

**San Antonio Early Childhood  
Education Municipal Development  
Corporation, dba Pre-K 4 SA  
(A Component Unit of the  
City of San Antonio, Texas)**

Annual Financial Report  
Year Ended June 30, 2018

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## **Introductory Section**

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# San Antonio Early Childhood Education Municipal Development Corporation Board of Directors



**Elaine Mendoza**  
*Mayor's Appointee — Chairperson*



**Dr. Sheri Albright**  
*District 8*



**Dr. Gogi Dickson**  
*District 9*



**Jenni Roolf Laster**  
*District 10*



**Frances Guzman**  
*District 7*



**Dr. Tracy Hurley**  
*District 6*



**Gloria Ramirez**  
*District 5*



**Richard Perez**  
*District 4*



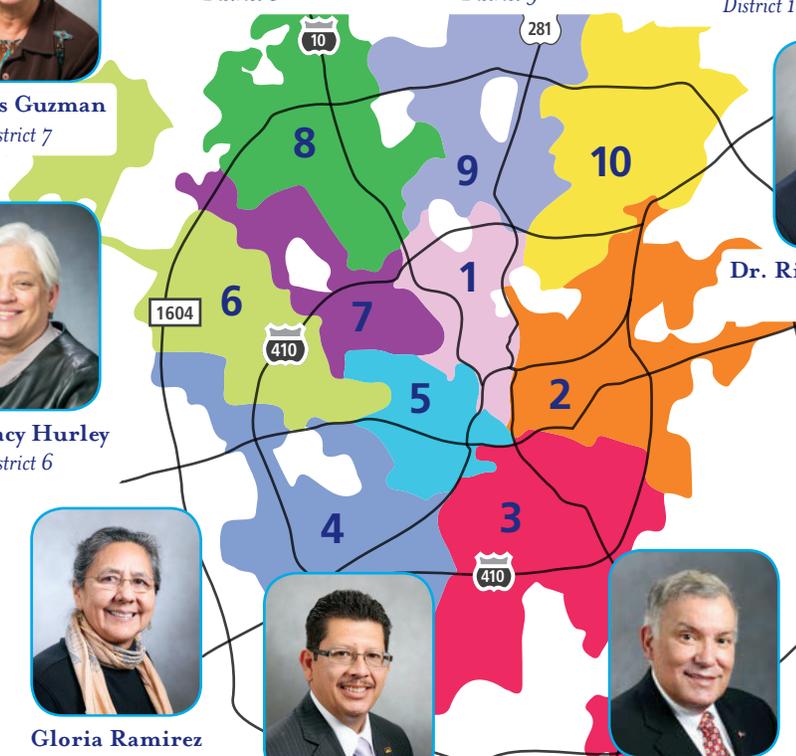
**General Major  
Joe Robles**  
*District 3*



**Dr. Richard Middleton**  
*District 1*

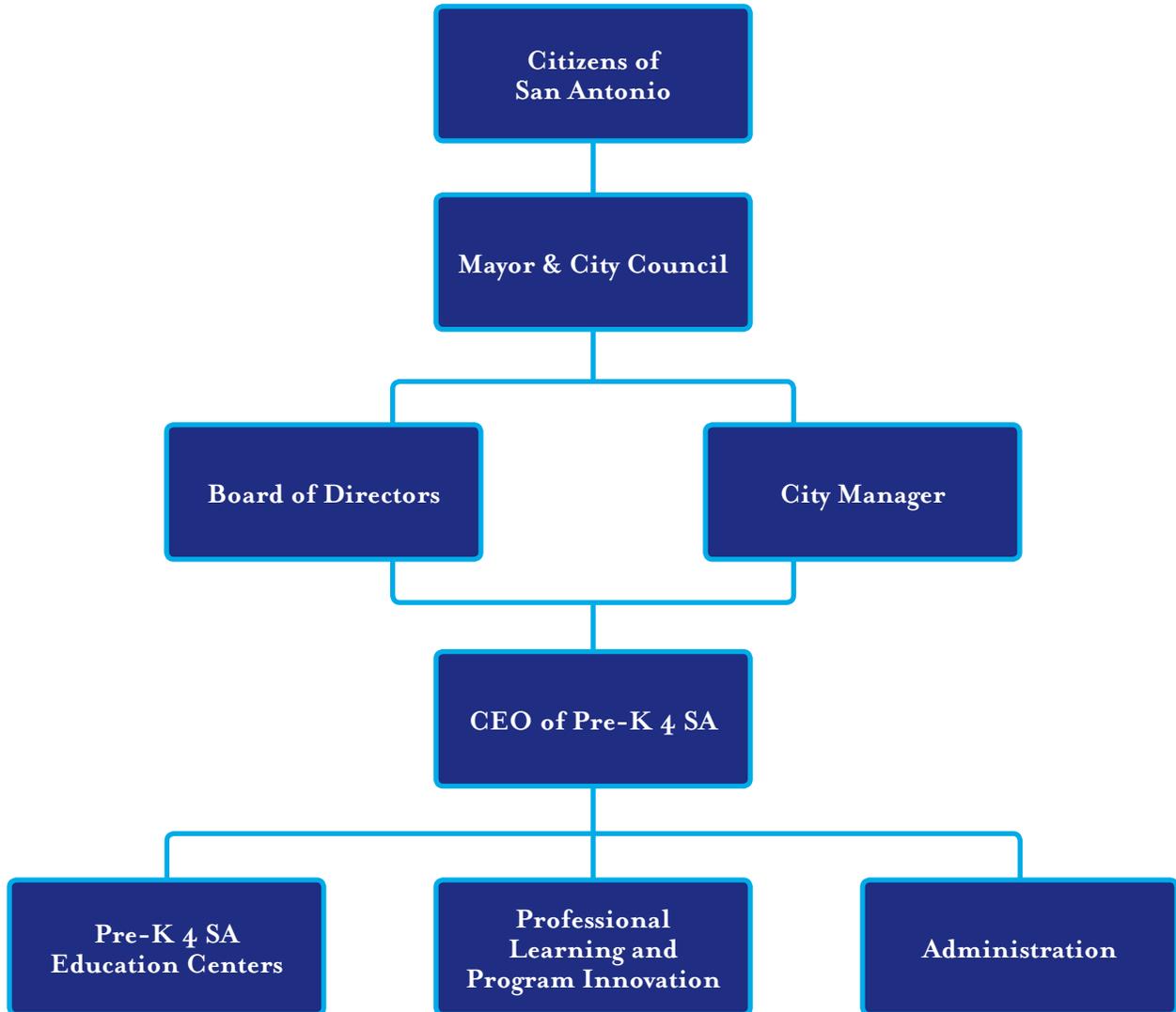


**Brandon A. Logan**  
*District 2*





## San Antonio Early Childhood Education Municipal Development Corporation Organizational Chart



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## **Financial Section**

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## Independent Auditor's Report

To the Board of Directors  
San Antonio Early Childhood Education  
Municipal Development Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Antonio Early Childhood Education Municipal Development Corporation (the Corporation), a component unit of the City of San Antonio, Texas, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

### 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 opinions 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 Corporation'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 Corporation'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 opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of June 30, 2018, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Introductory Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated [REDACTED], 2018, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

San Antonio, Texas

[REDACTED], 2018

## San Antonio Early Childhood Education Municipal Development Corporation

### Management's Discussion and Analysis (Unaudited)

This section of the San Antonio Early Childhood Education Municipal Development Corporation (the Corporation) annual financial report presents management's discussion and analysis of the Corporation's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the Corporation's financial statements, which follow this section.

#### Financial Highlights

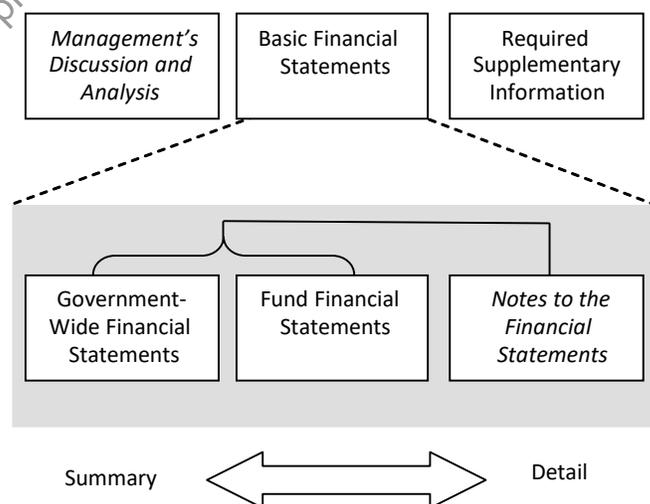
- The Corporation's total net position was \$7,921,697 at June 30, 2018.
- During the fiscal year, the Corporation's expenses were \$5,930,201 more than the \$42,065,980 generated in revenues at the government-wide financial statements level.
- The General Fund reported a fund balance of \$8,740,134 at June 30, 2018.
- During the fiscal year, the Corporation implemented year two of its competitive grant awards program. The total expenses for the program totaled \$4,468,232.

#### Overview of the Financial Statements

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements and required supplementary information. Table A-1 shows how the required parts of this annual report are arranged and related to one another. The basic financial statements include two kinds of statements that present different views of the Corporation:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Corporation's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the Corporation's operations in more detail than the government-wide statements.
- The Governmental Funds statements tell how general government services were financed in the short term, as well as what remains for future spending.

**Table A-1  
Required Components of the  
Corporation's Annual Financial Report**



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table A-2 summarizes the major features of the Corporation’s financial statements, including the portion of the Corporation’s government they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

**Table A-2  
Major Features of the Corporation’s Government-Wide and Fund Financial Statements**

Type of Statements	Fund Statements	
	Government-Wide	Governmental Funds
Scope	Entire Corporation’s government	The activities of the Corporation
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Government-wide statements:** The government-wide financial statements report information about the Corporation as a whole, using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government’s assets and liabilities. All current-year revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Corporation’s net position and how it has changed. Net position—the difference between the Corporation’s assets and liabilities—is one way to measure the Corporation’s financial health or position.

- Over time, increases or decreases in the Corporation’s net position are indicators of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Corporation include the governmental activities. All the Corporation's basic services are included here, such as instruction, food service, professional learning and program innovation, student (pupil) transportation, facilities leases and maintenance, program assessment and general administration.

**Fund financial statements:** The fund financial statements provide more detailed information about the Corporation's funds—not the Corporation as a whole. Funds are accounting devices the Corporation uses to keep track of specific sources of funding and spending for particular purposes.

- The Board of Directors (the Board) establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants. In 2015, the Corporation established the Child and Adult Care Food Program (CACFP) Fund to account for grant dollars received from the Texas Department of Agriculture.

The Corporation currently has one kind of fund:

- Governmental funds—The Corporation's basic services are included in the Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the Governmental Funds statement, or on the subsequent page, that explains the relationship or differences between them.

### Financial Analysis of the Corporation as a Whole

**Net position:** The Corporation's net position was \$7,921,697 at June 30, 2018 (see Table A-3).

**Table A-3  
Net Position**

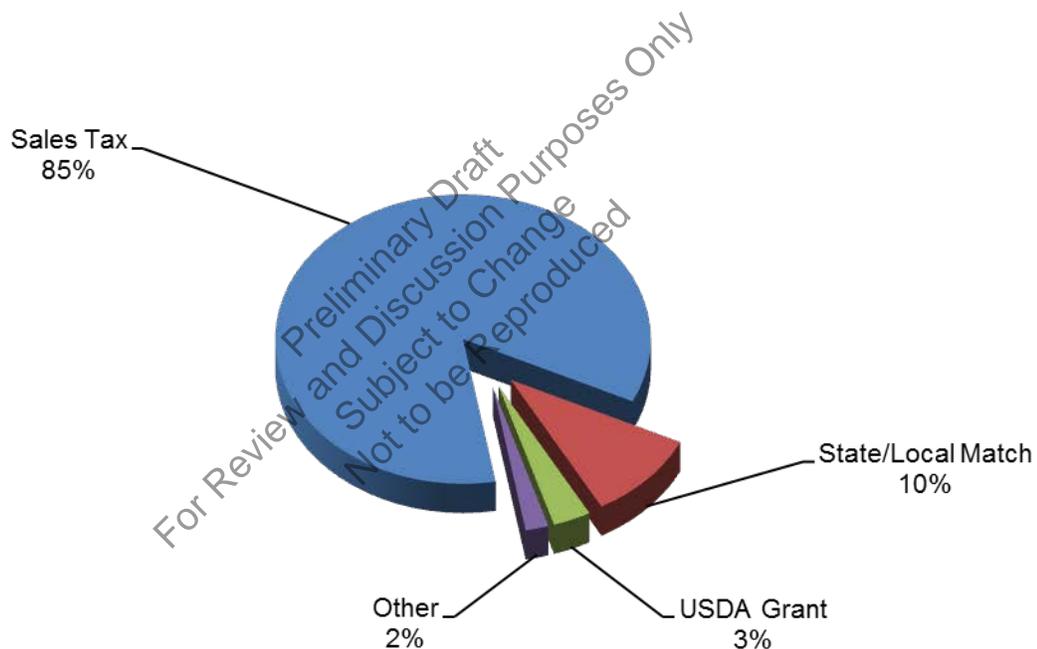
	Governmental Activities	
	2018	2017
Current and other assets	\$ 11,932,776	\$ 16,477,887
Capital assets, net	22,684	80,111
Total assets	<u>11,955,460</u>	<u>16,557,998</u>
Current liabilities	3,524,317	2,706,100
Noncurrent liabilities	509,446	-
Total liabilities	<u>4,033,763</u>	<u>2,706,100</u>
Net position:		
Investment in capital assets	22,684	80,111
Restricted	299,600	374,167
Unrestricted	7,599,413	13,397,620
Total net position	<u>\$ 7,921,697</u>	<u>\$ 13,851,898</u>

The \$7,599,413 of unrestricted net position represents resources available to fund the programs of the Corporation next year.

**Change in net position:** The Corporation's total revenues were \$42,065,980. A significant portion of the Corporation's revenues, 85 percent, comes from the 1/8th cent sales tax approved by the citizens of San Antonio in 2012. State/local match funding accounts for 10 percent, USDA grant for 3 percent and other revenues, which include sliding scale tuition, account for 2 percent.

The total cost of all programs and services was \$47,996,181. The decrease in net position is by design. The original 8 year budget model of the program called for a 3 year ramp up of net position that would be used to fully fund operations from fiscal year 2017 through fiscal year 2021. During the fiscal year ended June 30, 2018, the Corporation experienced increases facility costs as well as additional competitive grant awards which contributed to an increase in expenses of 2 percent.

**Table A-4  
Sources of Revenue for Fiscal Year 2018**



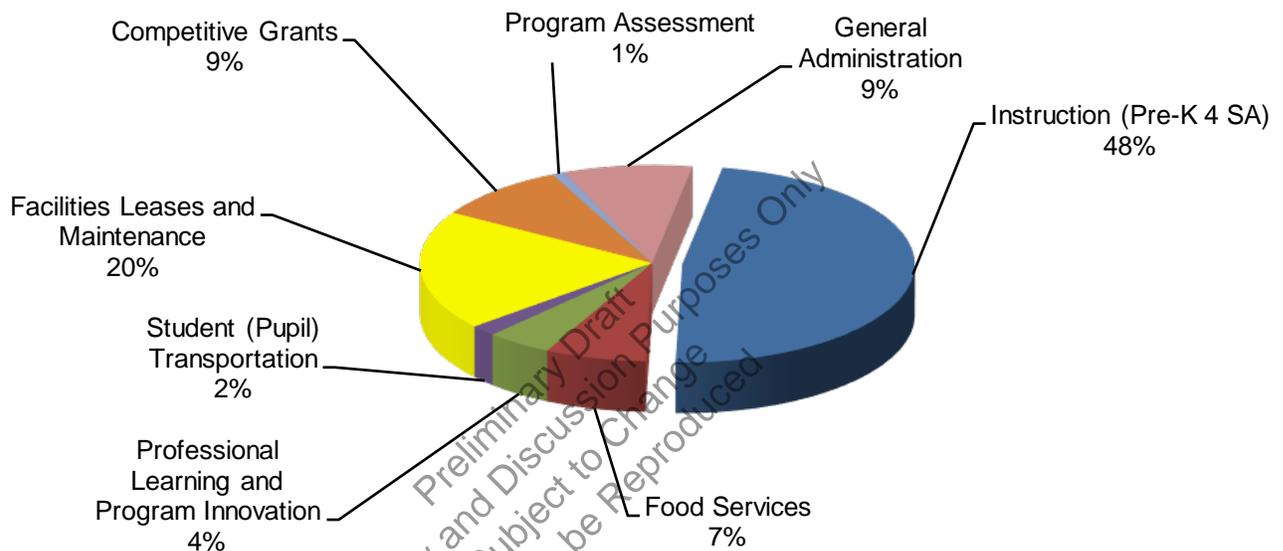
**Governmental activities:** Table A-5 provides a comparison of the Corporation's revenues and expenses for fiscal year 2018 to that of fiscal year 2017. Overall, revenues increased 5.0 percent from the prior year, due to additional sales tax revenue as the City of San Antonio (the City) continues to experience healthy economic growth. Expenses increased by 2 percent from the prior year because of increased facility costs as well as increases in grant awards for year 2 of the Competitive Grants Program.

**Table A-5  
Changes in Net Position**

	Governmental Activities		Percentage Change
	2018	2017	
Revenues:			
Program revenues:			
Charges for services	\$ 697,339	\$ 778,005	(10%)
Operating grants and contributions	5,534,529	5,317,123	4%
General revenues:			
Sales tax	35,697,044	33,942,775	5%
Interest	111,163	85,697	30%
Miscellaneous	25,905	82,773	(68.7%)
Total revenues	<u>42,065,980</u>	<u>40,206,373</u>	5%
Expenses:			
Instruction	22,887,229	22,661,313	1%
Competitive grant awards	4,487,488	3,768,857	19%
Food services	3,355,240	3,353,463	0%
Professional learning and program innovation	2,196,802	2,118,648	4%
Student (pupil) transportation	863,767	825,568	5%
Facilities leases and maintenance	9,481,373	9,126,030	4%
Program assessment	433,777	259,152	67%
General administration	4,290,505	4,245,004	1%
Total expenses	<u>47,996,181</u>	<u>46,358,035</u>	4%
Change in net position	(5,930,201)	(6,151,662)	(4%)
Net position at beginning of year	<u>13,851,898</u>	<u>20,003,560</u>	(31%)
Net position at end of year	<u>\$ 7,921,697</u>	<u>\$ 13,851,898</u>	(43%)

Table A-6 presents the allocation of functional expenses in their major area/class:

**Table A-6  
Functional Expenses for Fiscal Year 2018**



### Financial Analysis of the Corporation's Funds

The Corporation had two major funds in 2018—the General Fund and CACFP Fund.

**General fund:** Revenues from the General Fund totaled \$40,690,457, an increase of \$1,847,905 over the prior year. There was an increase in sales tax due to a healthy City economy.

Expenditures increased \$775,309 from fiscal year 2017 due to the increase in facility costs, additional competitive grant awards, and other inflationary costs incurred by the program.

**CACFP fund:** Revenues and expenditures from the CACFP Fund totaled \$1,375,523, an increase of \$11,702 over the prior year. Costs in excess of the grant award were charged to the General Fund and totaled \$1,979,717.

This fund does not meet the criteria for a major fund, but management has elected to present as a major fund for the benefit of the financial statement users.

## General Fund Budgetary Highlights

**Table A-7  
Variances in Budget Appropriations\***

	Original Budget	Final Budget	Actual Results
Instruction and food services	\$ 25,415,717	\$ 26,017,992	\$ 25,606,274
Competitive grant awards	4,954,719	4,863,739	4,468,232
Professional learning and program innovation	2,250,433	2,118,383	2,090,901
Student (pupil) transportation	869,554	883,795	863,767
Facilities leases and maintenance	9,500,306	9,388,292	9,401,653
Program assessment	313,111	433,777	433,777
General administration	4,970,496	4,638,891	4,233,029
Total	<u>\$ 48,274,336</u>	<u>\$ 48,344,869</u>	<u>\$ 47,097,633</u>

\*Represents budgeted amounts in the Corporation's General Fund and CACFP Fund.

Table A-7 presents the Corporation's changes in original budget appropriations to the final amended budget appropriations. This results in a net \$70,533 increase in appropriations. Even with these adjustments, actual expenditures were \$1,247,236 below final budget amounts. The significant changes can be summarized by the following:

- Instruction and food services appropriations were increased by \$602,275 due to the reorganization of Education Center staff that occurred in the summer of 2017, additional funding to fund a full time SAPD officer at each Education Center, additional funds for temporary employees, and to adjust for increased internal service costs from the City of San Antonio.
- Competitive grant awards appropriations were reduced by \$90,980 due to the Grants Manager vacancy and the decision not to purchase computer software for grants management as originally planned in the Original Budget.
- Professional learning and program innovation appropriations were reduced by \$132,050 to account for vacancies that were not filled during the year.
- Student (pupil) transportation appropriations were increased by \$14,241 due to leases that were added in the summer of 2017 and not included in the original budget for bus depots.
- Facilities leases and maintenance appropriations were decreased by \$112,014 because of vacancies in Facility and Custodial positions throughout the year.
- General administration appropriations were decreased by \$331,605 due to vacancies and less than required temporary employees for 2017-2018 school year registration.

## Capital Assets

**Capital assets:** At the end of 2018, the Corporation had invested \$22,684 in capital assets, net of accumulated depreciation (see Table A-8). It should be noted that buildings, furniture and equipment and some computer equipment are owned by the City and, as a result, are not presented within the Corporation's financial statements.

**Table A-8  
Capital Assets**

	Governmental Activities	
	2018	2017
Furniture and equipment	\$ 287,134	\$ 287,134
Total depreciable assets	287,134	287,134
Less accumulated depreciation	264,450	207,023
Net capital assets	\$ 22,684	\$ 80,111

\*No capital assets were purchased during fiscal year 2018

Additional information on the Corporation's capital assets can be found in Note 4.

## Economic Factors and Next Year's Budgets and Rates

The following factors were taken into account when adopting the General Fund budget for 2019:

- An anticipated increase in sales tax revenue from the City based on the City's sales tax projections for fiscal year 2019.
- The anticipated state/local match from the participating school districts in fiscal year 2019 is estimated to be \$4,352,400.
- All employees received a 1 percent cost-of-living adjustment salary increase for the City's 2019 fiscal year. In addition, eligible employees will receive an additional salary adjustment based on performance in January 2019.

Amounts available for appropriations in the General Fund budget for fiscal year 2019 are \$47,305,297, an overall decrease of 2.0 percent, compared to the original 2018 budget of \$48,274,336. Revenue in 2019 is projected to be 2.9 percent more than the prior year compared to the original 2018 budget of \$41,754,557 due to projected increases in sales tax revenue. The Corporation adopted a balanced budget for 2019.

## Contacting the Corporation's Financial Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's Administration Department, 7031 South New Braunfels, San Antonio, Texas 78223.

## **Basic Financial Statements**

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San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

Statement of Net Position  
June 30, 2018

	Governmental Activities
<b>Assets</b>	
Current assets:	
Equity in City of San Antonio pooled cash:	
Cash and cash equivalents	\$ 6,775,428
Receivables:	
Participating school districts	1,379,014
Texas department of Agriculture	42,287
Due from City of San Antonio	3,436,447
Restricted assets:	
Equity in City of San Antonio pooled cash:	
Cash and cash equivalents	299,600
<b>Total current assets</b>	<u>11,932,776</u>
Noncurrent assets:	
Capital assets, net	22,684
<b>Total noncurrent assets</b>	<u>22,684</u>
<b>Total assets</b>	<u>11,955,460</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	914,094
Accrued leave payable	331,675
Accrued expenditures	2,278,548
<b>Total current liabilities</b>	<u>3,524,317</u>
Noncurrent liabilities:	
Accrued leave payable	509,446
<b>Total noncurrent liabilities</b>	<u>509,446</u>
<b>Total liabilities</b>	<u>4,033,763</u>
Net position:	
Investment in capital assets	22,684
Restricted:	
Operating and other reserves	299,600
Unrestricted	7,599,413
<b>Total net position</b>	<u>\$ 7,921,697</u>

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See notes to financial statements.

San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

Statement of Activities  
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 22,887,229	\$ 697,339	\$ 4,159,006		\$ (18,030,884)
Food services	3,355,240	-	1,375,523		(1,979,717)
Professional learning and program innovation	2,196,802	-	-		(2,196,802)
Student (pupil) transportation	863,767	-	-		(863,767)
Facilities leases and maintenance	9,481,373	-	-		(9,481,373)
Competitive grants	4,487,488	-	-		(4,487,488)
Program assessment	433,777	-	-		(433,777)
General administration	4,290,505	-	-		(4,290,505)
<b>Total governmental activities</b>	<b>47,996,181</b>	<b>697,339</b>	<b>5,534,529</b>		<b>(41,764,313)</b>
<b>Total primary government</b>	<b>\$ 47,996,181</b>	<b>\$ 697,339</b>	<b>\$ 5,534,529</b>		<b>(41,764,313)</b>
General revenues:					
Sales tax					35,697,044
Interest					111,163
Miscellaneous					25,905
<b>Total general revenues</b>					<b>35,834,112</b>
<b>Change in net position</b>					<b>(5,930,201)</b>
Net position at beginning of year					<u>13,851,898</u>
Net position at end of year					<u><u>\$ 7,921,697</u></u>

See notes to financial statements.

San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

Balance Sheet—Governmental Funds  
June 30, 2018

	General Fund	CACFP Fund	Total Governmental Funds
<b>Assets</b>			
Current assets:			
Equity in City of San Antonio pooled cash:			
Cash and cash equivalents	\$ 6,775,428	\$ -	\$ 6,775,428
Receivables:			
Participating school districts	1,379,014	-	1,379,014
Texas department of agriculture	-	42,287	42,287
Due from City of San Antonio	3,436,447	-	3,436,447
Due from CACFP Fund	42,287	-	42,287
Restricted assets:			
Equity in City of San Antonio pooled cash:			
Cash and cash equivalents	299,600	-	299,600
<b>Total assets</b>	<b>\$ 11,932,776</b>	<b>\$ 42,287</b>	<b>\$ 11,975,063</b>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable	\$ 914,094	\$ -	\$ 914,094
Accrued expenditures	2,278,548	-	2,278,548
Due to General Fund	-	42,287	42,287
<b>Total liabilities</b>	<b>3,192,642</b>	<b>42,287</b>	<b>3,234,929</b>
Fund balance:			
Restricted:			
Operating and other reserves	299,600	-	299,600
Assigned	140,498	-	140,498
Unassigned	8,300,036	-	8,300,036
<b>Total fund balance</b>	<b>8,740,134</b>	<b>-</b>	<b>8,740,134</b>
<b>Total liabilities and fund balance</b>	<b>\$ 11,932,776</b>	<b>\$ 42,287</b>	<b>\$ 11,975,063</b>

See notes to financial statements.

**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2018**

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Total fund balance—governmental funds balance sheet	\$ 8,740,134
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation are not recorded in the governmental funds	22,684
Long-term liabilities are not due and payable in the current period; therefore, they are not reported as liabilities in the governmental funds:	
Accrued leave payable	<u>(841,121)</u>
Net position of governmental activities—statement of net position	<u>\$ 7,921,697</u>

See notes to financial statements.

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**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
Year Ended June 30, 2018**

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Net change in fund balances—total governmental funds \$ (5,031,653)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation of capital assets used in governmental activities is not reported in the funds (57,427)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in accrued leave payable (841,121)

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**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
Year Ended June 30, 2018**

---

Net change in fund balances—total governmental funds	\$ (5,031,653)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation of capital assets used in governmental activities is not reported in the funds	(57,427)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Change in accrued leave payable	<u>(841,121)</u>
Change in net position of governmental activities—statement of activities	<u>\$ (5,930,201)</u>

See notes to financial statements.

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## San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

The basic financial statements of the San Antonio Early Childhood Education Municipal Development Corporation (the Corporation) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Reporting entity:** The Corporation was established in fiscal year 2013 in accordance with the state laws for the purpose of, and to act on behalf of, the City of San Antonio (the City) to develop and run authorized programs for early childhood education services. Pre-K 4 SA was established by the voter approved 1/8th cent sales tax in November 2012 to provide high quality pre-k for four year olds throughout San Antonio. Fiscal year 2018 was the fifth year of operations in which 2,053 students participated at 4 education centers. Participating independent school districts for the 2017-2018 academic year included Northside Independent School District (ISD), North East ISD, San Antonio ISD, Southwest ISD, Harlandale ISD, Southside ISD, East Central ISD and Edgewood ISD. The program includes:

- Four education center facilities serving 500 students each (at capacity) with full-day pre-k instruction
- Competitive grant awards to local ISDs and other education providers to educate 1,700 children annually (beginning in fiscal year 2017)
- Professional development for pre-k through grade 3 educators
- Sales tax authorization funds program over eight years (April 2013-March 2021)
- 22,400 four-year-olds served over eight-year period

The Board of Directors (the Board), an 11-member group appointed by the City Council of San Antonio, has governance responsibilities over all activities related to pre-k education within the jurisdiction of the Corporation. The Board has the exclusive power and duty to govern and oversee the management of the education centers of the Corporation. The Corporation's debt, including leases, is expected to be repaid almost entirely with the resources of the City, the 1/8th cent sales tax approved by San Antonio residents.

The Corporation has a memorandum of understanding (MOU) with each participating local school district. For fiscal year 2018, the partner school districts include: Northside ISD, North East ISD, East Central ISD, Edgewood ISD, San Antonio ISD, Southwest ISD, Harlandale ISD and Southside ISD. The MOU's established with each local school district dictate the responsibilities of the Corporation and school district. As a result, each school district is allocated slots in the Pre-K 4 SA program based on student population. Eligible students are enrolled in the school district, but allowed to attend Pre-K 4 SA. Each school district provides state/local match dollars to the Corporation as part of the MOU.

The Corporation meets the criteria, as set forth in GASB Codification, Section 2100: *Defining the Financial Reporting Entity*, for inclusion in the City's Comprehensive Annual Financial Report (CAFR) as a blended component unit of the City. The Corporation has no component units.

**City and Corporation relationship:** The City and Corporation share responsibilities for the Pre-K 4 SA program. Significant responsibilities include:

- The City collects the 1/8th cent sales tax and remits the dollars collected monthly.
- Staff are considered employees of the City and all salary and benefit costs are paid by the City and, subsequently, reimbursed by the Corporation as a contractual reimbursement.

## San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

- Facilities are leased or owned by the City, and the Corporation is responsible for the lease payments for each location which is funded primarily from the 1/8th cent sales tax.
- The City provided furniture and equipment, including computer equipment, to the Corporation. The Corporation has not placed a value on these items and, as such, are not reflected in the Corporation's financial statements.

#### Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

**Government-wide financial statements:** The statement of net position and statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Corporation's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are classified as program revenues are presented as general revenues.

**Fund financial statements:** The fund financial statements provide information about the Corporation's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major Governmental Funds, each displayed in a separate column. All remaining Governmental Funds are aggregated and reported as nonmajor funds.

The Corporation reports the following major Governmental Funds:

**General Fund:** This is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation except those required to be accounted for in another fund.

**CACFP Fund:** This is the Corporation's fund accounting for activity related to the Corporation's Child and Adult Care Food grant. Eligible food service costs are reimbursed by the Texas Department of Agriculture through this program. This fund does not meet the criteria for a major fund, but management has elected to present as a major fund for the benefit of the financial statement users.

##### b. Measurement Focus, Basis of Accounting

**Government-wide financial statements:** These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Corporation gives (or receives) value without directly receiving (or giving) equal value in exchange include sales tax, grants, entitlements and donations.

# San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

## Notes to Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

**Governmental funds financial statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues, other than grants, reported in the Governmental funds to be available if the revenues are collected within 60 days after year-end. Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred and all eligibility requirements have been met. Sales tax revenue is recognized in the year it is earned. State/local match is recognized as earned based on attendance of each eligible student. Sliding scale revenue is recognized as earned based on enrollment. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the Governmental funds.

When the Corporation incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Corporation's policy is to use restricted resources first, then unrestricted resources.

### Financial Statement Amounts

#### a. Equity in City of San Antonio Pooled Cash

The Corporation maintains its cash accounts in the City's centralized cash pool program. At June 30, 2018, the City is responsible for maintaining adequate coverage by the Federal Deposit Corporation or pledged collateral.

#### b. Capital Assets

Purchased or constructed capital assets are reported at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition value at the date of the donation. Depreciation on all capital assets of the Corporation is charged as an expense with accumulated depreciation being reported in the statement of net position.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life is not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives	Capitalization Threshold
Furniture and equipment	5-10 years	\$ 5,000

#### c. Receivable and Payable Balances

The Corporation believes sufficient detail of receivable and payable balances other than due from/to other funds and due from/to other governments, which are described in separate footnotes, is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

There are no significant receivables which are not scheduled for collection within one year of year-end.

d. Accrued Leave

The Corporation's policies provide for the accumulation of accrued leave which is payable upon termination, retirement, or death of the employee. The total liability is \$841,121 at June 30, 2018. Accrued leave payables are recorded as an expense at the government-wide level when earned by employees.

e. Budgets

The Corporation's budget is prepared for adoption for all required governmental fund types. The following procedures are followed in establishing the budgetary data:

- (1) Prior to May 1 of the preceding fiscal year, the Corporation prepares a budget for the next succeeding fiscal year that begins July 1. The operating budget includes proposed expenditures and the means of financing them.
- (2) A meeting of the Board is then called for the purpose of adopting the proposed budget.
- (3) Prior to July 1, the budget is legally enacted through passage of an ordinance by the City Council of San Antonio. Once a budget is approved, amendments must be approved in the same manner as the budget.

Each annual budget is presented on the modified accrual basis of accounting, which is consistent with GAAP. The budget was properly amended throughout the year by the Board. Such amendments are before the fact and are reflected in the official minutes of the Board.

Budgeted amounts are amended by the Board. All budget appropriations lapse at year-end.

	Original Budget	Decrease	Amended Budget
All funds	\$ 48,274,336	\$ 70,533	\$ 48,344,869

f. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget.

## San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### g. Fund Balances

Fund balances are divided into five classifications based primarily on the extent to which the Corporation is bound to observe constraints imposed upon the use of the resources in the Governmental Funds. The classifications are as follows.

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form. The not in spendable form criteria includes items that are not expected to be converted to cash.

**Restricted:** The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. Legal enforceability means that the Corporation can be compelled by an external party, such as citizens, public interest groups, or the judiciary, to use resources created by enabling legislation only for the purposes specified by the legislation. The Corporation's restricted fund balance consists of balances dedicated to insurance requirements of the MOU.

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to the fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. The committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the Corporation for specific purposes, but do not meet the criteria to be classified as restricted or committed. In the Governmental Funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board, a Corporation official delegated that authority by the Board, or by resolution. As of June 30, 2018, the Corporation had \$140,498 of fund balance assigned by the Board specifically for technology improvements at the 4 education centers.

**Unassigned:** Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other Governmental Funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Corporation considers amounts to have been spent first out of restricted fund balances, followed by committed fund balances, then assigned fund balances and finally unassigned funds balances, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

## San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

### Notes to Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### i. Net Position

Net position represents the difference between assets less liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation. Restricted net position consists of funds for a specific purpose. Unrestricted net position is comprised of the remainder of net position that has no restrictions.

##### j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Note 2. Due From City of San Antonio

The Corporation's primary source of revenue is from revenue received from the City generated by the City's dedicated sales tax for the Corporation. Amounts due from the City as of June 30, 2018, totaled \$3,436,447 and are reported as due from City of San Antonio.

#### Note 3. Restricted Cash

Restricted cash represents dollars allocated for insurance reserves as mandated by the Corporation's agreements with its participating local school districts, as well as contributions received from private donors for specific programs.

#### Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets being depreciated:					
Furniture and equipment	\$ 287,134	\$ -	\$ -	\$ -	\$ 287,134
Total capital assets being depreciated	287,134	-	-	-	287,134
Less accumulated depreciation for:					
Furniture and equipment	(207,023)	(57,427)	-	-	(264,450)
Total accumulated depreciation	(207,023)	(57,427)	-	-	(264,450)
Total capital assets being depreciated, net	80,111	(57,427)	-	-	22,684
Governmental activities capital assets, net	\$ 80,111	\$ (57,427)	\$ -	\$ -	\$ 22,684

Depreciation expense for the year ended June 30, 2018, totaled \$57,427 and was charged to the facilities leases and maintenance function.

**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Notes to Financial Statements**

**Note 5. Receivables and Payables**

Interfund Receivable and Payable Balances

As of June 30, 2018, the interfund receivable and payable balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowing at fiscal year-end. The \$42,287 due from other funds in the General Fund is a result of expenses of the CACFP fund that were covered by the general fund until the CACFP fund is reimbursed by the Texas Department of Agriculture. All interfund balances are paid within one year.

	Due from Other Funds	Due to Other Funds
General Fund:		
CACFP Fund	\$ 42,287	\$ -
Total General Fund	42,287	-
CACFP Fund:		
General Fund	-	42,287
Total CACFP Fund	-	42,287
Total	\$ 42,287	\$ 42,287

**Note 6. Long-Term Liabilities**

Long-term liabilities consist of accrued leave payable. Changes in long-term liabilities for the year ended June 30, 2018, are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Accrued leave payable	\$ -	\$ 841,121	\$ -	\$ 841,121	\$ 331,675
Total governmental activities	\$ -	\$ 841,121	\$ -	\$ 841,121	\$ 331,675

The funds typically used to liquidate long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Accrued leave payable	Governmental	General

**Note 7. Leases**

The Corporation leases facilities pursuant to noncancelable operating lease agreements expiring through August 2021. Rental expense totaled \$3,541,544 for the year ended June 30, 2018.

Future minimum lease payments under noncancelable operating lease agreements as of June 30, 2018, are as follows:

## San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

### Notes to Financial Statements

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Years ending June 30:	Operating Lease
2019	\$ 3,475,929
2020	3,460,149
2021	3,460,149
2022	379,836
	<u>\$ 10,776,063</u>

#### Note 8. Commitments and Contingencies

**Litigation:** The Corporation participates in a federal grant program, which is subject to a program compliance audit pursuant to the Single Audit Act, as amended. Accordingly, the Corporation's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Corporation anticipates such amounts, if any, would be immaterial.

**Sales tax:** The City's portion of sales taxes dedicated to the Corporation has an authorization period from April 2013 through March 2021. As a result, the Corporation's financial model assumes sales tax funding will stop in March 2021 unless the citizens of San Antonio approve an extension of the funding.

#### Note 9. Risk Financing

**Property and casualty liability:** During fiscal year 2018, the Corporation purchased commercial, auto, umbrella, student accident and nonprofit directors' and officers' liability policies. There were no significant reductions in coverage or settlements that exceeded insurance coverage in the current year.

**Workers' compensation:** As of June 30, 2018, the City is completely self-insured for workers' compensation claims. The City utilizes a third-party administrator to adjust its claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Workers' Compensation Fund based on the City's estimates of the aggregate liability for claims incurred, but not reported. The Corporation is assessed contributions to cover expenditures. The total contribution for fiscal year 2018 is \$26,225.

## San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

### Notes to Financial Statements

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#### Note 10. Future GASB Implementations

GASB Statement No. 84, *Fiduciary Activities*, issued February 2017, will be effective for the Corporation beginning with its fiscal year ending June 30, 2020. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the Corporation beginning with its fiscal year ending June 30, 2021, with earlier adoption encouraged. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the Corporation must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties.

## **Required Supplementary Information**

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board, but is not considered a part of the basic financial statements.

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San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

Budgetary Comparison Schedule (Unaudited)  
Year Ended June 30, 2018

	Budgeted Amounts*		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Sales tax	\$ 35,202,167	\$ 35,033,955	\$ 35,697,044	\$ 663,089
State/local match	4,464,000	4,176,924	4,159,006	(17,918)
USDA (food)	1,454,575	1,368,054	1,375,523	7,469
Sliding scale tuition	600,000	698,880	697,339	(1,541)
Interest/miscellaneous	33,815	82,354	137,068	54,714
<b>Total revenues</b>	<b>41,754,557</b>	<b>41,360,167</b>	<b>42,065,980</b>	<b>705,813</b>
<b>Expenditures:</b>				
Instruction and food services	25,415,717	26,017,992	25,606,274	411,718
Student (pupil) transportation	869,554	883,795	863,767	20,028
Facilities leases and maintenance	9,500,306	9,388,292	9,401,653	(13,361)
Competitive grants	4,954,719	4,863,739	4,468,232	395,507
Professional learning and program innovation	2,250,433	2,118,383	2,090,901	27,482
Program assessment	313,111	433,777	433,777	-
<b>General administration:</b>				
Enrollment/attendance services	750,065	654,841	554,948	99,893
Public relations/marketing	952,994	777,139	731,148	45,991
Sales tax collection fee	704,043	699,148	705,726	(6,578)
Administration	2,563,394	2,507,763	2,241,207	266,556
<b>Total expenditures</b>	<b>48,274,336</b>	<b>48,344,869</b>	<b>47,097,633</b>	<b>1,247,236</b>
<b>Net change in fund balances</b>	<b>(6,519,779)</b>	<b>(6,984,702)</b>	<b>(5,031,653)</b>	<b>1,953,049</b>
Fund balances at beginning of year	13,771,787	13,771,787	13,771,787	-
Fund balances at end of year	\$ 7,252,008	\$ 6,787,085	\$ 8,740,134	\$ 1,953,049

\*Represents budgeted amounts in the Corporation's General Fund and CACFP Fund.

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**Compliance Section**

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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

**Independent Auditor's Report**

To the Board of Directors  
San Antonio Early Childhood Education  
Municipal Development Corporation

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 the governmental activities and each major fund of San Antonio Early Childhood Education Municipal Development Corporation (the Corporation), a component unit of the City of San Antonio, Texas, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated [REDACTED], 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding 2018-001 that we consider to be a significant deficiency.



**Report on Compliance for the Major Federal  
Program, and Report on Internal Control  
Over Compliance as Required by Uniform Guidance**

**Independent Auditor's Report**

To the Board of Directors  
San Antonio Early Childhood Education  
Municipal Development Corporation

**Report on Compliance for a Major Federal Program**

We have audited the San Antonio Early Childhood Education Municipal Development Corporation's (the Corporation), a component unit of the City of San Antonio, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2018. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

**Opinion on the Major Federal Program**

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as finding 2018-003. Our opinion on the major federal program is not modified with respect to this matter.

The Corporation's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as finding 2018-002 that we consider to be a significant deficiency.

The Corporation's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

San Antonio, Texas  
[REDACTED], 2018

**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018**

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I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None Reported
3. Noncompliance material to financial statements noted?  Yes  No

B. Federal Awards

1. Internal control over major programs:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None Reported
2. Type of auditor's report issued on compliance for major programs: Unmodified
  - Any audit findings disclosed that are required to be reported in accordance the Uniform Guidance?  Yes  No

3. Identification of major programs:

CFDA Number	Name of Federal Program
10.558	Child and Adult Food Care Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?:  Yes  No

(Continued)

San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2018

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II. FINANCIAL STATEMENT FINDINGS

A. Internal Control Findings

**2018-001 – Compensated Absences**  
**Type of Finding – Significant Deficiency**

**Criteria:** U.S. GAAP requires a liability to be recorded for compensated absences that are attributable to services already rendered that are not contingent on a specific event when using the full accrual method of accounting.

**Condition:** During our audit procedures and discussions with management the Corporation has compensated absences that are required to be recorded in accordance with U.S. GAAP, however this liability has not been previously recorded.

**Context:** The Corporation's had an unrecorded liability in the amount of \$841,121.

**Cause and effect:** Since the Corporation is a blended component unit of the City of San Antonio, Texas (the City), this liability was reflected in the City's financial statements. However since the Corporation issues separate financial statements this liability was inadvertently not included on the Corporation's government-wide financial statements in error.

**Recommendation:** We recommend the Corporation continue to record this liability on their government-wide financial statements.

**Views of responsible officials:** Management concurs with the finding. See Corrective Action Plan.

B. Compliance Findings

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control Findings

**Finding 2018-002—Eligibility**

**Federal Program: Child and Adult Care Food Program (CACFP)**

**CFDA Number: 10.558**

**Pass Through Federal Award Number: 14-630741727 (Program year 2018)**

**United States Department of Agriculture Passed Through Texas Department of Agriculture**

**Type of Finding: Significant Deficiency**

**Criteria:** The Child and Adult Food Program (CACFP) reimburses for each meal served. The reimbursement rate varies based on the eligibility determination children in the program. To receive reimbursement payments for meals served, the Corporation is required to submit claims for reimbursement to the Texas Department of Agriculture that includes the number of meals served by eligibility category (free, reduced or paid), as well as the total enrollment by category.

**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2018**

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**Condition:** Our testing of 40 students disclosed two instances (i.e., 5 percent error rate) in which the classification of students was incorrectly classified as reduced, however they should have been classified as free.

**Questioned costs:** None. It is projected that the Corporation was underpaid by \$404 in revenue as a result of the incorrect classification.

**Context:** It is projected that the Corporation was underpaid by \$404 in revenue as a result of the incorrect classification data entry. The amount was computed by multiplying the number of days enrolled by the correct reimbursement rate for each category resulting in an error of \$404. The Corporation does not collect monies from program participants.

**Cause and effect:** The Corporation manually enters data and incorrectly entered the student's classification into the system which resulted in an underpayment of \$404. from August 2017 – March 2018. The correct status was updated in April 2018.

**Recommendation:** We recommend the Corporation perform more frequent internal reviews of the electronic file that is submitted to the grantor.

**Views of responsible officials:** Management concurs with the finding. See Corrective Action Plan.

B. Compliance Finding

**Finding 2018-003—Eligibility**

**Federal Program: Child and Adult Care Food Program (CACFP)**

**CFDA Number: 10.558**

**Pass Through Federal Award Number: 14-630741727 (Program year 2018)**

**United States Department of Agriculture Passed Through Texas Department of Agriculture**

**Type of Finding: Noncompliance**

See Finding 2018-002.



San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

**Summary Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2018**

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**Finding 2017-001—Tuition Calculation**

**Type of Finding: Significant Deficiency**

**Condition:** Testing of 11 tuition paid students files disclosed several instances in which the tuition calculation was found to be incorrect. The calculator was determined to have the incorrect underlying eligibility tables to calculate appropriate tuition for the respective year and, thus, was calculating the tuition amounts incorrectly in the system. In several of the samples selected, the recalculation of tuition amounts were higher than what was agreed to and signed on the tuition agreement.

**Recommendation:** We recommend the Corporation strengthen its controls over the calculation of tuition payments by ensuring the underlying eligibility tables are appropriately updated to agree to the most current eligibility tables, for tuition paying students in order to correctly assess tuition.

**Current-year status:** The Corporation has taken the corrective action recommended.

**Finding 2017-002—Reporting**

**Federal Program: Child and Adult Care Food Program (CACFP)**

**CFDA Number: 10.558**

**Pass Through Federal Award Number: N/A**

**United States Department of Agriculture Passed Through Texas Department of Agriculture**

**Type of Finding: Significant Deficiency and Noncompliance**

**Condition:** The Corporation uses the enrollment data to enter the total number of children by category in order to calculate the amount which is used by the system to calculate the claim for reimbursement by category. Our testing of six reports disclosed one instance (i.e., 16 percent error rate) in which the number of students in the free category was input incorrectly at a higher amount for one of the centers; thus, reporting the claim for reimbursement incorrectly.

**Recommendation:** We recommend the Corporation strengthen controls over its review of the inputs to the meal reimbursement website prior to submitting reports to the grantor.

**Current-year status:** The Corporation has taken the corrective action recommended.



San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA

Corrective Action Plan  
Year Ended June 30, 2018

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**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Agriculture:</u>			
Passed Through Texas Department of Agriculture:			
Child and Adult Care Food Program	10.558	14-630741727	\$ 1,375,523
Total Passed Through Texas Department of Agriculture			<u>1,375,523</u>
Total United States Department of Agriculture			<u>1,375,523</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 1,375,523</u></u>

See notes to schedule of expenditures of federal awards.

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**San Antonio Early Childhood Education Municipal Development Corporation, dba Pre-K 4 SA**

**Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018**

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**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the San Antonio Early Childhood Education Municipal Development Corporation under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from the amounts presented in, or used in the preparation of, the financial statements.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Pass-through entity identifying numbers are presented when available. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowed or are limited to reimbursement.

**Note 3. Subrecipients**

There were no subrecipients in the current year.

**Note 4. Indirect Costs**

The Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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