

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Annual Financial and Compliance Audit

Years Ended August 31, 2017 and 2016

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)
Year Ended August 31, 2017 and 2016


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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 Financial and Compliance Report of ECAP Enterprises, Inc. was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2017, at a meeting of the governing body of the charter holder on the 24th day of January, 2018.



Signature of Board Secretary



Signature of Board President



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 statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 the Organization as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*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 24, 2018, 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.



Houston, Texas
January 24, 2018

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Statements of Financial Position
August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash	\$ 541,323	\$ 461,119
Due from governments	13,574	5,136
Land held for sale	450,280	450,280
Total Current Assets	<u>1,005,177</u>	<u>916,535</u>
Noncurrent Assets:		
Property and equipment, net	1,494,645	1,417,086
Total Noncurrent Assets	<u>1,494,645</u>	<u>1,417,086</u>
TOTAL ASSETS	<u><u>2,499,822</u></u>	<u><u>2,333,621</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	92,410	14,953
Unearned revenue	7,495	255
Interest payable	-	5,989
Accrued wages payable	45,808	45,943
Line of credit	45,557	51,847
Other liabilities	36,093	29,406
Current portion of loan payable	311,657	320,980
Total Current Liabilities	<u>539,020</u>	<u>469,373</u>
Noncurrent Liabilities:		
Loan payable, net of current portion	1,281,066	1,341,507
Total Noncurrent Liabilities	<u>1,281,066</u>	<u>1,341,507</u>
TOTAL LIABILITIES	<u>1,820,086</u>	<u>1,810,880</u>
Net Assets:		
Unrestricted	27,165	55,548
Temporarily restricted	652,571	467,193
TOTAL NET ASSETS	<u>679,736</u>	<u>522,741</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,499,822</u></u>	<u><u>\$ 2,333,621</u></u>

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, 2017
(With comparative totals for 2016)

	Unrestricted	Temporarily Restricted	August 31,	
			2017	2016
REVENUES				
Local Revenue:				
Food service sales	\$ -	\$ 1,786	\$ 1,786	\$ 2,194
Other revenues from local sources	16,846	2,180	19,026	54,800
Total Local Revenue	16,846	3,966	20,812	56,994
State Program Revenue:				
Per Capita and Foundation School Program Act Revenue	-	1,898,243	1,898,243	1,910,495
State Program Revenue distributed by the TEA	-	4,218	4,218	6,797
Total State Program Revenues	-	1,902,461	1,902,461	1,917,292
Federal Program Revenues:				
Federal Revenue distributed by the TEA	-	308,667	308,667	286,264
Total Federal Program Revenues	-	308,667	308,667	286,264
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	2,029,716	(2,029,716)	-	-
Total Net Assets Released from Restrictions	2,029,716	(2,029,716)	-	-
TOTAL REVENUES	2,046,562	185,378	2,231,940	2,260,550
EXPENSES				
Program services:				
Instruction	1,023,222	-	1,023,222	964,580
Curriculum and instructional staff development	31,880	-	31,880	37,496
Instructional leadership	-	-	-	3,001
School leadership	216,116	-	216,116	177,217
Guidance, counseling & evaluation services	20,784	-	20,784	20,369
Health services	-	-	-	102
Student (Pupil) transportation	71,726	-	71,726	56,772
Food service	142,464	-	142,464	137,013
Extracurricular activities	10,707	-	10,707	6,153
General administration	193,581	-	193,581	162,618
Facilities maintenance and operations	236,084	-	236,084	257,679
Security and monitoring services	28,327	-	28,327	6,139
Community services	16,325	-	16,325	-
Debt services	83,729	-	83,729	74,925
TOTAL EXPENSES	2,074,945	-	2,074,945	1,904,064
Change in net assets	(28,383)	185,378	156,995	356,486
NET ASSETS, BEGINNING OF YEAR	55,548	467,193	522,741	166,255
NET ASSETS, END OF YEAR	\$ 27,165	\$ 652,571	\$ 679,736	\$ 522,741

The accompanying notes are an integral part of this statement

ECAP ENTERPRISES, INC.
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Statements of Cash Flows
For the Years Ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	\$ 1,901,906	\$ 1,906,444
Grant payments	303,806	291,989
Other state and local revenue payments	25,030	63,791
Payments to vendors for goods and services rendered	(523,196)	(687,316)
Payments to charter school personnel for services rendered	(1,357,166)	(1,231,208)
Interest payments	(89,718)	(68,936)
Net cash provided by operating activities	<u>260,662</u>	<u>274,764</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(104,404)	(1,377,077)
Net cash used in investing activities	<u>(104,404)</u>	<u>(1,377,077)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit	(6,290)	(5,404)
Proceeds from loans	-	1,400,000
Principal payments on loans	(69,764)	(35,167)
Net cash provided by/(used in) financing activities	<u>(76,054)</u>	<u>1,359,429</u>
NET INCREASE IN CASH	80,204	257,116
CASH, BEGINNING OF YEAR	461,119	204,003
CASH, END OF YEAR	<u>\$ 541,323</u>	<u>\$ 461,119</u>
RECONCILIATION OF CHANGE IN NET DEFICIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 156,995	\$ 356,486
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	26,845	22,913
Write-off of property and equipment	-	(8,634)
Changes in operating assets:		
Due from Texas Education Agency	(8,438)	5,725
Changes in operating liabilities:		
Accounts payable	77,457	(93,341)
Interest payable	(5,989)	5,989
Accrued wages payable	(135)	-
Unearned revenue	7,240	(4,051)
Other liabilities	6,687	(10,323)
Net Cash Provided by Operating Activities	<u>\$ 260,662</u>	<u>\$ 274,764</u>

The accompanying notes are an integral part of this statement

ECAP ENTERPRISES, INC.
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Notes to the Financial Statements
August 31, 2017 and 2016

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.

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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.

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August 31, 2017 and 2016

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 years ended August 31, 2017 and 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, 2017 and 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, 2017 and 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.

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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 Pronouncements

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.

In August 2016, the FASB issued ASU 2016-14 – Not-for-Profit Entities (Topic 842): Presentation of Financial Statements of Not-for-Profit Entities, which will eliminate the distinction between resources with permanent restrictions and those with temporary restrictions from the face of financial statements as well as improve the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update will be effective for the Organization's 2019 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarified guidance on certain cash flow classification issues. This update will be effective for the Organization's 2020 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

In November 2016, the FASB issued ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This update will be effective for the Organization's 2020 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

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Notes to the Financial Statements
August 31, 2017 and 2016

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, 2017 and 2016, the uninsured portion of these balances were \$306,357 and \$263,669, respectively, and such balances were secured with pledged securities held by the custodial bank. 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:

	<u>2017</u>	<u>2016</u>
Title I, Part A	\$ 1,771	\$ -
Title II, Part A	1,478	4,851
IDEA Part B, Preschool	-	285
IDEA Part B, Formula	400	-
Child Nutrition Program	6,348	-
Foundation School Program	3,577	-
	<u><u>\$ 13,574</u></u>	<u><u>\$ 5,136</u></u>

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.

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Notes to the Financial Statements
August 31, 2017 and 2016

NOTE 5: CAPITAL ASSETS

Capital assets at August 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 752,500	\$ 752,500
Buildings and improvements	720,941	656,761
Vehicles and equipment	<u>204,424</u>	<u>164,200</u>
Total property and equipment	1,677,865	1,573,461
Less: Accumulated depreciation	<u>(183,220)</u>	<u>(156,375)</u>
Property and equipment, net	<u><u>\$ 1,494,645</u></u>	<u><u>\$ 1,417,086</u></u>

Depreciation expense was \$26,845 and \$22,913 for the year ended August 31, 2017 and 2016, 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 2017, the Organization's teachers worked thirteen days for which they were not paid until after August 31, 2017. Based on the daily rate of pay and the number of days worked, the Charter Holder accrued \$45,808 in teachers' salaries to be paid after August 31, 2017. The Organization accrued \$45,943 in salaries as of August 31, 2016.

NOTE 7: LINE OF CREDIT

The line of credit balance at August 31, 2017 is \$45,557, leaving an available amount to use of \$29,443. The line of credit was opened on October 1, 2012 with an extended line of \$75,000 and a stated rate of interest of 11.00% and 10.25% as of August 31, 2017 and 2016, respectively. The line of credit balance at August 31, 2016 was \$51,847.

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, 2017 and 2016. Therefore, this note is shown as a current liability as of August 31, 2017 and 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,

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2020, while the two loans from La Rochelle Academy mature December 28, 2020 and December 28, 2035.

Loans payable activity for the years ended August 31, 2017 and 2016 were as follows:

2017							
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	\$ 294,679	\$ -	\$ (5,397)	\$ 289,282
LaRochelle Academy	4.75%	300,000	12/28/2020	300,000	-	(27,352)	272,648
Manesh	6.00%	399,784	11/29/2027	286,067	-	(13,056)	273,011
PrimeWay Bank	4.75%	800,000	11/28/2020	781,741	-	(23,959)	757,782
Total				<u>\$ 1,662,487</u>	<u>\$ -</u>	<u>\$ (69,764)</u>	<u>\$ 1,592,723</u>

2016							
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				<u>\$ 297,654</u>	<u>\$ 1,400,000</u>	<u>\$ (35,167)</u>	<u>\$ 1,662,487</u>

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

Year ending August 31,	
2018	\$ 311,657
2019	39,671
2020	41,555
2021	682,709
2022	285,209
Thereafter	<u>231,922</u>
Total	<u>\$ 1,592,723</u>

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NOTE 9: OPERATING LEASES

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 agreements for its facilities as of August 31, 2017, are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2018	\$ 35,534
2019	9,900
2020	<u>8,250</u>
Total Minimum Lease Payments	<u>\$ 53,684</u>

The Organization's lease expense for the years ended August 31, 2017 and 2016 totaled \$52,490 and \$102,935, respectively.

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

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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 years ended August 31, 2017 and 2016:

Name of Pension Fund	EIN and Plan Number	Total Plan Assets		Accumulated Benefit		% funded	
		2017	2016	2017	2016	2017	2016
TRS	N/A	\$165,379,342	\$152,925,647	\$179,336,535	\$171,797,150	82.17%	78.00%

The following present information about the Organization's involvement of such multiemployer pension plan for the years ended August 31, 2017 and 2016:

2017				
<u>Collective Bargaining Agreement</u>	<u>School's Contributions</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>
N/A	\$6,729	No	N/A	No

2016				
<u>Collective Bargaining Agreement</u>	<u>School's Contributions</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>
N/A	\$6,389	No	N/A	No

Funding Policy

Under provisions in State law, the System's plan members are required to contribute 7.70% and 7.20% of their annual covered salary for TRS Retirement for August 31, 2017 and 2016, respectively, and 0.65% of their annual covered salary to TRS Care for August 31, 2017 and 2016. 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 \$93,986 and \$83,148 to TRS Retirement and \$7,953 and \$7,550 to TRS Care for the fiscal years ended August 31, 2017 and 2016, respectively.

NOTE 11: HEALTH CARE COVERAGE

During the years ended August 31, 2017 and 2016, employees of the Organization were covered by a Health Insurance Plan (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 licensed insurers.

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2017 and 2016

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2017 and 2016, temporarily restricted net assets of the Organization consisted of the following:

	<u>2017</u>	<u>2016</u>
Restricted for Food Program	\$ 89,683	61,570
Restricted for State Foundation School Program	562,888	405,623
Total Restricted Funds	<u>\$ 652,571</u>	<u>\$ 467,193</u>

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 years ended August 31, 2017 and 2016, the Charter Holder earned \$1,898,243 and \$1,910,495, respectively, 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, 2017 and 2016, the Organization earned revenue of \$2,211,128 and \$2,203,556, respectively, from the Texas Education Agency (TEA), including grants passed through the TEA. This amount constitutes approximately 99% and 97% of total revenues earned for the year ended August 31, 2017 and 2016, 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.

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2017 and 2016

NOTE 16: CHARTER HOLDER OPERATIONS

The charter holder operated only a single charter school (i.e., MeyerPark Elementary Charter School) in fiscal years 2017 and 2016 and did not conduct any other charter or non-charter activities.

NOTE 17: RELATED PARTY TRANSACTIONS

A non-administrative School employee is related to a member of the Organization's board of directors. In addition, a non-administrative School employee is related to members of the Organization's management. The related employees received \$75,766 and \$121,829 in compensation from the Organization during the years ended August 31, 2017 and 2016, 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, 2017. 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, 2017 and 2016 totaled \$0 and \$66,785, 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 development) contained an unfavorable variance from budget due to the School conducting more professional development activities needed for direct instruction staff. Function 36 (Cocurricular/Extracurricular activities) contained an unfavorable variance from budget primarily related to the spring festival and summer enrichment activities with students.

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 24, 2018, the date which the financial statements were available to be issued. No change to the financial statements for the fiscal year ended August 31, 2017 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, 2017 and 2016

Expenses:	 2017	 2016
6100 Payroll costs	\$ 1,363,718	\$ 1,220,885
6200 Professional and contracted services	302,884	345,457
6300 Supplies and materials	166,973	125,383
6400 Other operating costs	157,641	137,414
6500 Debt service	83,729	74,925
	<u>\$ 2,074,945</u>	<u>\$ 1,904,064</u>

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Schedule of Capital Assets
For the Year Ended August 31, 2017

2017				
	Ownership Interest			Total
	Local	State	Federal	
1510 Land and improvements	\$ 736,721	\$ 15,779	\$ -	\$ 752,500
1520 Buildings and improvements	698,103	22,838	-	720,941
1531 Vehicles	-	115,236	-	115,236
1580 Furniture and equipment	-	89,188	-	89,188
Total property and equipment	\$ 1,434,824	\$ 243,041	\$ -	\$ 1,677,865

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Budgetary Comparison Schedule
For the Year Ended August 31, 2017

	Budgeted Amounts		Actual Amounts	Variance from Final Budget	
	Original	Final			
REVENUES					
Local Revenue:					
5700	Local and intermediate sources	\$ 18,200	\$ 18,200	\$ 20,812	\$ 2,612
State Program Revenue:					
5810	Per Capita and Foundation School Program Act Revenue	1,831,158	1,831,158	1,898,243	67,085
5820	State Program Revenues Distributed by Texas Education Agency	-	-	4,218	4,218
Federal Program Revenues:					
5929	Federal Revenues Distributed by the Texas Education Agency	244,828	244,828	308,667	63,839
TOTAL REVENUES		2,094,186	2,094,186	2,231,940	137,754
EXPENSES					
Program services:					
11	Instruction	1,076,808	937,550	1,023,222	(85,672)
12	Instructional resources and media services	1,855	1,855	-	1,855
13	Curriculum development and instructional staff development	21,295	25,854	31,880	(6,026) (1)
21	Instructional leadership	18,557	19,072	-	19,072
23	School leadership	196,840	207,714	216,116	(8,402)
31	Guidance, Counseling and Evaluation Services	27,185	27,185	20,784	6,401
33	Health services	5,950	6,200	-	6,200
34	Student (Pupil) transportation	77,786	77,786	71,726	6,060
35	Food services	159,500	161,000	142,464	18,536
36	Cocurricular/Extracurricular activities	8,280	8,280	10,707	(2,427) (2)
41	General administration	183,363	209,409	193,581	15,828
51	Facilities maintenance and operations	192,702	235,406	236,084	(678)
52	Security and monitoring services	27,400	34,792	28,327	6,465
61	Community Services	23,191	18,969	16,325	2,644
71	Debt Service	44,300	81,982	83,729	(1,747)
TOTAL EXPENSES		2,065,012	2,053,054	2,074,945	(21,891)
Change in net assets		29,174	41,132	156,995	(115,863)
NET ASSETS, BEGINNING OF YEAR		203,361	177,759	522,741	(344,982)
NET ASSETS, END OF YEAR		\$ 232,535	\$ 218,891	\$ 679,736	\$ (460,845)

Variance Explanation:

- (1) The variance between the final budget and the actual amount is as a result of the School conducting more professional development activities needed for direct instruction staff.
- (2) The variance between the final budget and the actual amount is related to the spring festival and summer enrichment activities with students.

COMPLIANCE AND INTERNAL CONTROLS



**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, 2017, 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 24, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Houston, Texas
January 24, 2018

ECAP Enterprises, Inc.
Summary Schedule of Findings and Responses
Year Ended August 31, 2017

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 weaknesses identified? | No |
| b) Significant deficiencies identified, which were not
considered to be material weaknesses? | No |
| c) Noncompliance material to financial statements noted? | No |

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

None noted.

ECAP Enterprises, Inc.
Summary Schedule of Prior Year Findings and Current Status
Year Ended August 31, 2017

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 accordance 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.

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.

Current Status: Corrective action was taken; hence, the finding is not repeated in FY 2017.

ECAP Enterprises, Inc.
Summary Schedule of Prior Year Findings and Current Status
Year Ended August 31, 2017

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.

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.

Current Status: Corrective action was taken; hence, the finding was resolved and not repeated in FY 2017.

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.

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.

Current Status: Corrective action was taken; hence, the finding was resolved and not repeated in FY 2017.