

KAUFFMAN LEADERSHIP ACADEMY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

For the Years Ended August 31, 2018 and 2017

John F. Coggin, CPA PLLC
Certified Public Accountant

KAUFFMAN LEADERSHIP ACADEMY

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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, 2018 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 ____ day of

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.

*John F. Coggin CPA PLLC
222 West Las Colinas Blvd
Irving, Tx. 75039*

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kauffman Leadership Academy (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses, schedule of capital assets, schedule of budgetary comparison, and schedule of findings and questioned cost are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of American. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 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.

A handwritten signature in black ink that reads "John F. Coggin CPA". The signature is written in a cursive style.

John F. Coggin CPA PLLC
Irving, TX
January 18, 2019

FINANCIAL SECTION

KAUFFMAN LEADERSHIP ACADEMY
STATEMENTS OF FINANCIAL POSITION
August 31, 2018 and 2017

	Aug 31, 18			Aug 31, 17
	Charter School	Non-Profit	Consolidated	Consolidated
ASSETS				
Current Assets				
Checking/Savings	4,502	289	4,791	277
Total Current Assets	<u>4,502</u>	<u>289</u>	<u>4,791</u>	<u>277</u>
Fixed Assets				
Accumulated Depreciation.	(13,652)	(117,429)	(131,081)	(106,557)
Total Fixed Assets	<u>118,626</u>	<u>625,000</u>	<u>743,626</u>	<u>712,447</u>
Fixed Assets-Net	<u>104,974</u>	<u>507,571</u>	<u>612,545</u>	<u>605,890</u>
TOTAL ASSETS	<u>109,476</u>	<u>507,860</u>	<u>617,336</u>	<u>606,167</u>
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Accrued Expenses	50,156	2,500	52,656	11,914
Payroll Taxes Payable	68,178	-	68,178	18,823
Unearned Revenue	-	-	-	-
Notes Payable	<u>46,406</u>	<u>2,500</u>	<u>48,906</u>	<u>65,500</u>
Total Current Liabilities	<u>164,740</u>	<u>5,000</u>	<u>169,740</u>	<u>96,237</u>
Total Liabilities	<u>164,740</u>	<u>5,000</u>	<u>169,740</u>	<u>96,237</u>
Equity				
Unrestricted Net Assets	<u>(55,264)</u>	<u>502,860</u>	<u>447,596</u>	<u>509,930</u>
TOTAL LIABILITIES & EQUITY	<u>109,476</u>	<u>507,860</u>	<u>617,336</u>	<u>606,167</u>

The Accompanying Notes Are an Integral Part of the Financial Statements

KAUFFMAN LEADERSHIP ACADEMY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended August 31, 2018 and 2017

	2018			2017	
	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Non Profit</u>	<u>Consolidated</u>	<u>Consolidated</u>
Revenue and Other Support					
Grants	692,597	-	-	692,597	673,172
Contributions and Other Revenue		3,173	14,485	17,658	22,225
Total Revenue and Other Support	<u>692,597</u>	<u>3,173</u>	<u>14,485</u>	<u>710,255</u>	<u>695,397</u>
Net Assets Released from Restriction:					
Restriction Satisfied by Payments	<u>(692,597)</u>	<u>692,597</u>	<u>-</u>	<u>-</u>	
Total Revenues	-	695,770	14,485	710,255	
Expenses					
Program Services					
Payroll and related expenses		498,972	-	498,972	497,316
Food and Supplies		75,346	6,696	82,042	67,064
Computer, Software and Internet		33,626	672	34,298	23,905
Facility related		31,043	1,982	33,025	26,355
Professional Services and Contract Labor		25,241	6,958	32,199	8,824
License and fees		-	-	-	6,484
Testing and Education Services		25,004	-	25,004	6,310
Insurance		6,664	-	6,664	1,770
Supporting Services					
Management and General		18,630	1,462	20,092	53,573
Total Program and Supporting Services Expenses		<u>714,526</u>	<u>17,770</u>	<u>732,296</u>	<u>691,601</u>
Other Expense					
Interest Expense		4,365	-	4,365	4,282
IRS Penalties and Legal Settlement		11,404	-	11,404	-
Depreciation		9,123	15,401	24,524	19,929
Total Other Expenses		<u>24,892</u>	<u>15,401</u>	<u>40,293</u>	<u>24,211</u>
Increase in Unrestricted Net Assets		(43,648)	(18,686)	(62,334)	(20,415)
Beginning Unrestricted Net Assets		(11,616)	521,546	509,930	530,345
Ending Unrestricted Net Assets		<u>(55,264)</u>	<u>502,860</u>	<u>447,596</u>	<u>509,930</u>

The Accompanying Notes Are an Integral Part of the Financial Statements

KAUFFMAN LEADERSHIP ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2018 and 2017

	<u>Charter School</u>	<u>Non Profit</u>	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES				
Increase (Decrease) in Net Asset	(43,648)	(18,686)	(62,334)	(20,415)
Non-Cash Provided by Depreciation	9,123	15,401	24,524	19,929
Adjustments to reconcile Net Income to net cash provided by operations:				
Accrued Expenses	40,742	-	40,742	11,914
Accrued Expenses: Due from Non Profit	(2,500)		(2,500)	
Payroll Taxes Payable	49,355	-	49,355	18,823
Due to Charter School	-	2,500	2,500	
Notes Payable	(16,594)	-	(16,594)	57,500
Net cash provided by Operating Activities	<u>36,478</u>	<u>(785)</u>	<u>35,693</u>	<u>87,751</u>
FINANCING ACTIVITIES				
	-	-	-	-
INVESTING ACTIVITIES				
Accumulated Depreciation.	-	-	-	
Acquisition of Property and Equipment	(31,179)	-	(31,179)	(87,447)
Net cash provided by Investing Activities	<u>(31,179)</u>	<u>-</u>	<u>(31,179)</u>	<u>(87,447)</u>
Net cash increase for period	5,299	(785)	4,514	304
Cash at beginning of period	<u>(797)</u>	<u>1,074</u>	<u>277</u>	<u>(27)</u>
Cash at end of period	<u><u>4,502</u></u>	<u><u>289</u></u>	<u><u>4,791</u></u>	<u><u>277</u></u>

The Accompanying Notes Are an Integral Part of the Financial Statements

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

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 operating of the building in which the Charter School operated rent free.

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

2 - 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.

METHOD OF ACCOUNTING

The Academy maintains its books and records, and corresponding financial statements, on the accrual method of accounting in compliance with generally accepted accounting principles recognized in the United States of America.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. It is reasonably possible that changes may occur in the near term that would affect management's estimates with respect to these estimates.

BALANCE SHEET CLASSIFICATIONS

A one-year time period is used in classifying all current assets and liabilities.

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

2 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

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 nature. Also, certificates of deposit are considered a current asset as they can be converted immediately into cash despite a penalty for early withdrawal.

REVENUE RECOGNITION

Revenues from grants, contracts, contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. City and Federal grant revenues are recognized when services are rendered. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time. Funds received in advance are shown as deferred revenue.

CONTRIBUTIONS

In accordance with FASB ASC Topic 958-605, accounting for contributions received and contributions made, contributions are recognized when the donor makes a promise to give that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increased in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to restricted assets.

DONATED SERVICES AND PROPERTY

In accordance with FASB ASC Topic 958-605, accounting for contributions received and contributions made, during the year ended August 31, 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, a non-profit organization. As such, there has been no determination of a lease value.

2 - SIGNIFICANT ACCOUNTING POLICIES Continued

Revenue is also recognized upon receipt for rent to outside third parties for the facility.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following methods and assumptions were used by the Center in estimating the fair value of its financial statements as of August 31, 2018.

Cash and cash equivalents, assets limited as to use and accounts receivable, net:

The carrying amounts reported in the balance sheets for these assets approximate its fair value as of August 31, 2018.

Accounts payable and accrued expenses:

The carrying amounts reported in the balance sheets for accounts payable and accrued expenses approximate its fair value as of August 31, 2018.

The carrying amounts and fair values of the Center's financial instruments at August 31, 2018 are as follows:

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

2 - SIGNIFICANT ACCOUNTING POLICIES Continued

	Carrying Amount	Fair Value Level I	Fair Value Level II	Fair Value Level III
Cash and cash equivalents	4,791	4,791		
Grant Receivable	-	-		
Total fair value	<u>4,791</u>	<u>4,791</u>		

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2014, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-2015, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40)*. This ASU requires management to evaluate whether are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, which is currently performed by the external auditors. Management is required to perform this assessment for annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. The guidance is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. The adoption of this standard by management on January 1, 2017 did not have any effect on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for fiscal year beginning after December 15, 2019. Early application will be permitted for all organization. The Center is currently assessing the impact the adoption of this ASU will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU are designed to improve the current net asset classification requirement and the information presented in the financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal year beginning after December 15, 2017. Early application of the ASU is permitted. The Center is currently evaluating the impact of this pronouncement on its financial statements.

COMPENSATED ABSENCES

The Center has not accrued for compensated absences, as that amount cannot be reasonably estimated and is not considered material at August 31, 2018.

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

2 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

ADVERTISING COSTS

Advertising costs are expensed as incurred. Total advertising cost for the year ended August 31, 2018 was \$-0- and at August 31, 2017 \$1,562.

UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Presently there are no allowance for doubtful accounts as Grant revenues are recorded as revenue upon receipt.

BASIS OF PRESENTATION

The Academy presents its financial statements under FASB Accounting Standards Codification 958, Not-for-Profit Entities (FASB ASC 958). Under FASB ASC 958, the Academy is required to report information regarding its financial position and activities according to three classes of net assets as follows:

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Academy and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently on behalf of the Academy. Generally, the donors of these assets permit the Academy to use all or part of the investment return on these assets. The Academy had no permanently restricted net assets at August 31, 2018.

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, 2018 and 2017 was nil.

TEMPORARILY RESTRICTED ASSETS

The Academy reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished. Temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

State funded Educational Programs	<u>\$ 692,597</u>
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KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

There were no temporarily restricted assets, as of August 31, 2018.

CONCENTRATION RISKS

The Academy is solely dependent upon rental of the facility and charter school education for the services it performs. Accordingly, any negative impact upon the industry or grants awarded would impact the Academy's performance. The Academy is also concentrated in the City of Cleburne marketplace.

FUNCTIONAL PROGRAM SERVICE 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.

INCOME TAX

The Academy is tax exempt under Section 501 (c)(3) of the Internal Revenue Code and accordingly, is not subject to federal income tax. However, the Academy is subject to taxes on unrelated business income. The Academy had no unrelated business income during 2018. The Academy is required to file annual information returns with the Internal Revenue Service. The Federal IRS filed returns remain open to potential examination by the Internal Revenue Service for a period of three years after the returns are filed.

EQUIPMENT AND COMPUTER SOFTWARE

Equipment and computer software are carried at cost. For financial reporting purposes, depreciation is provided using the straight-line method based on estimated useful lives ranging from three to five years.

Total depreciation charged to expense was \$24,524.

Donated assets are carried at fair market value as of the date of the contribution.

Maintenance and repairs are expenses as incurred. Expenditures for major improvements that extend the useful lives of property or equipment are capitalized.

DONATED ASSETS AND SERVICES

The Academy had no donated assets or services during the financial statement period.

SUBSEQUENT EVENTS

These financial statements have been updated for subsequent events occurring through January 18, 2019, which is the date these consolidated financial statements were available to be issued.

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

3 – RELATED PARTY TRANSACTIONS

During the year there were related party transactions. One board member’s spouse is employed as a Charter School teacher and the spouse of the Superintendent/CEO is the Operations Manager for the Charter School, although no compensation is paid.

4 – LEASES

The Academy had no leases in place as of August 31, 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.

5 – COMMITMENTS AND CONTINGENCIES

The Academy is subject to various litigation and other claims in the normal course of business. The Academy establishes liabilities in connection with legal actions that management deems to be probable and estimable. The Academy’s management believes any legal matters are immaterial to the Organization as a whole.

The Academy activities are subject to review by Federal, State and Local agencies and income taxing authorities. Thus far the Academy has had 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 have been cured.

In evaluating the Academy 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 Association.

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

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			<u>743,626</u>	<u>131,081</u>

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

6 – FIXED ASSETS (Con't)

The total depreciation expense during the year end August 31, 2018 was \$24,524.

Property and equipment are 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 on the facility nor on the Organization's assets. Liability insurance in the amount of \$1,000,000 is maintained.

7 – NOTES PAYABLE

The notes payable is comprised of the following notes:

Maker	Original principal	Interest rate	Maturity	Balance
Bank	Building	Variable	On Demand	31,406
Individual	2,500	Variable	On Demand	2,500
Individual	15,000	Variable	On Demand	15,000

8 – 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 work load 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 2018 was 7.7% for TRS members. For fiscal year 2018, the State contribution rate was 6.8% for TRS. 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

KAUFFMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

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, 2018 was \$39,297. This contribution represents 82% of the required contribution. The remaining contributions comprising 100% were forwarded to TRS during September 2018 and November 2018, subsequent to the financial statements. The difference was accrued as a current liability. Total TRS plan assets as of August 31, 2018 were \$154.7 billion. Accumulated benefit obligations as of August 31, 2018 were \$171.8 billion. The plan was 76.9% funded at August 31, 2018.

9 – 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.

SUPPLEMENTAL INFORMATION

KAUFFMAN LEADERSHIP ACADEMY
SCHEDULE OF EXPENSES
For the Year Ended August 31, 2018

EXPENSES

6100 Payroll Costs	498,972
6200 Professional & Contracted Services	25,241
6300 Supplies & Materials	75,346
6400 Other Operating Costs	114,967
6500 Debt	4,365
Total Expenses	<u>718,891</u>

KAUFFMAN LEADERSHIP ACADEMY
SCHEDULE OF CAPITAL ASSETS
For the Year Ended August 31, 2018

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

**KAUFFMAN LEADERSHIP ACADEMY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2018**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Total Revenue	695,770	773,646	(77,876)
Expenses			
Program Services			
Payroll and related expenses	498,972	444,463	54,509
Food and Supplies	75,346	31,200	44,146
Computer, Software and Internet	33,626	25,000	8,626
Facility related	31,043	58,675	(27,632)
Professional Services and Contract Labor	25,241	23,000	2,241
Testing and Education Services	25,004	15,000	10,004
Insurance	6,664	14,400	(7,736)
Supporting Services			
Management and General	<u>18,630</u>	<u>70,000</u>	<u>(51,370)</u>
Total Program and Supporting Services Expenses	<u>714,526</u>	<u>681,738</u>	<u>32,788</u>
Other Expense			
Interest Expense	4,365	5,000	(635)
Penalties and Legal Settlement	11,404	-	11,404
Depreciation	<u>9,123</u>	<u>-</u>	<u>9,123</u>
Total Other Expenses	<u>24,892</u>	<u>5,000</u>	<u>19,892</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(43,648)</u>	<u>86,908</u>	<u>(130,556)</u>

*John F. Coggin CPA PLLC
222 West Las Colinas Blvd
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
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, 2018, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated January 18, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The finding reference numbers are 2018-01.

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*.

Kauffman Leadership Academy's Response to Findings

Kauffman Leadership Academy's response, if any, to the 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.

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.



John F. Coggin CPA PLLC
Irving, TX
January 18, 2019

John F. Coggin, CPA PLLC
222 West Las Colinas Blvd
Irving, Tx. 75039

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

To the Board of Directors of
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 OMB *Compliance Supplement (Compliance Supplement)* that could have a direct and material effect on each of Kauffman Leadership Academy's major federal programs for the year ended August 31, 2018. 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 the requirements of laws, regulations, contracts, and grants 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. CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 and state programs for the year ended August 31, 2018.

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 determine the auditing 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, 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.

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



John F. Coggin CPA PLLC
Houston, TX
January 18, 2019

KAUFFMAN LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONS COSTS

For the Year Ended August 31, 2018

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: **Yes**
- Material weakness: **No**
- Noncompliance which is material to the financial statements: **No**

State Awards

Internal Control over Major Programs:

- Significant deficiencies in internal control over major programs: **No**
- 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>
Grants to Charter School Program	84.282

- Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- Audit qualified as a low-risk audit under Subpart F of the Uniform Guidance: **No**

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

2018-01 – Payroll Taxes on employee withholdings and employer related liabilities have not been paid. Internal Controls should be put in place to comply with payment regulations.

III. Findings and Questioned Costs related to State Awards

None

KAUFFMAN LEADERSHIP ACADEMY
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
For the Year Ended August 31, 2018

There were no prior year findings.