

April 10, 2015

Ms. Kathy Bruck, Chief Executive Officer  
San Antonio Early Childhood Educational  
Municipal Development Corporation  
(dba as Pre-K 4 SA)  
7031 South New Braunfels Avenue  
San Antonio, Texas 78223

Dear Ms. Bruck:

The enclosed letter is in response to Statement on Auditing Standards ("SAS") No. 114, *The Auditor's Communication With Those Charged With Governance* ("SAS No. 114"), which applies to the June 30, 2015 audit of the financial statements of San Antonio Early Childhood Educational Municipal Development Corporation, dba as Pre-K 4 SA. SAS No. 114 provides a framework for the auditor's communication with those charged with governance and to identify some specific matters to be communicated.

SAS No. 114 requires us to communicate matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. This letter is information for those charged with governance and does not require a response.

We are addressing this letter to you as the Chief Executive Officer. Please review and discuss the enclosed letter with the Board of Directors and let us know if you have any questions you wish to discuss.

Sincerely,



Santos Fraga, Jr.  
Partner

SF:cmh

Enclosure

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San Antonio Early Childhood Educational  
Municipal Development Corporation  
(dba as Pre-K 4 SA)  
c/o Ms. Kathy Bruck, Chief Executive Officer  
7031 South New Braunfels Avenue  
San Antonio, Texas 78223

Dear Members of the Board of Directors:

This letter is intended to communicate certain matters to those charged with governance related to the planned scope and timing of our audit of San Antonio Early Childhood Educational Municipal Development Corporation's, dba as Pre-K 4 SA (the "Corporation") financial statements as of and for the year ending June 30, 2015.

***Communication***

Effective two-way communication between Padgett, Stratemann & Co., L.L.P. (the "Firm") and the Board of Directors is important to understanding matters related to the audit and in developing a constructive working relationship.

Your insights may assist the Firm in understanding the Corporation and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will communicate with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect you will timely communicate to the Firm any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures; your suspicion or detection of fraud; or any concerns you may have about the integrity or competence of senior management.

The Firm will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to the Firm during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

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### ***Independence***

Our independence policies and procedures are designed to provide reasonable assurance that the Firm and its personnel comply with applicable professional independence standards. These policies address financial interests, business and family relationships, and nonaudit services that may be thought to bear on independence. For example, without the Firm's permission, no partner or professional employee of the Firm is permitted to own any direct financial interest or a material indirect financial interest in a client or any affiliates of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with Firm policy. In addition, the Firm's policies restrict certain nonaudit services that may be provided by the Firm and require audit clients to accept certain responsibilities in connection with the provision of permitted nonattest services.

### ***Engagement Objectives***

Our primary objective is to conduct our audit in accordance with auditing standards generally accepted in the United States of America which may enable us to express an opinion as to whether the financial statements are fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit is planned to provide reasonable, not absolute, assurance that the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting, or misappropriation of assets. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse. We will also conduct an audit so as to satisfy the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States, as well as the audit requirements imposed by the Single Audit Act and the United States Office of Management and Budget (OMB) Circular No. A-133.

### ***The Audit Planning Process***

Our audit approach places a strong emphasis on obtaining an understanding of how your business functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your business. The development of a specific audit plan will begin by communicating with you and with management to obtain an understanding of business objectives, strategies, risks, and performance.

To the Board of Directors  
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We will obtain an understanding of internal control to assess the impact of internal control on determining the nature, timing, and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides parameters within which to design the audit procedures for specific account balances and classes of transactions.

The Firm's risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the entity's internal control).

We will then determine the nature, timing, and extent of tests of controls and substantive procedures necessary, given the risks identified, and the controls as we understand them.

### ***The Concept of Materiality in Planning and Executing the Audit***

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause the Firm to modify its opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected, but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

To the Board of Directors  
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San Antonio, Texas

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### ***Audit Approach***

Our audit approach includes obtaining/updating an understanding of:

- The Corporation's operations – This understanding allows us to concentrate audit efforts on those aspects of the Corporation that are significant to the financial statement.
- Internal control and its component elements – We plan to conduct an assessment of internal controls to assist us in determining the level of control risk related to the audit.
- Changes to the Corporation's significant information systems during the last year.
- Fraud risk factors within the Corporation which may be indicative of either fraudulent financial reporting, noncompliance, or misappropriation of assets.
- The cumulative audit knowledge we have gained from previous years' audits.
- New technical accounting and financial reporting requirements that will impact recognition, measurement, or disclosure in the June 30, 2015 financial statements.

### ***Internal Control and Compliance***

Our review and understanding of the Corporation's system of internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of its internal control. Rather, it is to assess the impact of internal control on determining the nature, timing, and extent of auditing procedures. Recommendations for improving internal controls that come to our attention will be summarized for discussion with management and the Board of Directors.

We will issue reports on internal control related to the financial statements and major programs, as required by *Government Auditing Standards*. These reports describe the scope of testing of internal control and the results of our tests of internal controls. Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with the requirements of the standards identified above.

To the Board of Directors  
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Municipal Development Corporation  
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We will issue a report on compliance with laws, regulations, and the provisions of contracts or grant agreements, as required by *Government Auditing Standards*. We will report on any noncompliance which could have a material effect on the financial statements. Our report on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed contracts; and any state or federal grant, entitlement, and/or loan program questioned costs of which we become aware, consistent with the requirements of the standards identified above.

***Timing of the Audit***

We have scheduled preliminary audit fieldwork to begin in April, 2015 with final fieldwork commencing in August, 2015. We anticipate reporting to the Board of Directors at the September/October 2015 board meeting date. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to the Corporation.

This communication is intended solely for the information and use of the Board of Directors and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Santos Fraga, Jr.", written in a cursive style.

Santos Fraga, Jr.  
Partner

SF:cmh