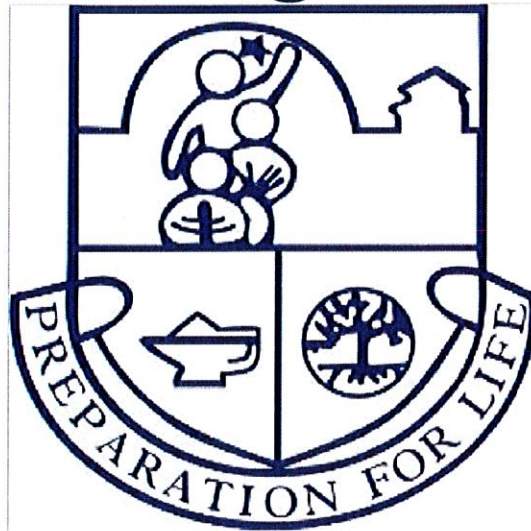


South Texas Educational Technologies, Inc.



**Annual Financial Report
For the fiscal year ended
August 31, 2019**

**Raul Hernandez & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

5402 Holly Rd. Suite 102 Corpus Christi, TX 78411 Office: (361) 980-0428 Fax: (361) 980-1002

Raul Hernandez & Company, P. C.

Certified Public Accountants
5402 Holly Rd. Suite 102
Holly-Staples Square
Corpus Christi, Texas 78411
Office (361)980-0428 Fax (361)980-1002

Board of Trustees
South Texas Educational Technologies, Inc.
Weslaco, Texas

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Texas Educational Technologies, Inc. as of and for the year ended August 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered South Texas Educational Technologies, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 South Texas Educational Technologies, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the South Texas Educational Technologies, Inc.'s internal control.

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

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

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

Raul Hernandez & Company, P.C.

Corpus Christi, TX

January 23, 2020

Raul Hernandez & Company, P.C.

Certified Public Accountants

5402 Holly Rd. Suite 102

Corpus Christi, Texas 78411

Office (361) 980-0428 Fax (361) 980-1002

Board of Trustees

South Texas Educational Technologies, Inc.

Weslaco, Texas

We are engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Texas Educational Technologies, Inc. for the year ended August 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by South Texas Educational Technologies, Inc. are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during August 31, 2019. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. There were no significant estimates noted in the financial statements

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 23, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of South Texas Educational Technologies, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Raúl Hernández & Company, P.C.

January 23, 2020

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended August 31, 2019

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

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SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.
(COUNTY-DISTRICT NUMBER: 108-802)
CERTIFICATE OF BOARD

We, the undersigned, certify that the attached Annual Financial and Compliance Report of South Texas Educational Technologies, Inc. was reviewed and (check one)_____ approved disapproved for the year ended August 31, 2019, at a meeting of the governing body on the 23rd day of January, 2020.

Signature of Board Secretary

Signature of Board President

NOTE: If the governing body of the charter holder does not approve the independent auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

Raul Hernandez & Company, P. C.

Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0428 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

Board of Directors
South Texas Educational Technologies, Inc.
Weslaco, Texas

Members of the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of South Texas Educational Technologies, Inc. (a non-profit organization) which comprise the statement of financial position as of August 31, 2019 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 of 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 auditors' judgment, including 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 entity'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 of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

FINANCIAL SECTION

South Texas Educational Technologies, Inc.
Statement of Activities
For the Year Ended August 31, 2019

Exhibit A-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Local Support			
Interest and other income	137,043	-	137,043
Contributions	170,162	-	170,162
Total local support	307,205	-	307,205
State Program Revenues			
Foundation School Program	-	10,667,111	10,667,111
Other State Aid	-	4,902	4,902
Total State Program Revenue	-	10,672,013	10,672,013
Federal program revenues			
Child Nutrition		1,351,859	
Special Education Grant		168,192	
Special Education Preschool Grant		6,245	
Supporting Effective Instruction Grant		51,899	
Student Support and Academic Enrichment		26,607	
Title I Grants to Local Educational Agencies		453,976	
Teacher and School Leader Incentive Grant		104,328	
Summer School LEP		3,755	
Federal Subsidy		163,305	
Erate		37,775	
Total Federal program revenues	-	2,367,940	2,367,940
Net assets released from restrictions:			
Restrictions satisfied by payments	13,621,612	(13,621,612)	-
Total Revenue and Other Support	13,928,817	(581,659)	13,347,158
EXPENSES			
Program Services			
Instruction and Instructional-Related Services	6,068,932	-	6,068,932
Instructional and School Leadership	768,814	-	768,814
Support Services:			
Administrative Support Services	3,979,296	-	3,979,296
Ancillary Services	634,049	-	634,049
Support Services - Non-Student Based	1,428,958	-	1,428,958
Support Services - Student	171,666	-	171,666
Fundraising	-	-	-
Total Expenses	13,051,714	-	13,051,714
CHANGE IN NET ASSETS	877,103	(581,659)	295,444
NET ASSETS BEGINNING OF YEAR	2,262,837	5,228,115	7,490,952
PRIOR PERIOD ADJUSTMENT	(30,605)	-	-
NET ASSETS BEGINNING OF YEAR - RESTATED	2,232,232	5,228,115	7,460,347
NET ASSETS END OF YEAR	\$ 3,109,335	\$ 4,646,456	\$ 7,755,791

The accompanying notes to financial statements form an integral part of this statement.

South Texas Educational Technologies, Inc.
Statement of Cash Flows
For the Year Ended August 31, 2019

Exhibit A-3

Cash Flows From Operating Activities	
Change in Net Assets	\$ 295,444
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	390,762
Prior Period Adjustment	-
(Increase) Decrease in:	
Due from State	(76,014)
Inventories	1,648
Increase (Decrease) in:	
Accounts Payable	(27,332)
Accrued Salaries	16,796
Payroll Taxes	4,636
	<u>605,940</u>
Cash Flows From Investing Activities	
Purchase of furniture, fixtures & equipment	<u>(2,200,883)</u>
	<u>(2,200,883)</u>
Cash Flows From Financing Activities	
Accrued Interest Payable	(860)
Loan Issuance Cost	32,527
Principal Payments	<u>(363,920)</u>
	<u>(332,253)</u>
Net Increase (Decrease) in Cash	(1,927,196)
Cash at Beginning of Year	<u>4,729,909</u>
Cash at End of Year	<u><u>\$ 2,802,713</u></u>
Summary of Cash:	
Cash and Cash Equivalents	2,747,622
Restricted Cash	55,091
Total Cash	<u><u>\$ 2,802,713</u></u>

The accompanying notes to financial statements form an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, cash and cash equivalents are comprised of cash on hand, in banks and certificates of deposit.

PROPERTY AND EQUIPMENT

In accordance with the Texas Education Agency-Resource Guide Supplement for Charter Schools, property and equipment are recorded at cost or, if donated, at the estimated fair market value on the date received, which is then treated as cost. Property and equipment with an individual cost of \$5,000 or more and an estimated useful life of greater than one year are capitalized. Expenditures for additions, major renewals and betterments are capitalized, and repairs and maintenance are charged to expense as incurred. Depreciation is provided for over the estimated useful lives of the assets on a straight line basis.

A summary of the range of lives by asset category follows:

Buildings and improvements	10 - 30 years
Leasehold improvements	5 - 10 years
Vehicles	5 years
Furniture and equipment	3 - 10 years

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUNCTIONAL EXPENSES

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and Effort
Benefits	Time and Effort
Payroll Taxes	Time and Effort
Rental Expense	Square Footage
Contracted Services	Full Time Equivalent
Maintenance and Repair	Time and Effort
Utilities	Square Footage
Depreciation	Square Footage
Supplies	Time and Effort
Travel	Time and Effort
Instructional Materials	Time and Effort
Insurance and Bonding	Square Footage
Professional Fees and Dues	Full Time Equivalent
Other	Time and Effort

FAIR VALUE MEASUREMENT OF FINANCIAL STATEMENTS

The requirements of Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification (ASC) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB also establishes a fair value hierarchy that categorizes the inputs used in valuation methodologies into three levels.

Inputs may be observable or unobservable. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and the reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. A three-tier hierarchy categorizes the inputs used to measure fair value as follows:

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2019

NOTE 3 -- AVAILABILITY AND LIQUIDITY

The following represents the Charter School financial assets at August 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 2,747,622
Receivables	481,764
Inventories	4,004
Other Assets	<u>8,316</u>
Total financial assets	3,241,706
Less amounts not available to be used within one year:	
Net assets with donor restrictions	4,646,456
Less net assets with purpose restrictions to be met in less than a year	-
Quasi endowment established by the board	<u>-</u>
	<u>4,646,456</u>
Financial assets available to meet general expenditures	
Over the next twelve months	<u>(\$ 1,404,750)</u>

As part of the Charter School's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due by maintaining a significant portion of its assets in cash.

NOTE 4 -- CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Charter School to concentrations of credit risk, as defined by Statement of Financial Accounting Standards (FASB) No. 105, consist principally of cash. The Charter School maintains its cash in a bank deposit account, which is insured up to 102% of its carry value. STET, has not experience any losses in such account.

NOTE 5 -- INVESTMENTS

Investments are measured at fair value in accordance with SFAS 157 and consisted of the following at August 31:

	<u>2019</u>
Certificate of deposit, matures April 20,2020, 1.35%	\$ 279,540
Regions Money Market	<u>42</u>
Total	<u>\$ 279,582</u>

Interest income during the years ended August 31, 2019 was \$15,981.71.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2019

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Under provision in State Law, plan members are required to contribute 7.70% of their annual covered salary and the State of Texas contributes an annual amount equal to 6.80% of the charter School's covered payroll. The charter school's employees' contributions to the system for the year ending August 31, 2019 were \$757,692.50 equal to the required contributions for the year. The Charter School was required to pay additional state contributions for the year ended August 31, 2019, in the amount of 1.50% totaling \$95,963.25.

Pension Disclosure

Plan Description

The Charter School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Name of Plan: Teacher Retirement System of Texas

Plan Number: N/A

Zone status: Unknown

1. Total Plan Assets	\$	176,942,454
2. Accumulated Benefit Obligations		209,611,329
3. The plan is 73.74% funded		

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2019

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Additionally, the School makes a 1.5% non-OASDI payment for all TRS eligible employees.

Contribution Rates

	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2019 Employer Contributions	\$ 179,432.51	
2019 Member Contributions	\$ 548,071.21	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- The School contributes 6.8% for new members the first 90 days of employment.
- The School contributes 6.8% when any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge. There have been no changes that would affect the comparison of employer contributions from year to year.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2019

NOTE 10 – BONDS PAYABLE (Continued)

Series 2014 A Bonds

On December 30, 2014, the Charter School issued \$4,600,000 of Education Revenue Bonds, Series 2014A. Proceeds of the bonds were for construction and future debt service. The Series 2014A bonds mature monthly, starting 2014 until 2034 with a stated interest rate of 5.5%. Interest on the Series A bond is due monthly.

The Charter School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2014 bonds. The Charter School paid an insurance premium to ACA Financial Guaranty Corporation (ACA) to issue a bond insurance policy related to the Bonds. ACA guarantees the full payment required to be made on behalf of the Issuer. The Series 2014A bonds are subject to optional redemption, in whole or in part prior to scheduled maturity on any Business Day, at the option of the Company, at a price of par plus interest accrued thereon to the redemption date.

Debt service requirements for bonds payable are as follows for the years ending August 31:
Tax Credit

	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Totals</u>
2020	165,819	216,482	175,409	382,301
2021	175,910	206,390	175,432	382,300
2022	185,975	196,326	175,486	382,301
2023	196,614	185,687	172,852	382,301
2024	207,375	174,926	135,170	382,301
Thereafter	3,014,960	967,339	812,128	3,982,299
	<u>\$ 3,946,653</u>	<u>1,947,150</u>	<u>1,646,477</u>	<u>\$ 5,893,803</u>

Series 2016A Bond

On August 26, 2016 the Charter School refinanced the Series 2011A Bond that was held with Lone Star National Bank and administered by Wells Fargo with Regions Bank.

The Charter School is required to maintain a debt service reserve fund, which currently is equal to the maximum annual principal and interest requirements of the 2016 bonds. The Charter School paid an insurance premium to ACA Financial Guaranty Corporation (ACA) to issue a bond insurance policy related to the Bonds. ACA guarantees the full payment required to be made on behalf of the Issuer. The Series 2016A bonds are subject to optional redemption with not less than 30 days nor more than 60 days prior to the redemption date.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2019

NOTE 11 – NOTES PAYABLE (CONTINUED)

2018 Ford Transit Vans-

The Charter School acquired four Ford Transit Vans for \$ 120,365.24 on June 2018. It is financed by Regions Bank for five years. Monthly payments are for \$2,254.93. A total of twelve payments from September to August 2019 were made in the amount of \$27,059.16.

	\$ 91,675
Less current portion	<u>(22,041)</u>
	<u>\$ 69,634</u>

Pearland Property-

The Charter School acquired a property for \$ 2,000,000 on April 30, 2018. It is financed through Regions Bank 5 years with 15 year amortization and 12 months interest to begin. Monthly payments are for \$6,666.17. A total of twelve payments from September to August 2019 were made in totaling \$78,488.77.

	\$ 1,979,886
Less current portion	<u>(155,138)</u>
	<u>\$ 1,824,748</u>

Mile 1 Property

The Charter School acquired a property located at 2900 N. Mile 1 East, in Mercedes, Texas on December 18, 2015. It is financed through Regions Bank for a total of five years. Monthly payments are \$2,215.

	\$ 179,649
Less current portion	<u>(19,199)</u>
	<u>\$ 160,450</u>

Series 2016B –Credit Agreement

On August 26, 2016 South Texas Educational Technologies Inc. entered into a credit agreement with Regions Bank in the amount of \$ 131,782. Proceeds from the credit agreement were for issuance cost to refinance Series 2011A Bond as Series 2016A Bonds with Regions Bank. Series 2016B is a taxable promissory note. The Charter agreed to pay \$2,511.11 per month for 60 months.

	\$ 57,007
Less current portion	<u>(27,728)</u>
	<u>\$ 29,279</u>

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2019

NOTE 12 – CAPITAL LEASES PAYABLE (Continued)

FURNITURE AND EQUIPMENT: 100 LAPTOPS

On May 2018 South Texas Educational Technologies, Inc, entered into a lease with VAR Resources, Inc. for 100 new teacher laptops. The School agreed to pay \$1,861.67 per month for 36 months totaling \$64,791.36 of principle payments and \$2,228.76 of interest.

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 21,597	\$ 743	\$ 22,340
2021	21,597	743	22,340
Thereafter	<u>\$ 43,194</u>	<u>\$ 1,486</u>	<u>\$ 44,680</u>

Interest expense for the year ended August 31, 2019 was \$742.92.

FURNITURE AND EQUIPMENT: CISCO ROUTERS

On May 2018 South Texas Educational Technologies, Inc, entered into a lease with VAR Resources, Inc. for 6 new high capacity Cisco Routers. The School agreed to pay \$1,124.12 per month for 60 months totaling \$56,762.40 of principle payments and \$10,684.80 of interest.

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 11,352	\$ 2,137	\$ 13,489
2021	11,352	2,137	13,489
2022	11,352	2,137	13,489
2023	11,352	2,137	13,489
Thereafter	<u>\$ 45,408</u>	<u>\$ 8,548</u>	<u>\$ 53,956</u>

Interest expense for the years ended August 31, 2019 was \$2,136.96.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2019

NOTE 14 – LONG-TERM DEBT

Combined maturities for all long-term debt principal are as follows for the years ending August 31

	<u>Bonds Payable</u>	<u>Total Maturities</u>
2020	346,638	346,638
2021	362,992	362,992
2022	379,537	379,537
2023	396,881	396,881
2024	414,579	414,579
There after	<u>3,284,088</u>	<u>3,284,088</u>
Total \$	<u>5,184,715</u>	<u>\$ 5,184,715</u>

NOTE 15 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with Donor Restrictions consisted of the following at August 31:

	<u>2019</u>
Child Nutrition Fund	\$ 845,665
Campus Activity Fund	79,762
Foundation School Fund	<u>3,721,029</u>
Total	<u>\$ 4,646,456</u>

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The charter School receives funds through federal programs, which are governed by various rules and regulation of the grantor. Expenses charges to the grant program are subject to audit and adjustment by the grantor agency. In the opinion of management, there are no contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been made in the accompanying financial statements for such contingencies.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

The School had a prior period adjustment to beginning net assets in the amount of (\$30,605) for an overstatement of assets. The beginning net assets was restated to \$7,460,347.

SPECIFIC PURPOSE FINANCIAL STATEMENTS

Horizon Montessori Public Schools
Statement of Activities
For the Fiscal Year Ended August 31, 2019

Exhibit B-2

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Local Support			
5740 Tuition, Rent and Afterschool	\$ 137,043	\$ -	\$ 137,043
5750 Food Sales	170,162	-	170,162
5748 Other Revenues from Local Sources-Locally Defined	-	-	-
5749 Other Revenues from Local Sources	-	-	-
Total local support	307,205	-	307,205
State Program Revenues			
5810 Foundation School Program	-	10,667,111	10,667,111
5820 State Program Revenues Distributed by the Texas Education Agency	-	4,902	4,902
5830 Revenues from Texas Government Agencies	-	-	-
Total State Program Revenue	-	10,672,013	10,672,013
Federal program revenues			
5920 Federal Revenues Distributed by the Texas Education Agency	-	2,062,532	2,062,532
5930 Federal Revenues Distributed Not by Texas Education Agency	-	305,408	305,408
Total Federal Program Revenue	-	2,367,940	2,367,940
Net assets released from restrictions:			
Restrictions satisfied by payments	13,621,612	(13,621,612)	-
Total Revenue and Other Support	13,928,817	(581,659)	13,347,158
EXPENSES			
11 Instruction	5,970,767	-	5,970,767
12 Instructional Resources and Media Services	72,614	-	72,614
13 Curriculum Development and Instructional Staff Development	25,551	-	25,551
21 Instructional Leadership	79,333	-	79,333
23 School Leadership	689,481	-	689,481
31 Guidance, Counseling, and Evaluation	181,839	-	181,839
33 Health Services	132,880	-	132,880
34 Transportation	-	-	-
35 Food Services	1,004,527	-	1,004,527
36 Cocurricular/Extracurricular Activities	171,666	-	171,666
41 General Administration	921,518	-	921,518
51 Plant Maintenance and Operations	2,647,248	-	2,647,248
52 Security and Monitoring Services	144,805	-	144,805
53 Data Processing	265,725	-	265,725
61 Community Services	319,330	-	319,330
71 Debt	424,431	-	424,431
81 Fund Raising	-	-	-
Total Expenses	13,051,714	-	13,051,714
CHANGE IN NET ASSETS	877,103	(581,659)	295,444
NET ASSETS BEGINNING OF YEAR	2,262,837	5,228,115	7,490,952
PRIOR PERIOD ADJUSTMENT	(30,605)	-	-
NET ASSETS BEGINNING OF YEAR-RESTATE	2,232,232	5,228,115	7,460,347
NET ASSETS END OF YEAR	\$ 3,109,335	\$ 4,646,456	\$ 7,755,791

**Horizon Montessori Public Schools
Schedule of Capital Assets
August 31, 2019**

Exhibit C-1

	Ownership Interest			Total
	Local	State	Federal	
1510 Land and Improvements	\$ -	\$ 2,398,672	\$ -	\$ 2,398,672
1520 Buildings and Improvements	-	9,921,509	-	9,921,509
1531 Vehicles		654,801	-	654,801
1539 Furniture, Fixtures and Equipment	991,335	-	-	991,335
1580 Construction in Progress	965,269	-	-	965,269
Total Property and Equipment	\$ 1,956,603	\$ 12,974,982	\$ -	\$ 14,931,585

**Horizon Montessori Public Schools
Budgetary Comparison Schedule
For the Year Fiscal Ended August 31, 2019**

Exhibit E-1

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE AND OTHER SUPPORT				
Local Support				
5740 Tuition, Rent, and Earnings and Temporary Investments	\$ 158,445	\$ 147,832	\$ 137,043	\$ 10,789
5750 Contributions	141,555	186,000	170,162	15,838
Total local support	<u>300,000</u>	<u>333,832</u>	<u>307,205</u>	26,627
State Program Revenues				
5810 Foundation School Program	10,573,539	10,701,988	10,667,111	34,878
5820 State Program Revenues Distributed by the Texas Education Agency	26,461	4,903	4,902	1
5830 Revenues from Texas Government Agencies	-	-	-	-
Total State Program Revenue	<u>10,600,000</u>	<u>10,706,891</u>	<u>10,672,013</u>	<u>34,878</u>
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	1,845,691	2,062,657	2,062,532	125
5930 Federal Revenues Not Distributed by the Texas Education Agency	223,000	327,350	305,408	21,942
Total Federal Program Revenue	<u>2,068,691</u>	<u>2,390,007</u>	<u>2,367,940</u>	<u>22,067</u>
Total Revenue and Other Support	<u>12,968,691</u>	<u>13,430,730</u>	<u>13,347,158</u>	<u>83,572</u>
EXPENSES				
11 Instruction	5,912,906	5,972,012	5,970,767	1,245
12 Instructional Resources and Media Services	77,981	73,154	72,614	540
13 Curriculum Development and Instructional Staff Development	27,698	27,972	25,551	2,421
21 Instructional Leadership	166,016	80,199	79,333	867
23 School Leadership	588,343	701,541	689,481	12,060
31 Guidance, Counseling, and Evaluation Services	257,318	184,138	181,839	2,299
33 Health Services	144,828	132,943	132,860	63
34 Transportation Services	-	-	-	-
35 Food Services	937,002	1,101,665	1,004,526	97,139
36 Cocurricular/Extracurricular Activities	132,274	185,154	171,666	13,487
41 General Administration	1,134,897	921,858	921,518	340
51 Plant Maintenance and Operations	2,204,995	2,676,053	2,647,248	28,806
52 Security and Monitoring Services	122,521	144,868	144,805	63
53 Data Processing	247,081	265,813	265,725	88
61 Community Services	196,602	320,062	319,330	732
71 Interest on Debt Service	330,000	424,468	424,431	37
81 Fundraising	20,161	-	-	-
Total Expenses	<u>12,500,623</u>	<u>13,211,900</u>	<u>13,051,714</u>	<u>160,187</u>
CHANGE IN NET ASSETS	468,068	218,830	295,444	76,615
NET ASSETS BEGINNING OF PERIOD	<u>7,490,952</u>	<u>7,490,952</u>	<u>7,490,952</u>	-
NET ASSETS END OF PERIOD	<u>\$ 7,959,020</u>	<u>\$ 7,709,782</u>	<u>\$ 7,786,396</u>	<u>\$ 76,615</u>

**COMPLIANCE
AND
INTERNAL CONTROL SECTION**

Raul Hernandez & Company, P. C.

Certified Public Accountants
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Corpus Christi, Texas 78411
(361)980-0428 Fax (361)980-1002

**Independent Auditors' 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**

Board of Directors
South Texas Educational Technologies, Inc.

We have audited, 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, the financial statements of South Texas Educational Technologies, Inc. (a non-profit organization) which comprise the statement of financial position as of August 31, 2019, and related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Texas Educational Technologies, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Texas Educational Technologies, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of South Texas Educational Technologies, Inc.'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Raul Hernandez & Company, P.C.

Certified Public Accountants
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Corpus Christi, Texas 78411
Office (361)980-0428 Fax (361)980-1002

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
South Texas Educational Technologies, Inc.

Report of Compliance for Each Major Federal Program

We have audited South Texas Educational Technologies, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South Texas Educational Technologies, Inc.'s major federal programs for the year ended August 31, 2019. South Texas Educational Technologies, Inc.'s major federal programs are 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 grants applicable to federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each South Texas Educational Technologies, Inc.'s major federal programs 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 South Texas Educational Technologies, Inc.'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 each major federal program. However, our audit does not provide a legal determination of South Texas Educational Technologies, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, South Texas Educational Technologies, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

South Texas Educational Technologies, Inc.

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended August 31, 2019

I. Summary of Auditors' Results

- | | | |
|-----|--|------------|
| 1. | Type of auditors' report issued on the financial statements of the auditee | Unmodified |
| 2. | Significant deficiencies in internal controls disclosed by the audit of the financial statements | None |
| a. | Significant deficiencies that were material weaknesses | None |
| 3. | Noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements | None |
| 4. | Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements | None |
| a. | Significant deficiencies that were material weaknesses | None |
| 5. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? | No |
| 6. | Type of auditors' report issued on compliance for major programs | Unmodified |
| 7. | Findings disclosed by the audit of the financial statements which the auditor is required to report | None |
| 8. | Major Programs:
National School Breakfast Program (10.553)
National School Lunch Program (10.555) | |
| 9. | The dollar threshold used to distinguish between Type A and Type B programs | \$ 750,000 |
| 10. | Auditee qualified as a low-risk auditee | Yes |

II. Findings related to the Financial Statements which are required to be reported in accordance with generally accepted government auditing standards.

A. Questioned Costs: \$ 0.

III. Findings and questioned costs for state and federal awards.

None identified

**South Texas Educational Technologies, Inc.
Corrective Action Plan**

For the Fiscal year ended August 31, 2019

N/A

**SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended August 31, 2019

Note 1: Standard Financial Accounting System

For all federal programs, the Organization used the net assets classes and codes specified by the Texas Education Agency in the Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net assets codes.

