ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Annual Financial and Compliance Audit

Years Ended August 31, 2016 and 2015

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Year Ended August 31, 2016 and 2015

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ECAP Enterprises, Inc.
CDN: 101855
(Federal Employer Identification Number: 76-0644461)

Certificate of Board

We, the undersigned, certify that the attached Annual Financial and Compliance Report of ECAP Enterprises, Inc. was reviewed and (check one) ✓ approved _____ disapproved for the year ended August 31, 2016, at a meeting of the governing body of the charter holder on the 25th day of January, 2017.

Signature of Board Secretary

Signature of Board President

MJ McConnell & Jones LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
ECAP Enterprises, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of ECAP Enterprises, Inc. (the "Organization"), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of the Organization as of August 31, 2015, were audited by other auditors whose report dated January 26, 2016, expressed an unmodified opinion on those financial statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules, as listed in the table of contents, as required by the Texas Education Agency, 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 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 January 25, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

McConnell & Jones LLP

Houston, Texas
January 25, 2017

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Statements of Financial Position
August 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 461,119	$ 204,003
Due from governments	5,136	10,861
Land held for sale	450,280	-
Total Current Assets	916,535	214,864
Noncurrent Assets:		
Property and equipment, net	1,417,086	504,568
Total Noncurrent Assets	1,417,086	504,568
TOTAL ASSETS	2,333,621	719,432
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	14,953	108,294
Deferred revenue	255	4,306
Interest payable	5,989	-
Accrued wages payable	45,943	45,943
Line of credit	51,847	57,251
Other liabilities	29,406	39,729
Current portion of long-term loan payable	320,980	16,973
Total Current Liabilities	469,373	272,496
Noncurrent Liabilities:		
Loan payable, net of current portion	1,341,507	280,681
Total Noncurrent Liabilities	1,341,507	280,681
TOTAL LIABILITIES	1,810,880	553,177
NET ASSETS		
Unrestricted	55,548	41,294
Temporarily restricted	467,193	124,961
TOTAL NET ASSETS	522,741	166,255
TOTAL LIABILITIES AND NET ASSETS	$ 2,333,621	$ 719,432

The accompanying notes are an integral part of this statement

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Statements of Activities
For the Year Ended August 31, 2016
(With comparative totals for 2015)

	Unrestricted	Temporarily Restricted	August 31, 2016	August 31, 2015
REVENUES				
Local Revenue:				
Food service sales	$ -	$ 2,194	$ 2,194	$ 3,325
Other revenues from local sources	24,381	30,419	54,800	33,752
Total Local Revenue	24,381	32,613	56,994	37,077
State Program Revenue:				
Per Capita and Foundation School Program Act Revenue	-	1,910,495	1,910,495	1,634,830
State Program Revenue distributed by the TEA	-	6,797	6,797	3,522
Total State Program Revenues	-	1,917,292	1,917,292	1,638,352
Federal Program Revenues:				
Federal Revenue distributed by the TEA	-	286,264	286,264	254,039
Total Federal Program Revenues	-	286,264	286,264	254,039
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	1,893,937	(1,893,937)	-	-
Total Net Assets Released from Restrictions	1,893,937	(1,893,937)	-	-
TOTAL REVENUES	1,918,318	342,232	2,260,550	1,929,468
EXPENSES				
Program services:				
Instruction	964,580	-	964,580	1,083,722
Instructional resources and media services	-	-	-	238
Curriculum and instructional staff development	37,496	-	37,496	19,512
Instructional leadership	3,001	-	3,001	9,102
School leadership	177,217	-	177,217	143,560
Guidance, counseling & evaluation services	20,369	-	20,369	20,833
Health services	102	-	102	77
Student (Pupil) transportation	56,772	-	56,772	75,874
Food service	137,013	-	137,013	115,629
Extracurricular activities	6,153	-	6,153	9,244
General administration	162,618	-	162,618	184,112
Facilities maintenance and operations	257,679	-	257,679	197,828
Security and monitoring services	6,139	-	6,139	2,246
Debt services	74,925	-	74,925	23,078
TOTAL EXPENSES	1,904,064	-	1,904,064	1,885,055
Change in net assets	14,254	342,232	356,486	44,413
NET ASSETS, BEGINNING OF YEAR	41,294	124,961	166,255	121,842
NET ASSETS, END OF YEAR	$ 55,548	$ 467,193	$ 522,741	$ 166,255

The accompanying notes are an integral part of this statement

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Statements of Cash Flows
For the Years Ended August 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	$ 1,906,444	$ 1,639,568
Grant payments	291,989	254,039
Other state and local revenue payments	63,791	40,599
Payments to vendors for goods and services rendered	(687,316)	(661,618)
Payments to charter school personnel for services rendered	(1,231,208)	(1,173,362)
Interest payments	(68,936)	(23,078)
Net cash provided by operating activities	274,764	76,148
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,377,077)	-
Net cash used in investing activities	(1,377,077)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit	(5,404)	(7,593)
Proceeds from long-term debt	1,400,000	-
Principal payments on long-term debt	(35,167)	(15,987)
Net cash provided by/(used in) financing activities	1,359,429	(23,580)
NET INCREASE IN CASH	257,116	52,568
CASH, BEGINNING OF YEAR	204,003	151,435
CASH, END OF YEAR	$ 461,119	$ 204,003

	2016	2015
RECONCILIATION OF CHANGE IN NET DEFICIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 356,486	$ 44,413
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	22,913	15,043
Write-off of property and equipment	(8,634)	-
Changes in:		
Due from Texas Education Agency	5,725	432
Changes in operating liabilities:		
Accounts payable	(93,341)	26,277
Interest payable	5,989	-
Accrued wages payable	-	9,347
Deferred revenue	(4,051)	4,306
Other liabilities	(10,323)	(23,670)
Net Cash Provided by Operating Activities	$ 274,764	$ 76,148

The accompanying notes are an integral part of this statement

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of ECAP Enterprises, Inc. (the "Organization") were prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP). The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Organization is a not-for-profit organization incorporated in the State of Texas in July 1998 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Organization and has the authority to make decisions, appoint the administrator of the Organization, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

Since the Organization received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The Organization was organized to provide educational services to students. The programs, services, activities and functions are governed by the Organization's Board of Directors. The Organization operates under an open enrollment charter granted by the State Board of Education. The Organization is part of the public school system of the State of Texas and is, therefore, entitled to distributions from the State's available school fund. The Organization does not have the authority to impose ad valorem taxes on its district or to charge tuition.

Programs and Support Services

The Organization operates the MeyerPark Elementary Charter School (the "School"). Support services consist of general administration functions that are necessary to coordinate the Organization's programs and plant maintenance and operations necessary to maintain its facilities.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-210, net assets, revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> ***Unrestricted*** – net assets that are not subject to donor-imposed restrictions.
>
> ***Temporarily restricted*** – These are net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> ***Permanently restricted*** – These are net assets required to be maintained in perpetuity with only the income to be used for the Organization's activities due to donor-imposed restrictions.

In addition, the Organization is required by FASB ASC Topic 958-205 to present statements of activities and cash flows.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements are the depreciation of capital assets, which is based on the estimated useful lives of the underlying depreciable assets, and the functional allocation of expenses.

Contributions

The Organization accounts for contributions in accordance with FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services

The Organization recognizes contributed services at their fair value if the services provide value to the Organization and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by the contributors, as established by FASB ASC Topic 958-605. During the fiscal year ended August 31, 2016, the Organization did not receive any services that would meet the criteria for recognition in the financial statements as prescribed in FASB ASC 958-605.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Organization did not have any cash equivalents as of August 31, 2016.

Revenue Recognition

Per Capita and State Foundation Aid revenues are recognized based on the reported student attendance. State and Federal grant revenues are recognized when services are rendered. Contributions and other revenues are recognized when received or unconditionally promised by a third party.

Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the financial statements. Capital assets are defined by the Organization as assets with an individual cost of more than $5,000 and a useful life of greater than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty-nine years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized. Maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which in then treated as cost. The Organization had no donated capital assets as of August 31, 2016.

Federal Income Tax

The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (“the Code”) and comparable State of Texas law. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore, the Organization has made no provision for federal incomes taxes in the accompanying financial statements. The Organization has also been classified as a publically supported organization, which is not a private foundation under Section 509(a) of the Code. Accordingly, contributions to the Organization are tax deductible within the limitation prescribed by the Code.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes,* which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Organization's tax returns will not be challenged by the taxing authorities and that the Organization will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Organization tax returns remain open for federal income tax examination for three years from the date of filing.

New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – Leases (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the Organization's 2021 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

NOTE 2: CASH

The Organization's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. These balances are partially insured by the Federal Deposit Insurance Corporation (FDIC). As of August 31, 2016, the uninsured portion of this balance was $263,669 and such balance was secured with pledged securities held by the custodial bank. There were no uninsured balances as of August 31, 2015. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the Organization's and the depository bank's agent custodial bank. The pledged securities shall be in an amount sufficient to protect Organization funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

NOTE 3: DUE FROM TEXAS EDUCATION AGENCY

The charter school has earned but not received payment for several state and federal programs. As such, a receivable has been recorded for each of the funding sources shown below:

	2016	2015
Student Success Initiative (SSI)	$ -	$ 715
IDEA Part B, Preschool	285	-
Title II, Part A	4,851	-
Child Nutrition Program	-	10,146
	$ 5,136	$10,861

NOTE 4: LAND HELD FOR SALE

The land, and associated improvements, located at 4950 West Fuqua, Houston, TX is currently listed for sale as it is no longer needed for the Organization's operations due to the purchase of land and building at another location during the fiscal year 2016.

NOTE 5: CAPITAL ASSETS

Capital assets at August 31, 2016 and 2015 were as follows:

	2016	2015
Land	752,500	444,973
Buildings and improvements	656,761	5,760
Leasehold improvements	-	16,281
Vehicles and equipment	164,200	179,650
Total property and equipment	1,573,461	646,664
Less: Accumulated depreciation	(156,375)	(142,096)
Property and equipment, net	$ 1,417,086	$ 504,568

Depreciation expense was $22,913 and $15,043 for the year ended August 31, 2016 and 2015, respectively.

Capital assets acquired with public funds received by the Organization for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for the Organization.

NOTE 6: ACCRUED SALARIES

During August 2016, the Organization's teachers worked thirteen days for which they were not paid until after August 31, 2016. Based on the daily rate of pay and the number of days worked, the Charter Holder accrued $45,943 in teachers' salaries to be paid after August 31, 2016. The Organization accrued $45,943 in salaries as of August 31, 2015.

NOTE 7: LINE OF CREDIT

The line of credit balance at August 31, 2016 is $51,847, leaving an available amount to use of $23,153. The line of credit was opened on October 1, 2012 with an extended line of $75,000 and a stated rate of interest of 10.25%. The line of credit balance at August 31, 2015 was $57,251.

NOTE 8: LONG-TERM DEBT

The School obtained a loan in 2007 for $399,784 from Kenneth Manesh and Sandra Manesh for the purchase of land located at 4950 West Fuqua, Houston, TX. Such loan matures November 29, 2027. The land associated with this loan is listed for sale as of August 31, 2016. Therefore, this note is shown as a current liability as of August 31, 2016.

The School obtained three loans in 2015 for a total of $1.4 million from PrimeWay Federal Credit Union and La Rochelle Academy for the purchase of land and building at 13663 Main Street, Houston, TX. The loan from PrimeWay Federal Credit Union matures on December 28, 2020, while the two loans from La Rochelle Academy mature December 28, 2020 and December 28, 2035.

Loans payable activity for the year ended August 31, 2016 was as follows:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Loans payable to:							
LaRochelle Academy	4.75%	$300,000	12/28/2035	$ -	$ 300,000	$ (5,321)	294,679
LaRochelle Academy	4.75%	$300,000	12/28/2020	$ -	$ 300,000	$ -	300,000
Manesh	6.00%	$399,784	11/29/2027	$ 297,654	$ -	$(11,587)	$ 286,067
PrimeWay Bank	4.75%	$800,000	11/28/2020	$ -	$ 800,000	$(18,259)	$ 781,741
Total				$ 297,654	$1,400,000	$(35,167)	$1,662,487

Annual debt service requirements to maturity of the loans payable are as follows:

Year Ending August 31		
2017	$	320,980
2018		37,832
2019		39,234
2020		40,993
2021		982,121
Thereafter		241,327
Total	$	1,662,487

NOTE 9: OPERATING LEASE

The Organization has several operating leases for its classrooms, storage, and equipment. The storage lease is the only lease that is paid on a cancellable, month-to-month basis. The non-cancellable lease agreements are related to the classrooms and equipment.

The future minimum rental payments required under the non-cancellable lease agreement for its facilities as of August 31, 2016, are as follows:

Year Ending August 31		Amount
2017	$	39,294
2018		22,680
Total Minimum Lease Payments	$	61,974

The Organization's lease expense for the years ended August 31, 2016 and 2015 totaled $102,935 and $210,765.

NOTE 10: PENSION PLAN OBLIGATIONS

Plan Description

The Organization contributes to the Teacher Retirement System of Texas (the "System" or "TRS"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the School, but are the liability of the State of Texas. The System administers retirement and disability annuities, and death and survivor benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public

Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the System's Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the System's Communications Department at 1-800-223-8778, or by downloading the report from the System's Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

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

The following present information about the Organization's multiemployer pension plan as of and for the year ended August 31, 2016:

		Total Plan Assets		Accumulated Benefit Obligations		% funded	
Name of Pension Fund	EIN and Plan Number	2016	2015	2016	2015	2016	2015
TRS	N/A	$152,925,647	$149,780,062	$171,797,150	$163,887,375	78.00%	78.43%

The following presents information about the Organization's involvement of such multiemployer pension plan for the year ended August 31, 2016**:**

Collective Bargaining Agreement	School's Contributions	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	$6,389	No	N/A	No

Funding Policy

Under provisions in State law, the System's plan members are required to contribute 7.20% of their annual covered salary for TRS Retirement and 0.65% of their annual covered salary to TRS Care. The State of Texas contributes an amount equal to 6.80% of the covered payroll of the participating employees compensated with State funds for TRS Retirement for TRS Care. The School employees' contributed $83,148 to TRS Retirement and $7,550 to TRS Care for the fiscal year ended August 31, 2016.

NOTE 11: HEALTH CARE COVERAGE

During the year ended August 31, 2016, employees of the Organization were covered by a TRS-Active Care (the Plan). The Organization contributed $255 per month per employee to the Plan.

Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to TRS.

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2016, temporarily restricted net assets of the Organization consisted of the following:

	2016	2015
Restricted for Food Program	$ 61,570	$ 37,531
Restricted for State Foundation School Program	405,623	87,430
Total Restricted Funds	$ 467,193	$ 124,961

NOTE 13: CONTINGENCIES

The Organization receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustments by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

NOTE 14: STATE AID

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the TEA and the attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. During the period ended August 31, 2016, the Charter Holder earned $1,910,495 of Per Capita and State Foundation Aid (before any possible TEA enrollment and attendance audit).

NOTE 15: ECONOMIC DEPENDENCY

During the years ended August 31, 2016 and 2015, the Organization earned revenue of $2,203,556 and $1,892,391, respectively, from the Texas Education Agency (TEA), including grants passed through the TEA. This amount constitutes approximately 97% and 98% of total revenues earned for the year ended August 31, 2016 and 2015, respectively. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

NOTE 16: CHARTER HOLDER OPERATIONS

The charter holder operated only a single charter school (i.e., MeyerPark Elementary Charter School) in fiscal year 2016 and did not conduct any other charter or non-charter activities.

NOTE 17: RELATED PARTY TRANSACTIONS

Two School non-administrative employees are related to a member of the Organization's board of directors. In addition, a school employee is related to members of the Organization's management. The related employees received $121,829 and $104,433 in compensation from the Organization during the years ended August 31, 2016 and 2015, respectively.

Also, during fiscal year 2016, the Organization purchased land and a building for $1.4 million from La Rochelle Academy. The purchase was partially financed with two loans totaling $600,000 from La Rochelle Academy. See Note 8 for the terms and outstanding balances of the loans as of August 31, 2016. The principal shareholder of La Rochelle Academy is related to members of the Organization's management.

Prior to the purchase of the land and building, the Organization leased the property from La Rochelle Academy. Lease expense for the property for the years ended August 31, 2016 and 2015 totaled $66,785 and $158,270, respectively.

NOTE 18: BUDGET AMENDMENTS

Prior to the beginning of each school year, the School prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the program, the budget must be amended on a regular basis.

Function 13 (Curriculum development and instructional staff leadership) contained an unfavorable variance from budget due to the School conducting more staff development in an effort to improve student performance. Function 51 (Facilities maintenance and operations) contained an unfavorable variance from budget primarily due to the expense of leasehold improvements due to the purchase of the building on which the leasehold improvements were made during the year as well as depreciation on the purchased building.

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

NOTE 19: MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 25, 2017, the date which the financial statements were available to be issued. No change to the financial statements for the fiscal year ended August 31, 2016 is deemed necessary as a result of this evaluation.

SUPPLEMENTAL SCHEDULES

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Schedules of Expenses
For the Years Ended August 31, 2016 and 2015

Expenses:		**2016**	**2015**
6100	Payroll costs	$ 1,220,885	$ 1,182,709
6200	Professional and contracted services	345,457	425,301
6300	Supplies and materials	125,383	118,534
6400	Other operating costs	137,414	135,433
6500	Debt service	74,925	23,078
		$ 1,904,064	$ 1,885,055

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Schedules of Capital Assets
For the Year Ended August 31, 2016

		2016			
		Ownership Interest			
		Local	State	Federal	Total
1510	Land and improvements	$ 739,826	$ 12,674	$ -	$ 752,500
1520	Buildings and improvements	636,594	20,167	-	656,761
1531	Vehicles	-	91,350	-	91,350
1580	Furniture and equipment	-	72,850	-	72,850
	Total property and equipment	$ 1,376,420	$ 197,041	$ -	$ 1,573,461

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Budgetary Comparison Schedule
For the Year Ended August 31, 2016

	Budgeted Amounts			Variance	
	Original	Final	Actual Amounts	from Final Budget	
REVENUES					
Local Revenue:					
5700 Local and intermediate sources	$ 28,250	28,250	$ 56,994	$ (28,744)	
State Program Revenue:					
5810 Per Capita and Foundation School Program Act Revenue	1,845,903	1,845,903	1,910,495	(64,592)	
5820 State Program Revenues Distributed by Texas Education Agency	-	-	6,797	(6,797)	
Federal Program Revenues:					
5929 Federal Revenues Distribted by the Texas Education Agency	186,913	186,913	286,264	(99,351)	
TOTAL REVENUES	2,061,066	2,061,066	2,260,550	(199,484)	
EXPENSES					
Program services:					
11 Instruction	1,003,167	923,832	964,580	(40,748)	
12 Instructional resources and media services	2,655	1,205	-	1,205	
13 Curriculum development and instructional staff development	33,295	33,295	37,496	- (4,201)	(1)
21 Instructional leadership	6,150	4,150	3,001	1,149	
23 School leadership	178,810	184,039	177,217	6,822	
31 Guidance, Counseling and Evaluation Services	29,810	23,369	20,369	3,000	
33 Health services	6,500	3,000	102	2,898	
34 Student (Pupil) transportation	88,554	67,802	56,772	11,030	
35 Food services	131,000	152,119	137,013	15,106	(2)
36 Cocurricular/Extracurricular activities	11,980	8,153	6,153	2,000	
41 General administration	173,292	173,292	162,618	10,674	
51 Facilities maintenance and operations	209,568	209,694	257,679	(47,985)	(3)
52 Security and monitoring services	7,700	7,700	6,139	1,561	
71 Debt Service	34,300	144,516	74,925	69,591	(4)
TOTAL EXPENSES	1,916,781	1,936,166	1,904,064	32,102	
Change in net assets	144,285	124,900	356,486	(231,586)	
NET ASSETS, BEGINNING OF YEAR	203,361	177,759	166,255	11,504	
NET ASSETS, END OF YEAR	$ 347,646	$ 302,659	$ 522,741	$ (220,082)	

Variance Explanation:

(1) The variance between the final budget and the actual amount is as a result of the School conducting more staff development in an effort to improve student performance.

(2) The variance between the original and final budget is due to the purchase of equipment used in food services as well as an increase in enrollment.

(3) The variance between the final budget and the actual amount is related to the depreciation of the building purchased during the year as well as the expense of leasehold improvements.

(4) The variance between the original and final budget is due to interest payments on three new loans obtained during the year as a result of the purchase of land and building.

COMPLIANCE AND INTERNAL CONTROLS

MJ McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

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 ECAP Enterprises, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ECAP Enterprises, Inc. (the "Organization"), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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 were not 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 a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2016-001, which we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as No. 2016-002 and No. 2016-003.

The Organization's Response to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Organization's responses were 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell & Jones LLP

Houston, Texas
January 25, 2017

ECAP Enterprises, Inc.

Summary Schedule of Findings and Responses
Year Ended August 31, 2016

SECTION 1:

SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
a) Material weakness identified?	No
b) Significant deficiencies identified, which are not considered to be material weaknesses?	Yes
c) Noncompliance material to financial statements noted?	No

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding No. 2016-001: Significant Deficiency in Internal Controls Over Financial Reporting

Condition: During the course of our audit procedures, we noted the following:

1. The School did not properly maintain the current and long-term portions of its notes payable in according with U.S. GAAP. In the course of our audit, it was noted principal payments were recorded to interest payable, rental expense, and interest expense rather than to the notes payable.
2. The School did not properly maintain state revenues and receivables in accordance with U.S. GAAP. In the course of our audit, it was noted that the School cleared the accounts receivable opening balance to the Foundation School Program current year revenue rather than writing off the receivable when the funds were received. In addition, a prior year receivable for the National School Lunch and Breakfast Program was posted to revenue again in the current year when the funds were received from the grantor.

Criteria: Effective internal controls over financial reporting include proper recording of transactions in the general ledger as well as adequate supervision and review of transactions to assure the completeness and accuracy of financial information.

Cause: The School has a deficient system of internal controls with respect to recording transactions in accordance with U.S. GAAP.

Effect: Several misstatements in the general ledger were noted. For the year ended August 31, 2016, long-term debt was understated by a net amount of approximately $10,000 and expenses were understated by a net amount of approximately $29,000. The effect of the adjustments to state revenue and receivable was an overstatement of the National School Lunch and Breakfast Program of approximately $10,200 and an understatement of the Foundation School Program of approximately $10,600. The net effect of the adjustments was an understatement of state revenues of approximately $400.

Recommendations: In accordance with U.S. GAAP, we recommend the following:

1. The School should post principal payments on its notes payable to the current portion of long-term debt as accrued at year-end. If principal payments made during the year are greater than the amount accrued in the current portion, the excess amount should be recorded against the long-term portion of the notes payable. Interest payments on notes payable should be recorded to interest expense.
2. Receipts from the state should be applied to accounts receivable as accrued at year-end rather than revenue.

Views of Responsible Officials and Planned Corrective Action:

With regards to the first condition, the School erroneously recorded one mortgage payment to rental expense. This occurred the month after the School concluded the rental agreement and purchased the property. Each subsequent payment was properly recorded to the note payable. A few of the interest payments were incorrectly coded. The School will revise its current monthly closing procedures to include ledger and balance sheet review by an outside accountant.

Estimated Completion Date: January 31, 2017

Person Responsible: Director of Business and Operations

With regards to the second condition, when the School was recording an entry to reverse a receivable, two numbers were transposed causing the state revenue to be understated and the food program revenue to be overstated. The School will revise its current financial closing procedures to include an additional process to help ensure all future receivables and revenues are stated correctly.

Estimated Completion Date: August 31, 2017

Person Responsible: Director of Business and Operations

STATE COMPLIANCE AND REPORTING REQUIREMENTS

Finding No. 2016-002: Compliance Requirements on PEIMS Attendance Reporting

Condition: During the course of our audit, we compared, on a sample basis, reported student attendance data in PEIMS with the underlying student attendance record. For the third and sixth six-week periods, our sampled period, we noted certain instances where reported attendance data in PEIMS did not agree with the underlying student attendance records.

Criteria: All public schools in State of Texas are required to maintain records to reflect the average daily attendance for the allocation of Foundation School Program (FSP) funds and other funds allocated by Texas Education Agency (TEA), (Title 19, Texas Administrative Code (TAC), Section 129.21(a)). All eligible students are entitled to the benefits of the FSP. However, for a school district to claim a student for funding purposes, complete and accurate documentation which proves the eligibility of the student for the FSP must first be on file.

Cause: The School did not adhere to pre-established policies and procedures for attendance.

Effect: Noncompliance with State laws may be considered a violation of the contract for charter.

Recommendation: We recommend that the Academy strengthen its existing policies and procedures to ensure that student attendance records are checked for accuracy and support attendance data reported in PEIMS to TEA.

Views of Responsible Officials and Planned Corrective Actions:
Management agrees with the auditor's assessment of the attendance finding. During the third and sixth six-week periods, this oversight occurred six days when substitute teachers were in the room. Substitutes are no longer permitted to take attendance. Only the Attendance Clerk or Administrative Assistant will take attendance in the absence of the teacher of record. Administration has already mandated additional attendance training coupled with revision of the current attendance policy and procedures to help ensure this oversight does not occur in the future.

Estimated Completion Date: January 31, 2017

Person(s) Responsible: Attendance Clerk, PEIMS Coordinator, and Director of Business and Operations

STATE COMPLIANCE AND REPORTING REQUIREMENTS

Finding No. 2016-003: Compliance Requirements on Annual Report on Open-Enrollment Charter Governance

Condition: During the course of our audit, we noted that the Superintendent and Director of Business Operations did not identify a family member within the third degree of consanguinity that received compensation from the School.

Criteria: Texas Administrative Code (TAC), Title 19, Rule 100.1007(a)(4) specifies each open-enrollment charter holder shall file identifying information for and compensation of all family members, within the third degree of consanguinity or third degree of affinity, of each board member, chief executive officer/superintendent, and chief financial officer for purposes of conflict of interest.

Cause: Management did not report compensation received by the family member on the annual governance reporting form.

Effect: Noncompliance with TAC, Title 19, Rule 100.1007(a)(4)

Recommendation: We recommend that the School follow the TAC, Title 19, Rule 100.1007(a)(4) requirements of identifying and reporting all family members within the third degree of consanguinity or affinity for the purposes of conflict of interest.

Views of Responsible Officials and Planned Corrective Actions:
Management agrees with the auditor's assessment of the finding regarding the Annual Report on Open-Enrollment Charter Governance Report. Both employees listed each other as relatives but neglected to list their father because he is not in an administrative role. The School has already recognized and submitted, in a timely fashion, the correct information on the 2016-2017 Annual Governance Report. The report will be reviewed for any and all changes prior to finalization and submission in future years.

Completed Date: November 30, 2016

Person(s) Responsible: Superintendent/Principal and Director of Business and Operations

ECAP Enterprises, Inc.

Summary Schedule of Prior Year Findings and Current Status
Year Ended August 31, 2016

There were no audit findings reported in the Schedule of Findings and Responses for fiscal year ended August 31, 2015.