

**San Antonio Early Childhood Education
Municipal Development Corporation**

**Report on Conduct of Audit
and Management Letter Comments**

June 30, 2015

Discussion Draft —
Subject to Change
Padgett, Stratemann & Co., L.L.P.



Padgett Stratemann

October __, 2015

To the Board of Directors
San Antonio Early Childhood Education
Municipal Development Corporation
7031 South New Braunfels
San Antonio, Texas 78223

Dear Members of the Board of Directors:

We are pleased to present this report related to our audit of the financial statements of the San Antonio Early Childhood Education Municipal Development Corporation (the "Corporation") as of and for the year ended June 30, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Corporation's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management of the San Antonio Early Childhood Education Municipal Development Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Certified Public Accountants

Attachments

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

Required Communications

Area	Comments
<i>Our Responsibility Under Auditing Standards Generally Accepted in the United States of America</i>	<p>As communicated in our arrangement letter dated April 10, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.</p> <p>Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p> <p>We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.</p> <p>As communicated in the arrangement letter dated April 10, 2015, our responsibility, as described in <i>Government Auditing Standards</i>, the provisions of the Single Audit Act, and the United States Office of Management and Budget ("OMB") <i>Circular A-133</i> and OMB's <i>Compliance Supplement</i>, is to report on</p>

Area	Comments
	<p>the presentation of the Schedule of Expenditures of Federal Awards; the tests of internal control related to financial reporting and major federal programs; and the tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. However, they do not provide a basis for an opinion on the Corporation's internal control over financial reporting or on compliance and other matters.</p> <p>We have provided our comments regarding other matters noted during our audit, which are attached to this letter.</p>
<p><i>Other Information in Documents Containing Audited Financial Statements</i></p>	<p>We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine such financial information was not materially inconsistent with the audited financial statements of the Corporation.</p>
<p><i>Planned Scope and Timing of the Audit</i></p>	<p>We conducted our audit consistent with the planned scope and timing we previously communicated to you.</p>
<p><i>Qualitative Aspects of Significant Accounting Practices</i></p>	<p><i>Significant Accounting Policies</i></p> <p>Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Corporation is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2015.</p> <p>No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>

Area	Comments
	<p><i>Significant Accounting Estimates</i></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.</p> <p>The most sensitive accounting estimates affecting the financial statements are the sales tax revenue recognition, estimated useful lives of capital assets and, the allowance for doubtful accounts. Management's estimates are based on information currently available, and the process used to calculate these estimates should be monitored throughout the year. These estimates were reviewed and it was determined they are reasonable in relation to the basic financial statements taken as a whole.</p> <p><i>Financial Statement Disclosures</i></p> <p>Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the Corporation's financial statements relates to revenue recognition.</p>
<p><i>Significant Difficulties Encountered During the Audit</i></p>	<p>We encountered no significant difficulties in dealing with management relating to the performance of the audit.</p>
<p><i>Uncorrected and Corrected Misstatements</i></p>	<p>For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those we believe are trivial, and</p>

Area	Comments
	<p>communicate them to the appropriate level of management. We did not note any material misstatements.</p> <p>In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.</p>
<p><i>Disagreements With Management</i></p>	<p>For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.</p>
<p><i>Representations Requested From Management</i></p>	<p>We have requested certain written representations from management, which are included in the attached letter, dated October __, 2015.</p>
<p><i>Management's Consultations With Other Accountants</i></p>	<p>In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.</p>
<p><i>Other Significant Findings or Issues</i></p>	<p>In the normal course of our professional association with the Corporation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Corporation, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Corporation's auditors.</p>

Recommendations Regarding the Internal Control Structure

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In planning and performing our audit of the financial statements of the Corporation as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

MATERIAL WEAKNESS

We consider the following deficiency in the Corporation's internal control to be a material weakness.

Child and Adult Care Food Program Eligibility and Special Reporting

Our testing of 25 Child and Adult Care Food Program student applications disclosed 6 instances (i.e., 24% error rate) in which the eligibility category was not determined correctly and, thus, reported in the claim for reimbursement under the incorrect eligibility category.

We recommend the Corporation strengthen controls over the student application process to ensure the eligibility category is properly determined and subsequently reported in the claim for reimbursement.

OTHER MATTER

Following is a description of *another matter (best practice)*, which we believe to be of potential benefit to the Corporation, such as recommendations for an operational or administrative efficiency.

New Uniform Grant Requirements

On December 26, 2013, the federal government issued new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards that will be applicable to new federal awards or new funding to existing federal awards made after December 26, 2014. These new requirements streamline the various rules and regulations that affect governments, not-for-profit organizations, institutions of higher education, and Indian tribes into a consistent set of rules and regulations for all grant recipients. The new requirements have changed some of the requirements applicable to not-for-profit organizations, as well as added to or clarified other rules and regulations.

We recommend management review the new guidance to determine if the Corporation's policies and procedures need to be updated in order to comply with the new requirements. Additionally, the Corporation should perform either internal or external training on the new requirements and provide hard copies of the new grant requirements to the individual who manages or oversees federal grants.

This letter does not affect our report dated October __, 2015 on the financial statements of the Corporation. We will review the status of this comment during our next audit engagement. The comment and recommendation included, both of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist in implementing the recommendations.

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Management Representation Letter

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[Attach Copy of Signed Letter]

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