A	S010A180043	17,911
ESEA, Title II, Part A,	84.367A	S367A180041	<u>1,964</u>
Total Passed Through Texas Education Agency			<u>1,033,189</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,033,189</u>
Total Expenditures of Federal and State Awards			<u><u>1,033,189</u></u>

The accompanying notes are an integral part of this schedule.

**Kauffman Leadership Academy**  
Notes to Expenditures of Federal and State Awards  
August 31, 2019

**NOTE 1. Basis of Accounting**

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state award activity of Kauffman Leadership Academy under programs of the federal and state government for the year ended August 31, 2019. The information in this schedule is presented in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State of Texas Single Audit Circular. Because the Schedule presents only a selected portion of the operations of Kauffman Leadership Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Kauffman Leadership Academy.

**NOTE 2. Non-Cash Assistance**

No federal awards were expended in the form of non-cash assistance for the year.

**NOTE 3. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and the State of Texas Single Audit Circular, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The information in the Schedule is presented in accordance with the requirements of the State of Texas Single Audit Circular included in the Uniform Grant Management Standards issued by the Governor's Office of Budget and Planning of the State of Texas. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

**NOTE 4. De Minimis Indirect Cost Rate**

Kauffman Leadership Academy has elected not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance and State of Texas Single Audit Circular.

**NOTE 5. Fee for Service Programs**

Certain grants are noted as fee-for-service program on the schedule. The expenditures shown for these grants represent amounts received for particular services performed by Kauffman Leadership Academy.



A. Bricks Coggin CPA, PLLC

**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**

**Independent Auditor's Report**

To the Board of Directors of  
Kauffman Leadership Academy

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 Kauffman Leadership Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated November 30, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kauffman Leadership Academy'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 Kauffman Leadership Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Kauffman Leadership Academy's internal control.

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "A. Bricks Coggin CPA, PLLC". The signature is written in a cursive, flowing style.

A Bricks Coggin CPA, PLLC

Irving, TX

November 30, 2019



A. Bricks Coggin CPA, PLLC

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF TEXAS *SINGLE AUDIT CIRCULAR*; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF TEXAS *SINGLE AUDIT CIRCULAR***

**Independent Auditor's Report**

To the Board of Directors of  
Kauffman Leadership Academy

**Report on compliance for each major federal program**

We have audited Kauffman Leadership Academy's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* and the State of Texas *Single Audit Circular* that could have a direct and material effect on each of Kauffman Leadership Academy's major federal and state programs for the year ended August 31, 2019. Kauffman Leadership Academy's major federal and state 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 and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

**Auditor's responsibility**

Our responsibility is to express an opinion on compliance for each of Kauffman Leadership Academy's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and State of Texas *Single Audit Circular*. Those standards, the Uniform Guidance and the State of Texas *Single Audit Circular* 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 Kauffman Leadership Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



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

### **Opinion on each major federal program**

In our opinion, Kauffman Leadership Academy 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, 2019.

### **Other Matters**

The results of our 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 item 2019-01. Our opinion on each major federal program is not modified with respect to these matters.

Kauffman Leadership Academy's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs as item 2019-01 Response. Kauffman Leadership Academy's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on internal control over compliance**

Management of Kauffman Leadership Academy 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 Kauffman Leadership Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State of Texas *Single Audit Circular*, 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 Kauffman Leadership Academy'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 or state 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-01, that we consider to be significant deficiencies.

Kauffman Leadership Academy's response, if any, to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kauffman Leadership Academy's response, if any, was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the State of Texas *Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

#### **Report on schedule of expenditures of federal and state awards required by the uniform guidance**

We have audited the financial statements of Kauffman Leadership Academy as of and for the year ended August 31, 2019, and have issued our report thereon date November 30, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the State of Texas *Single Audit Circular* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.



A Bricks Coggin CPA, PLLC

Irving, TX  
November 30, 2019

**Kauffman Leadership Academy**  
Schedule of Findings and Questioned Costs  
Year Ended August 31, 2019

**I. Summary of Auditor's Results**

**Financial Statements**

- The type of report issued on the financial statements: **Unmodified.**

**Internal Control over Financial Reporting:**

- Significant deficiencies in internal control were disclosed by the audit of the financial statement: **No**
- Material weakness: **No**
- Noncompliance which is material to the financial statements: **No**

**Federal and State Awards**

**Internal Control over Major Programs:**

- Significant deficiencies in internal control over major programs: **Yes**
- Material Weakness(es) Identified: **No**
- The type of report issued on compliance for major programs: **Unmodified.**
- Any audit findings which are required to be reported under 2 CFR section 200.416: **Yes**

**Identification of major program:**

<u>Identification of Major Programs</u>	<u>Grantor Number</u>
Charter School Program Grant	84.282

- Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- Audit qualified as a low risk auditee?
  - Federal: **No**
  - State: **No**

**II. Findings related to the Financial Statements Reported in Accordance with Government Auditing Standards**

2019-01 – Payroll Taxes

Criteria - A significant deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Academy's financial statements. In relation to this deficiency, concerning employee withholdings and employer related payroll tax liabilities, it was determined that the required tax liabilities have not been paid. Internal Controls should be put in place to comply with payment regulations.

**Kauffman Leadership Academy**  
Schedule of Findings and Questioned Costs  
Year Ended August 31, 2019

**II. Findings related to the Financial Statements Reported in Accordance with  
Government Auditing Standards, continued**

Condition - Material amounts of payroll taxes, current and past due, were not properly approved for payment in the Academy's financial statements. This has resulted in penalties and interest to the taxing authorities and the issuance of liens and levies.

Cause - Academy policies do not require, and procedures have not been established to require, independent review of taxes due that should be posted to the accounting records to ensure the financial statements are accurate and reliable. In addition, a reporting to the Board of Directors was not prepared which could have been used to remedy the deficiency.

Effect - Lack of policies and procedures resulted in Academy employees not detecting the error in the normal course of performing their assigned functions and material adjustments to the Academy's financial statements were necessary.

Recommendation - The Academy should implement procedures to ensure disbursements are timely made for payroll taxes and properly recorded in the Academy's financial statements.

2019-01 Response - We will implement this recommendation and remedy the past due situation of the payroll tax liability. Payment plans with the taxing authorities will be pursued and past due payments paid.

Conclusion - Response acknowledged.

**Kauffman Leadership Academy**  
Schedule of Prior Year Findings  
Year Ended August 31, 2019

**Prior Findings and Questioned Costs related to State Awards**

2018-01 – Payroll Taxes – Status Unresolved

Criteria - A significant deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Academy's financial statements. In relation to this deficiency, concerning employee withholdings and employer related payroll tax liabilities, it was determined that the required tax liabilities have not been paid. Internal Controls should be put in place to comply with payment regulations.

Condition - Material amounts of payroll taxes, current and past due, were not properly approved for payment in the Academy's financial statements. This has resulted in penalties and interest to the taxing authorities, and is reoccurring from previous audits due to continued lack of controls and monitoring.

Cause - Academy policies do not require, and procedures have not been established to require, independent review of taxes due that should be posted to the accounting records to ensure the financial statements are accurate and reliable. In addition, a reporting to the Board of Directors was not prepared which could have been used to remedy the deficiency.

Effect - Lack of policies and procedures resulted in Academy employees not detecting the error in the normal course of performing their assigned functions and material adjustments to the Academy's financial statements were necessary.

Recommendation - The Academy should implement procedures to ensure disbursements are timely made for payroll taxes and properly recorded in the Academy's financial statements.

2018-01 Response - We will implement this recommendation and remedy the past due situation of the payroll tax liability. Payment plans with the taxing authorities will be pursued and past due payments paid.

Conclusion - Response acknowledged.