

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

Annual Financial Report

Year Ended June 30, 2015

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

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

Annual Financial Report

Year Ended June 30, 2015

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

Annual Financial Report

Year Ended June 30, 2015

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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. John Folks
District 7



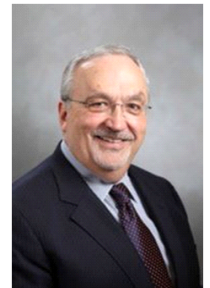
Dr. Shari Albright
District 8



Comelia Black
District 9



Dr. Linda Foster
District 10



Dr. Richard Middleton
District 1



Lucy Hall
District 6



Gloria Ramirez
District 5



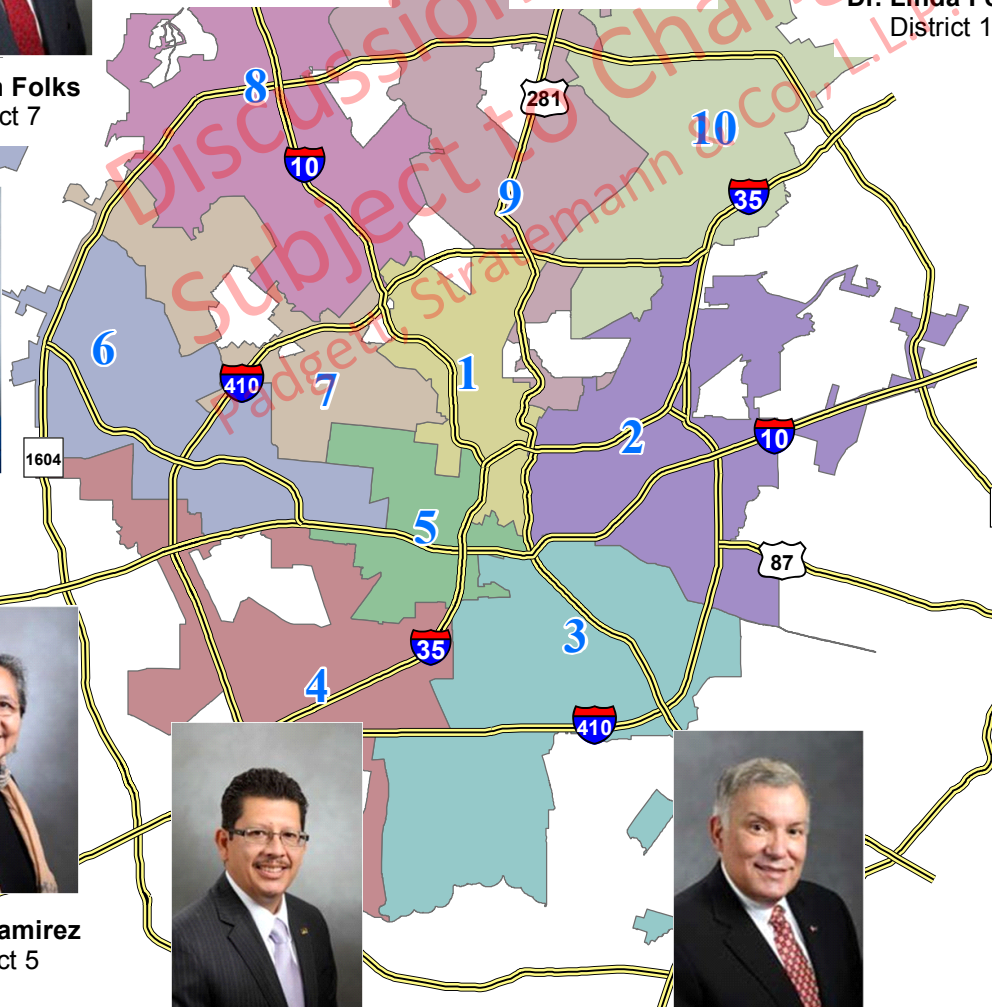
Richard Perez
District 4



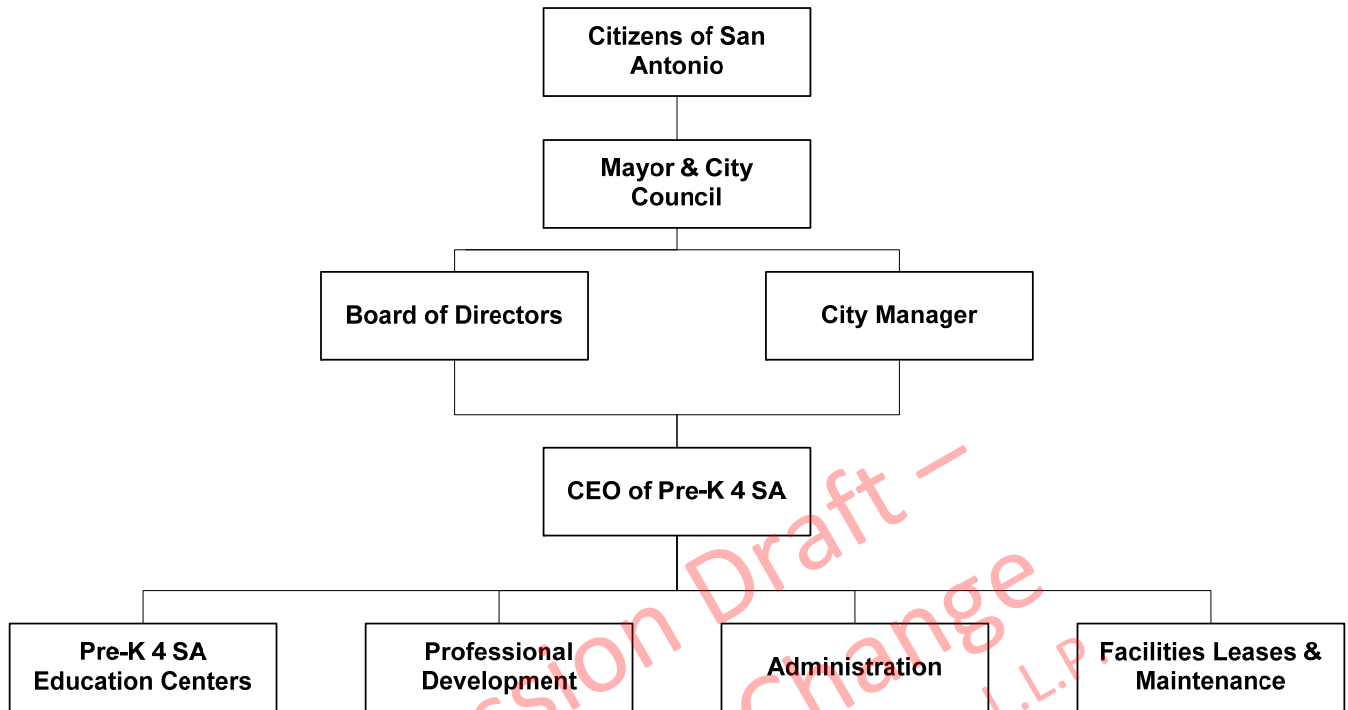
General Major Joe Robles
District 3



Pamela Ray
District 2



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



Financial Section

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Padgett Stratemann

Independent Auditor's Report

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

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, 2015, 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.

AUSTIN

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AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

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HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

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

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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, 2015, and the respective changes in financial position for the year then ended, in conformity 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 the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Introductory Section are presented for purposes of additional analysis and are not a required part of the 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 October __, 2015 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
October __, 2015

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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, 2015. Please read it in conjunction with the Corporation's financial statements, which follow this section.

Financial Highlights

- The Corporation's total net position was \$19,768,697 at June 30, 2015.
- During the fiscal year, the Corporation's expenses were \$1,983,437 less than the \$37,016,301 generated in revenues at the government-wide financial statements level.
- The General Fund reported a fund balance of \$19,585,654 at June 30, 2015.

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.

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

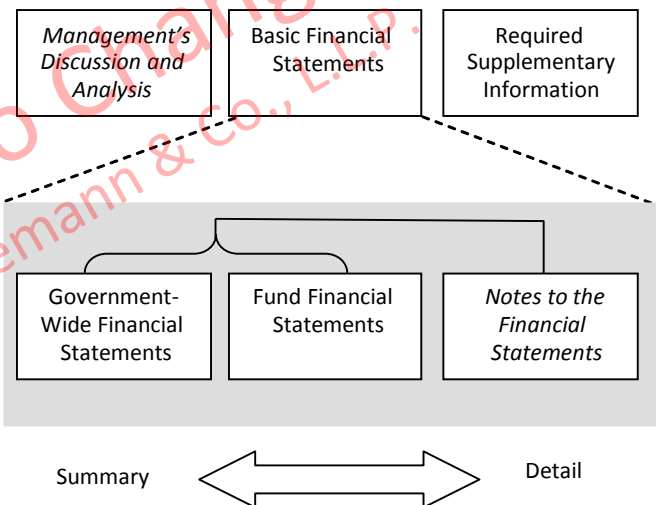


Table A-2 summarizes the major features of the Corporation's financial statements, including the portion of the Corporation's government they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis explains the structure and 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"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
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's 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 development, 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 \$19,768,697 at June 30, 2015 (see Table A-3).

Table A-3
Net Position

	Governmental Activities	
	2015	2014
Current and other assets	\$ 21,318,593	\$ 18,706,940
Capital assets – net	183,043	228,580
Total assets	21,501,636	18,935,520
Current and other liabilities	1,732,939	1,150,260
Total liabilities	1,732,939	1,150,260
Net position:		
Investment in capital assets	183,043	228,580
Restricted	432,674	253,005
Unrestricted	19,152,980	17,303,675
Total net position	\$ 19,768,697	\$ 17,785,260

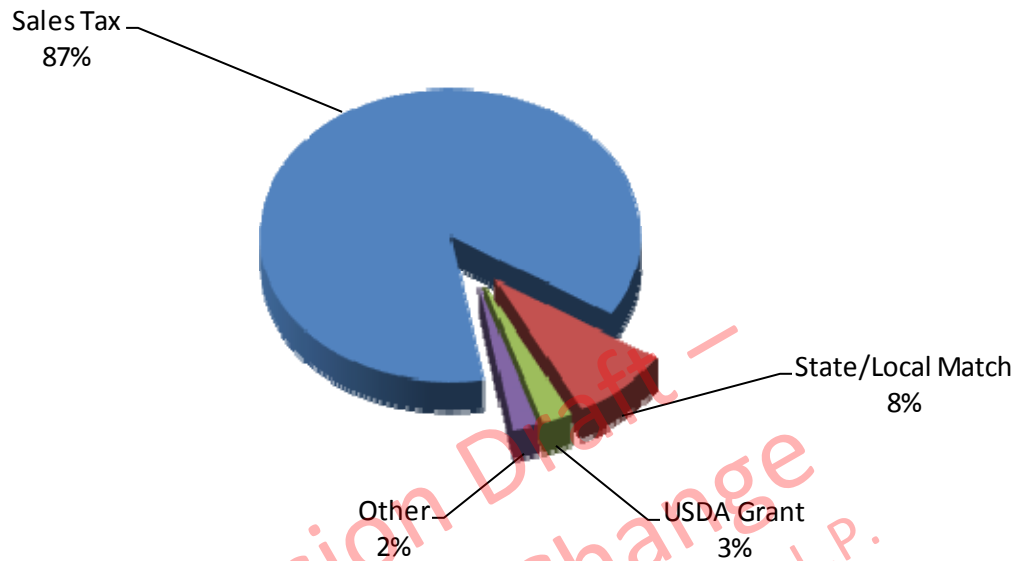
The \$19,152,980 of unrestricted net position represents resources available to fund the programs of the Corporation next year.

Change in Net Position

The Corporation's total revenues were \$37,016,301. A significant portion of the Corporation's revenues, 87%, comes from the 1/8th cent sales tax approved by the citizens of San Antonio in 2012. State/local match funding accounts for 8%, USDA grant for 3%, and other revenues, which include sliding scale tuition, account for 2%.

The total cost of all programs and services was \$35,032,864.

Table A-4
Sources of Revenue for Fiscal Year 2015



Governmental Activities

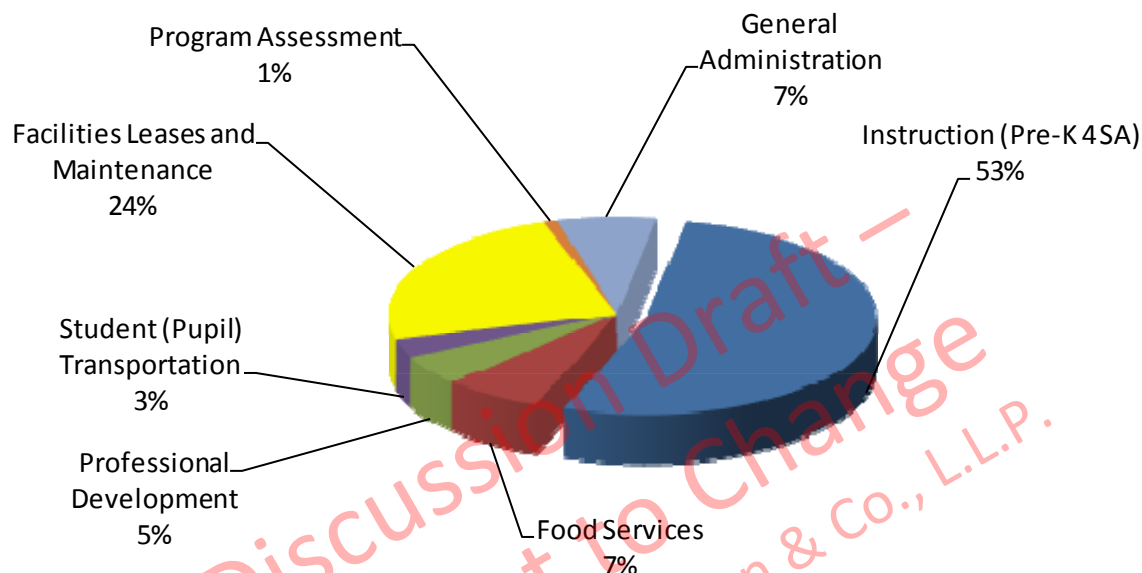
Table A-5 provides a comparison of the Corporation's revenues and expenses for fiscal year 2015 to that of fiscal year 2014. Overall, revenues increased 14% from the prior year, due to additional sales tax revenue as the City of San Antonio (the "City") continues to experience healthy economic growth, the implementation of the CACFP Fund, as well as other revenue generated from the increase in student enrollment. Expenses increased by 65% from the prior year because two new education centers were added increasing enrollment from 700 to 1,500 students during 2015.

Table A-5
Changes in Net Position

	Governmental Activities		Percentage Change
	2015	2014	
Revenues			
Program revenues:			
Charges for services	\$ 393,483	\$ 242,284	62%
Operating grants and contributions	4,048,276	1,542,834	162%
General revenues:			
Sales tax	32,137,216	30,488,199	5%
Interest	46,756	33,156	41%
Miscellaneous	390,570	265,915	47%
Total revenues	<u>37,016,301</u>	<u>32,572,388</u>	14%
Expenses			
Instruction	18,576,391	10,122,743	84%
Food services	2,396,854	-	100%
Professional development	1,841,125	1,629,809	13%
Student (pupil) transportation	954,547	566,829	68%
Facilities leases and maintenance	8,419,180	6,229,721	35%
Program assessment	195,719	316,961	(38%)
General administration	2,649,048	2,396,479	11%
Total expenses	<u>35,032,864</u>	<u>21,262,542</u>	65%
Change in net position	1,983,437	11,309,846	(82%)
Net position at beginning of year	<u>17,785,260</u>	<u>6,475,414</u>	175%
Net position at end of year	<u>\$ 19,768,697</u>	<u>\$ 17,785,260</u>	11%

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

Table A-6
Functional Expenses for Fiscal Year 2015



Financial Analysis of the Corporation's Funds

The Corporation had two major funds in 2015 – the General Fund and CACFP Fund.

General Fund

Revenues from the General Fund totaled \$36,082,692, an increase of \$3,510,304 over the prior year. There was an increase in sales tax due to a healthy City economy, as well as additional revenue generated through state/local match dollars due to the increase in enrollment.

Expenditures increased \$12,562,596 from fiscal year 2014 due to the opening of the East and West Education Centers, as well as the increase in enrollment at the North and South Education Centers.

CACFP Fund

The Corporation was awarded the CACFP grant during fiscal year 2015. Revenues and expenditures from the CACFP Fund totaled \$933,609. Costs in excess of the grant award were charged to the General Fund and totaled \$1,463,245.

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*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Results</u>
Instruction	\$ 21,946,363	\$ 21,766,361	\$ 20,973,245
Professional development	2,225,515	1,897,792	1,841,125
Student (pupil) transportation	966,248	965,344	954,547
Facilities leases and maintenance	8,470,987	8,400,035	8,373,643
Program assessment	119,716	241,861	195,719
General administration	<u>2,767,274</u>	<u>2,682,968</u>	<u>2,649,048</u>
Total	\$ <u>36,496,103</u>	\$ <u>35,954,361</u>	\$ <u>34,987,327</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 \$541,742 decrease in appropriations. Even with these adjustments, actual expenditures were \$967,034 below final budget amounts. The significant changes can be summarized by the following:

- Instruction services appropriations were reduced by \$180,002 because the Education Centers adjusted the amount of dollars required for replenishment of classroom supplies at mid-year, as well as some vacancies that occurred during the first semester.
- Professional development appropriations were reduced by \$327,723 due to vacant positions during the year, as well as the elimination of commodity purchases and travel and education dollars originally earmarked towards participating school districts.
- Facilities leases and maintenance appropriations were reduced by \$70,952 due to savings in utilities, as well as vacancies experienced throughout the first few months of fiscal year 2015.
- Program assessment appropriations were increased by \$122,145 to increase the scope of work within the Corporation's contract with its Program Assessment consultant.
- General administration appropriations were reduced by \$84,306 due to staff vacancies that were filled later than originally planned.

Capital Assets

Capital Assets

At the end of 2015, the Corporation had invested \$183,043 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

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ <u>277,597</u>	\$ <u>268,917</u>
Total depreciable assets	277,597	268,917
Less accumulated depreciation	<u>94,554</u>	<u>40,337</u>
Net capital assets	\$ <u>183,043</u>	\$ <u>228,580</u>

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 2016:

- An anticipated increase in sales tax revenue from the City based on the City's sales tax projections for fiscal year 2016.
- The anticipated state/local match from the participating school districts in fiscal year 2016 is estimated to be \$4,047,360.
- The increase in enrollment of 200 students requiring additional appropriations for staff, food service, transportation, and facility support.
- All employees received a 2% cost-of-living adjustment salary increase for the City's 2016 fiscal year. In addition, eligible employees will receive an additional salary adjustment based on performance in January 2016.

Amounts available for appropriations in the General Fund budget for fiscal year 2016 are \$38,845,301, an overall increase of 6.4%, compared to the original 2015 budget of \$36,496,103. Revenue in 2015 is projected to be 13.6% more than the prior year compared to the original 2015 budget of \$35,027,906 due to increased enrollment resulting in more state/local match revenue from participating school districts, as well as projected increases in sales tax. The Corporation adopted a balanced budget for 2016.

During the fall of 2015, the Corporation's student enrollment is approximately 1,750, representing an increase of 250 students, as compared to the spring of 2015. The Corporation added no major new programs or initiatives to the 2016 budget.

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.

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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, 2015

	<u>Governmental Activities</u>
Assets	
Current Assets	
Equity in City of San Antonio pooled cash:	
Cash and cash equivalents	\$ 16,162,346
Receivables:	
Participating school districts	1,586,152
Due from City of San Antonio	3,137,421
Restricted Assets:	
Equity in City of San Antonio pooled cash:	
Cash and cash equivalents	<u>432,674</u>
Total current assets	<u>21,318,593</u>
Noncurrent Assets	
Capital assets – net	<u>183,043</u>
Total noncurrent assets	<u>183,043</u>
Total assets	<u>\$ 21,501,636</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 317,736
Accrued expenditures	<u>1,415,203</u>
Total liabilities	<u>\$ 1,732,939</u>
Net Position	
Investment in capital assets	\$ 183,043
Restricted:	
Operating and other reserves	432,674
Unrestricted	<u>19,152,980</u>
Total net position	<u><u>\$ 19,768,697</u></u>

The accompanying notes are an integral part of this statement.

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

Statement of Activities

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 18,576,391	\$ 393,483	\$ 3,114,667	\$ (15,068,241)
Food services	2,396,854	-	933,609	(1,463,245)
Professional development	1,841,125	-	-	(1,841,125)
Student (pupil) transportation	954,547	-	-	(954,547)
Facilities leases and maintenance	8,419,180	-	-	(8,419,180)
Program assessment	195,719	-	-	(195,719)
General administration	2,649,048	-	-	(2,649,048)
Total governmental activities	35,032,864	393,483	4,048,276	(30,591,105)
Total primary government	\$ 35,032,864	\$ 393,483	\$ 4,048,276	(30,591,105)
General Revenues				
Sales tax				32,137,216
Interest				46,756
Miscellaneous				390,570
Total general revenues				32,574,542
Change in net position				1,983,437
Net position at beginning of year				17,785,260
Net position at end of year				\$ 19,768,697

The accompanying notes are an integral part of this statement.

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

Balance Sheet – Governmental Funds

June 30, 2015

	<u>General Fund</u>	<u>CACFP Fund</u>	<u>Total Governmental Funds</u>
Assets			
Current Assets			
Equity in City of San Antonio pooled cash:			
Cash and cash equivalents	\$ 16,162,346	\$ -	\$ 16,162,346
Receivables:			
Participating school districts	1,586,152	-	1,586,152
Due from City of San Antonio	3,137,421	-	3,137,421
Restricted Assets:			
Equity in City of San Antonio pooled cash:			
Cash and cash equivalents	432,674	-	432,674
Total assets	<u>\$ 21,318,593</u>	<u>\$ -</u>	<u>\$ 21,318,593</u>
Liabilities			
Accounts payable	\$ 317,736	\$ -	\$ 317,736
Accrued expenditures	1,415,203	-	1,415,203
Total liabilities	<u>1,732,939</u>	<u>-</u>	<u>1,732,939</u>
Fund Balance			
Restricted:			
Operating and other reserves	432,674	-	432,674
Unassigned	19,152,980	-	19,152,980
Total fund balance	<u>19,585,654</u>	<u>-</u>	<u>19,585,654</u>
Total liabilities and fund balance	<u>\$ 21,318,593</u>	<u>\$ -</u>	<u>\$ 21,318,593</u>

The accompanying notes are an integral part of this statement.

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, 2015

Total fund balance – Governmental Fund balance sheet	\$ 19,585,654
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 Fund	<u>183,043</u>
Net position of governmental activities – statement of net position	<u><u>\$ 19,768,697</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2015

	<u>General Fund</u>	<u>CACFP Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Sales tax	\$ 32,137,216	\$ -	\$ 32,137,216
State/local match	3,114,667	-	3,114,667
Sliding scale tuition	393,483	-	393,483
Intergovernmental	-	933,609	933,609
Interest	46,756	-	46,756
Miscellaneous	390,570	-	390,570
Total revenues	<u>36,082,692</u>	<u>933,609</u>	<u>37,016,301</u>
Expenditures			
Current:			
Instruction	18,576,391	-	18,576,391
Food services	1,463,245	933,609	2,396,854
Professional development	1,841,125	-	1,841,125
Student (pupil) transportation	954,547	-	954,547
Facilities leases and maintenance	8,364,963	-	8,364,963
Program assessment	195,719	-	195,719
General administration	2,649,048	-	2,649,048
Capital outlay	8,680	-	8,680
Total expenditures	<u>34,053,718</u>	<u>933,609</u>	<u>34,987,327</u>
Net change in fund balances	2,028,974	-	2,028,974
Fund balances at beginning of year	<u>17,556,680</u>	<u>-</u>	<u>17,556,680</u>
Fund balances at end of year	<u>\$ 19,585,654</u>	<u>\$ -</u>	<u>\$ 19,585,654</u>

The accompanying notes are an integral part of this statement.

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, 2015

Net change in fund balances – total Governmental Fund	\$ 2,028,974
---	--------------

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

Capital assets are expensed in the Governmental Fund and capitalized in the statement of net position	8,680
Depreciation of capital assets used in governmental activities is not reported in the funds	<u>(54,217)</u>

Change in net position of governmental activities – statement of activities	\$ <u><u>1,983,437</u></u>
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San Antonio Early Childhood Education Municipal Development Corporation, dba “Pre-K 4 SA”

Notes to the Financial Statements

Year Ended June 30, 2015

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 2015 was the first second year of operations in which 1,570 students participated at 4 education centers. Participating independent school districts for the 2014-2015 academic year included Northside Independent School District (“ISD”), North East ISD, San Antonio ISD, Southwest ISD, Harlandale ISD, Southside 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 (July 2013-June 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 2015, the partner school districts include: Northside ISD, North East 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.

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The Corporation meets the criteria, as set forth in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and 39*, 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.
- 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.

As a result, the Corporation is presented in the City's CAFR as a blended component unit.

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, except for fiduciary activities. 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.

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Presentation, Basis of Accounting (continued)

a. Basis of Presentation (continued)

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. At June 30, 2015, the Corporation did not use any other funds.

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 and Fiduciary Fund 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. At June 30, 2015, the Corporation did not operate any Fiduciary Funds.

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. 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.

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Presentation, Basis of Accounting (continued)

b. Measurement Focus, Basis of Accounting (continued)

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, 2015, 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 fair 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>	<u>Capitalization Threshold</u>
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.

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

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Statement Amounts (continued)

d. Accrued Leave

All employees are classified as employees of the City with the Corporation responsible for compensating the City for salary and benefit costs. Therefore, the Corporation follows the City's leave policies, which are reported in the City's financial statements. In the City's Governmental Fund financial statements, the City accrues annual leave and associated employee related costs when matured in accordance with GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements – An Interpretation of NCGA Statements 1, 4, and 5; NCGA Interpretation 8; and GASB Statements No. 10, 16, and 18*, (payable from available resources) for employees. The Corporation has not accrued any liability for accrued leave since these amounts are accrued in the City's financial statements.

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.

	<u>Original Budget</u>	<u>Decrease</u>	<u>Amended Budget</u>
All funds	\$ <u>36,496,103</u>	\$ <u>(541,742)</u>	\$ <u>35,954,361</u>

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Statement Amounts (continued)

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.

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, as well as donations received for a specific purpose.

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.

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Statement Amounts (continued)

h. Fund Balance (continued)

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.

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.

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 contributions received from the City generated by the City's dedicated sales tax for the Corporation. Amounts due from the City as of June 30, 2015 totaled \$3,137,421 and are reported as due from City of San Antonio.

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

Notes to the Financial Statements

Year Ended June 30, 2015

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, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets being depreciated:					
Furniture and equipment	\$ 268,917	\$ 8,680	\$ -	\$ -	\$ 277,597
Total capital assets being depreciated	<u>268,917</u>	<u>8,680</u>	<u>-</u>	<u>-</u>	<u>277,597</u>
Less accumulated depreciation for:					
Furniture and equipment	<u>(40,337)</u>	<u>(54,217)</u>	<u>-</u>	<u>-</u>	<u>(94,554)</u>
Total accumulated depreciation	<u>(40,337)</u>	<u>(54,217)</u>	<u>-</u>	<u>-</u>	<u>(94,554)</u>
Total capital assets being depreciated – net	<u>228,580</u>	<u>(45,537)</u>	<u>-</u>	<u>-</u>	<u>183,043</u>
Governmental activities capital assets – net	<u>\$ 228,580</u>	<u>\$ (45,537)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,043</u>

Depreciation expense for the year ended June 30, 2015 totaled \$54,217 and was charged to the instruction function.

Note 5 – 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.

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

Notes to the Financial Statements

Year Ended June 30, 2015

Note 5 – Commitments and Contingencies (continued)

The Corporation is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Corporation’s legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Corporation.

Note 6 – Risk Financing

Property and Casualty Liability

During fiscal year 2015, 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, 2015, 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 2015 is \$777,937.

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.

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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, 2015

	Budgeted Amounts*		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Sales tax	\$ 29,575,395	\$ 32,506,497	\$ 32,137,216	\$ (369,281)
State/local match	4,017,600	3,074,296	3,114,667	40,371
USDA (food)	1,175,728	1,127,541	933,609	(193,932)
Sliding scale tuition	233,333	376,026	393,483	17,457
Interest/miscellaneous	25,850	210,395	437,326	226,931
Total revenues	<u>35,027,906</u>	<u>37,294,755</u>	<u>37,016,301</u>	<u>(278,454)</u>
Expenditures				
Pre-K 4 SA education center services	21,946,363	21,766,361	20,973,245	793,116
Transportation services	966,248	965,344	954,547	10,797
Facilities leases and maintenance	8,470,987	8,400,035	8,373,643	26,392
Professional development	2,225,515	1,897,792	1,841,125	56,667
Program assessment	119,716	241,861	195,719	46,142
Public relations/marketing	422,810	291,945	367,036	(75,091)
Sales tax collection fee	622,914	650,130	635,223	14,907
Administration	1,721,550	1,740,893	1,646,788	94,105
Total expenditures	<u>36,496,103</u>	<u>35,954,361</u>	<u>34,987,327</u>	<u>967,034</u>
Net change in fund balances	(1,468,197)	1,340,394	2,028,974	688,580
Fund balances at beginning of year	<u>15,414,102</u>	<u>17,556,680</u>	<u>17,556,680</u>	<u>-</u>
Fund balances at end of year	<u>\$ 13,945,905</u>	<u>\$ 18,897,074</u>	<u>\$ 19,585,654</u>	<u>\$ 688,580</u>

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

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Compliance Section

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

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

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 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, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October __, 2015.

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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Antonio, Texas
October __, 2015



Padgett Stratemann

Independent Auditor's Report on Compliance for Its Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133

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

Report on Compliance for Its Major Federal Program

We have audited the San Antonio Early Childhood Educational Municipal Development Corporation's (the "Corporation") 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, 2015. 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 the requirements of laws, regulations, contracts, and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance on 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

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Opinion on Its 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001. Our opinion on the major federal program is not modified with respect to this matter.

The Corporation's response to the noncompliance findings identified in our audit are described in the accompanying the Schedule of Findings and Questioned Costs. 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 Corporations 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 its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be a material weakness.

The Corporation's response to the noncompliance findings identified in our audit are described in the accompanying the Schedule of Findings and Questioned Costs. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

San Antonio, Texas
October __, 2015

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

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section I – Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major program:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

3. Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

10.558 Child and Adult Food Care Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Section II – Financial Statement Findings

None

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

Schedule of Findings and Questioned Costs – Continued

Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Finding 2015-001 – Eligibility and Special 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: Noncompliance/Material Weakness

Criteria: The United States Department of Agriculture's ("USDA") Food and Nutrition Service ("FNS") provides cash payments to each state agency for each meal serviced under CACFP. The reimbursement rate for each meal served is higher for meals served to children who meet the income eligibility criteria, published in the federal register and by FNS. 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).

Condition: The Corporation uses the completed student application to determine the child's eligibility category which is then reported in the claim for reimbursement. Our testing of 25 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.

Questioned Costs: None.

Context: It is projected the Corporation received between \$970 and \$57,000 less revenue due to the eligibility category errors. The amount was computed by using the sample of 25 students, applying the attendance rate (94%) to the total instructional days (177) to estimate the actual claim reimbursement using the incorrect eligibility category (\$14,888), and then estimated the claim reimbursement using the correct eligibility category (\$15,858). This resulted in an error of \$970 and an error rate of 6.1%, extrapolated to the population computes to a projected amount of \$57,000.

Cause and Effect: This is the first year the Corporation has received the CACFP grant.

Recommendation: 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.

Views of Responsible Officials and Corrective Action: The CACFP grant was not awarded until after the 2014-2015 school year registration took place. As a result, the CACFP student applications were distributed and returned during the first two weeks of the school year. The review period for the eligibility criteria was not ideal and, as a result, there were errors between what was listed on the eligibility form and what was transferred to the database used to build the eligibility list for reimbursement.

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

Schedule of Findings and Questioned Costs – Continued

Year Ended June 30, 2015

For the 2015-2016 school year, the CACFP eligibility forms were included as part of the overall registration packet. In addition, the Corporation hired temporary employees that were trained on the requirements of the eligibility form, as well as the other parts of the registration packet. In addition, the Corporation selected a sample of 50 forms for additional review, of which no significant exceptions were noted.

Responsible Official: Kathleen Bruck, CEO, and Alfredo Martinez, DFA

Implementation Date: September 2015

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

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

Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2015

There were no prior year findings.

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

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

Corrective Action Plan

Year Ended June 30, 2015

Views of Responsible Officials and Corrective Action: The CACFP grant was not awarded until after the 2014-2015 school year registration took place. As a result, the CACFP student applications were distributed and returned during the first two weeks of the school year. The review period for the eligibility criteria was not ideal and, as a result, there were errors between what was listed on the eligibility form and what was transferred to the database used to build the eligibility list for reimbursement.

For the 2015-2016 school year, the CACFP eligibility forms were included as part of the overall registration packet. In addition, the Corporation hired temporary employees that were trained on the requirements of the eligibility form, as well as the other parts of the registration packet. In addition, the Corporation selected a sample of 50 forms for additional review, of which no significant exceptions were noted.

Responsible Official: Kathleen Bruck, CEO, and Alfredo Martinez, DFA

Implementation Date: September 2015

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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, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Agriculture:</u>			
Passed Through Texas Department of Agriculture Child and Adult Care Food Program	10.558	N/A	\$ <u>933,609</u>
Total Passed Through Texas Department of Agriculture			<u>933,609</u>
Total United States Department of Agriculture			<u>933,609</u>
Total Expenditures of Federal Awards			\$ <u><u>933,609</u></u>

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See accompanying notes to the schedule of expenditures of federal awards.

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

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

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, 2015. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from the amounts presented in 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.

Note 3 – Subrecipients

There were no subrecipients in the current year.

Discussion Draft
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Padgett, Stratemann & Co., L.L.P.