

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
For the Fiscal Year Ended August 31, 2017

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

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AUGUST 31, 2017

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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, 2017, at a meeting of the governing body on the 11th day of January, 2018.

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.

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Raul Hernandez & Company, P. C.

Certified Public Accountants
5422 Holly Rd
Holly-Staples Square
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, 2017 and the related statements of activities 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Texas Educational Technologies, Inc. as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of South Texas Educational Technologies, Inc., taken as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, along with the other supplementary information, is likewise presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2018, on our consideration of South Texas Educational Technologies, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 South Texas Educational Technologies, Inc.'s internal control over financial reporting and compliance.

Raúl Hernández & Company, P.C.

Corpus Christi, TX
January 5, 2018

FINANCIAL SECTION

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South Texas Educational Technologies, Inc.
Statement of Financial Position
August 31, 2017

Assets

Current assets:

Cash in bank	\$ 3,136,734
Certificate of deposit	275,938
Due from state	402,022
Inventories	10,435
Other assets	22,802
Total Current Assets	<u>3,847,932</u>

Fixed Assets:

Land	302,238
Building and improvements	8,971,009
Furniture and Equipment	869,741
Vehicles	334,534
Construction in Progress	37,828
Less: Accumulated Depreciation	<u>(2,030,359)</u>
Property and Equipment, net	<u>8,484,991</u>

Other Assets:

Restricted Cash	55,090
Bond Issuance (net of accumulated amortization)	<u>417,507</u>
Total Other Assets	<u>472,597</u>

Total Assets

\$ 12,805,519

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 90,930
Accrued wages payable	496,532
Payroll liabilities payable	23,378
Accrued Interest payable	32,186
Current portion of long-term debt	467,708
Total Current Liabilities	<u>1,110,734</u>

Long-term liabilities

Bond payable	5,819,370
Capital lease payable	113,900
Total Long-term liabilities	<u>5,933,270</u>

Total Liabilities

7,044,004

Net assets:

Unrestricted	2,190,019
Temporarily restricted	3,571,496
Total net assets	<u>5,761,515</u>

Total Liabilities and Net Assets

\$ 12,805,519

South Texas Educational Technologies, Inc
Statement of Activities
For the Fiscal Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Local Support			
5740 Tuition, Rent and Afterschool	\$ 131,324	\$ -	\$ 131,324
5750 Food Sales	230,162	-	230,162
5748 Other Revenues from Local Sources-Locally Defined	-	-	-
5749 Other Revenues from Local Sources	-	-	-
Total local support	<u>361,487</u>	<u>-</u>	<u>361,487</u>
State Program Revenues			
5810 Foundation School Program	-	9,968,817	9,968,817
5820 State Program Revenues Distributed by the Texas Education Agency	-	125,084	125,084
5830 Revenues from Texas Government Agencies	-	-	-
Total State Program Revenue	<u>-</u>	<u>10,093,901</u>	<u>10,093,901</u>
Federal program revenues			
5920 Federal Revenues Distributed by the Texas Education Agency	-	1,762,510	1,762,510
5930 Federal Revenues Distributed Not by Texas Education Agency	-	222,026	222,026
Total Federal Program Revenue	<u>-</u>	<u>1,984,537</u>	<u>1,984,537</u>
Net assets released from restrictions: Restrictions satisfied by payments	<u>10,951,823</u>	<u>(10,951,823)</u>	<u>(0)</u>
Total Revenue and Other Support	<u>11,313,309</u>	<u>1,126,615</u>	<u>12,439,924</u>
EXPENSES			
11 Instruction	5,327,195	-	5,327,195
12 Instructional Resources and Media Services	82,381	-	82,381
13 Curriculum Development and Instructional Staff Development	19,294	-	19,294
21 Instructional Leadership	105,826	-	105,826
23 School Leadership	563,192	-	563,192
31 Guidance, Counseling, and Evaluation	130,628	-	130,628
33 Health Services	122,672	-	122,672
34 Transportation	1,201	-	1,201
35 Food Services	933,077	-	933,077
36 Cocurricular/Extracurricular Activities	150,543	-	150,543
41 General Administration	767,191	-	767,191
51 Plant Maintenance and Operations	2,177,675	-	2,177,675
52 Security and Monitoring Services	144,010	-	144,010
53 Data Processing	233,907	-	233,907
61 Community Services	193,365	-	193,365
71 Debt	375,270	-	375,270
81 Fund Raising	13,740	-	13,740
Total Expenses	<u>11,341,169</u>	<u>-</u>	<u>11,341,169</u>
CHANGE IN NET ASSETS	(27,859)	1,126,615	1,098,756
NET ASSETS BEGINNING OF YEAR	<u>2,217,878</u>	<u>2,444,881</u>	<u>4,662,759</u>
NET ASSETS END OF YEAR	<u>\$ 2,190,019</u>	<u>\$ 3,571,496</u>	<u>\$ 5,761,515</u>

South Texas Educational Technologies, Inc.
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2017

Cash Flows From Operating Activities	
Change in Net Assets	\$ 1,098,756
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	397,753
(Increase) Decrease in:	
Due from State	4,094
(Increase) Decrease in:	
Inventories	963
Increase (Decrease) in:	
Other Assets	(941)
Accounts Payable	41,807
Accrued Wages Payable	159,107
Payroll Liabilities Payable	(47,085)
Accrued Expenses	-
Cash Flows From Operating Activities	<u>1,654,453</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(262,324)
	<u>(262,324)</u>
Cash Flows From Financing Activities	
Accrued Interest Payable	6,418
Loan Issuance Cost	32,527
Principal Payments	(411,606)
	<u>(372,661)</u>
Net Increase (Decrease) in Cash	1,019,469
Cash at Beginning of Year	<u>2,448,293</u>
Cash at End of Year	<u><u>\$ 3,467,762</u></u>
Summary of Cash:	
Cash in Bank	3,136,734
Restricted Cash	55,090
Certificates of Deposit	275,938
Total Cash	<u><u>\$ 3,467,762</u></u>
Supplemental Information:	
Cash Paid for Interest	\$ 375,270

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NOTES TO FINANCIAL STATEMENTS

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements For the Fiscal Year Ended August 31, 2017

NOTE 1 – ORGANIZATION

The South Texas Educational Technologies, Inc. (the Charter School's), which was established November 12, 1997, is a private, non-profit community-based organization exempt from taxation under 26 U.S.C., Section 501(c)(3). It operates as a single charter school.

The South Texas Educational Technologies, Inc (STET, Inc.) offers Montessori way of teaching in elementary schools. The Charter School operates under an open enrollment charter school granted by the Texas State Board of Education. The charter was issued for a period of ten years and it is renewed until year 2023. The South Texas Educational Technologies, Inc is part of the public school system of the state and is entitled to distribution from the State available school fund. The School provides educational services to students in grades K through 8th. The South Texas Educational Technologies, Inc. charter holder and charter school board members, officers and administration are in compliance with the education requirements as of August 31, 2017. On March 1, 2015 the Texas Education Agency approved the name of the charter from South Texas Educational Technologies, Inc. to utilize the DBA Horizon Montessori Public Schools for correspondence and reporting with the Texas Education Agency.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting system is organized under *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a Module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

BASIS OF PRESENTATION

In order to comply with accounting principles generally accepted in the United States of America, the Charter School must prepare financial statements in accordance with statements issued by the Financial Accounting Standards Board. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

The Charter School has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statement of Not-for-Profit Organizations*. In accordance with SFAS No. 117, net assets, revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted – net assets that are not subject to donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

Temporarily restricted – net assets subject to donor-imposed stipulations for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Permanently restricted – net assets required to be maintained in perpetuity due to donor-imposed restrictions. Investment return may be used to support general operations. The Charter School had no permanently restricted net assets as of August 31, 2017.

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, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES

Revenues from state's available school fund are based on reported attendance. Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

Governmental grant contracts are considered to be earned to the extent of expenses made under the provisions of the grant and accordingly, when such funds are received, they are recorded as deferred revenues until earned.

CONTRIBUTIONS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made", contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

DONATED SERVICES AND ASSETS

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in-kind contributions and expenses of a like amount. Contributions of donated services are recorded at the estimated fair market value in the period received. Contributions of donated non-cash assets are recorded at the estimated fair market value in the period received.

PERSONAL LEAVE

All employees earn five days state sick leave per academic year and five local days of personal leave per year. However, employees may accumulate state sick leave days.

INCOME TAX STATUS

The Charter School is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the School is not a private foundation within the meaning of Section 509(a).

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2017

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at August 31:

	<u>2017</u>
Cash	\$ 3,136,734
Certificate of deposit and Money Market	275,938
Restricted Cash	55,090
Total	<u>\$ 3,467,762</u>

Restricted cash is a reserve for bonded debt payments.

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>2017</u>
Certificate of deposit, matures April 20,2019, 1.35%	\$ 275,896
Regions Money Market	42
Certificate of deposit, matures December 17,2016, .35%	-
Certificate of deposit, matures December 21,2016, 1.96%	-
Total	<u>\$ 275,938</u>

Certificate of deposit matured on December 17, 2016 at .35% in the amount of \$94,103.
Certificate of deposit matured on December 21, 2016 at 1.96% in the amount of \$49,210.

Interest income during the years ended August 31, 2017 was \$6,898.55.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 6 – PROPERTY AND EQUIPMENT

A summary of changes in property and equipment during the year ended August 31, 2017 were as follows:

	Balance at Beginning of Year	Additions	Disposals and Transfers	Balance at End of Year
Land and Improvements	\$ 302,238	\$	\$	\$ 302,238
Buildings & Improvements	8,847,544	123,465	-	8,971,009
Leasehold Improvements	-		-	-
Vehicles	265,073	69,461		334,534
Furniture and Equipments	802,951	66,790		869,741
Construction in Progress	35,219	18,574	15,965	37,829
Total	10,253,025	278,290	15,965	10,515,350
Less: Accumulated Depreciation	(1,632,606)	(397,753)		(2,030,359)
Total	\$ 8,620,419	\$ (119,463)	\$ 15,965	\$ 8,484,991

Depreciation expense for the year ended August 31, 2017 was \$397,753.

Capitalized property and equipment acquired with public funds received by the Charter School constitute public property pursuant to Chapter 12 of the Texas Educational Code. These assets are specifically identified on the Schedule of Capital Assets for Individual Charter School.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Distribution

The Charter School contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. TRS is a cost-sharing, multiple employer defined pension plan with one exception: all risks and cost are not shared by the charter school, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, title 8, Public Retirement Systems Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The system's annual financial report and other required disclosure

information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or calling TRS at 1(800)877-0123.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2017

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, 2017 were \$476,775.71 , equal to the required contributions for the year. The Charter School was required to pay additional state contributions for the year ended August 31, 2017, in the amount of 1.50% totaling \$92,879.37.

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

(Dollars in thousands)

1. Total Plan Assets	\$	152,925,647
2. Accumulated Benefit Obligations		171,797,150
3. The plan is 78.00% funded		

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements For the Fiscal Year Ended August 31, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2017 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

2016 Employer Contributions	\$ 92,879
2016 Member Contributions	\$ 476,776
2016 NECE On-Behalf Contributions	\$ 337,180

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:

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- 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.

NOTE 8 – HEALTH CARE COVERAGE

The Charter School pays the cost of health care benefits to all employees. Coverage of dependents is paid by the employee through payroll deductions.

NOTE 9 – BOND ISSUANCE COSTS

The costs of bond issuance are being amortized over a 15 year period. Bond issuance costs at August 31, 2017 consisted of the following:

	<u>Bond Cost</u>	<u>Accumulated Amortization</u>	<u>Unamortized Bond Cost</u>	<u>Current Year Amortization</u>
Mile 1 Issuance	14,309	(1,022)	13,287	1,022
Series 2014A Bond Issuance	294,843	(22,113)	272,730	22,113
Series 2016A Bond Issuance	140,882	(9,392)	131,490	9,392
Total	<u>\$ 450,034</u>	<u>\$ (32,527)</u>	<u>\$ 417,507</u>	<u>\$ 32,527</u>

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 10 – BONDS PAYABLE

Changes during the year ended August 31, 2017 in bonds payable are as follows:

	Interest Rate	Balance 9/1/16	Retirements	Additions	Balance 8/31/17	Current Portion
Series 2014A Bond Issuance	5.50%	4,393,811	141,508	-	4,252,303	148,899
Series 2016A Bond Issuance	3.41%	1,745,000	163,260		1,581,741	168,914
Premium/Discount			69,000	3,067	65,933	3,067
Deferred Loss on refunding bonds			(53,257)	(2,366)	(50,891)	(2,366)
Total		<u>\$ 6,138,811</u>	<u>\$ 320,511</u>	<u>\$ 701</u>	<u>5,849,085</u>	<u>\$ 318,514</u>
Less Current Portion					(318,514)	
Net Long-Term Bonds Payable					<u>\$5,530,571</u>	

Interest expense for the year ended August 31, 2017 was \$298,294.57.

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

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 10 – BONDS PAYABLE (Continued)

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

	Principal	Interest	Tax Credit Subsidy	Totals
2018	\$ 148,899	233,402	188,339	\$ 382,301
2019	157,418	224,883	182,054	382,301
2020	165,819	216,482	175,409	382,301
2021	175,910	206,390	175,432	382,301
Thereafter	3,604,257	1,524,278	1,295,636	5,128,535
	<u>\$ 4,252,303</u>	<u>2,405,435</u>	<u>2,016,869</u>	<u>\$ 6,657,737</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.

Section 5.1 of the Series 2011 A “Series 2016A”, bond covenants establishes a debt service coverage ratio which stipulates that available revenues for each fiscal year (without excluding any discretionary expenses actually incurred in such fiscal year) must be equal to at least 1.10 times the annual debt service requirements of the Charter School as of the end of the first fiscal year after the date of issuance of the bonds and thereafter until the bonds have been paid in full. During the year ended August 31, 2017, the Charter School was in compliance with this covenant and all other applicable covenants contained in the loan agreement.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 10 – BONDS PAYABLE (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 168,914	51,314	\$ 220,228
2019	174,765	45,463	220,228
2020	180,819	39,409	220,228
2021	187,082	33,146	220,228
Thereafter	870,161	65,810	935,971
	<u>\$ 1,581,741</u>	<u>235,142</u>	<u>\$ 1,816,883</u>

NOTE 11 – NOTES PAYABLE

Notes payable consisted of the following at August 31:

2014 Navigator-

The Charter School acquired a 2014 Navigator for \$ 56,158 on April 2014. It is financed by Ford Motor Credit for Five years. Monthly payments are for \$936.

Less current portion

\$ 18,719
(11,232)
\$ 7,487

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.

Less current portion

\$ 215,089
(17,030)
\$ 198,059

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 Series2011A 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.

Less current portion

\$ 108,187
(24,901)
\$ 83,286

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 12 – CAPITAL LEASES PAYABLE

COMPUTER SOFTWARE:

On July 16, 2015 South Texas Educational Technologies, Inc, entered into a lease with VAR Resources, Inc. The School agreed to pay \$2,720 per month for 48 months totaling \$120,000 of principle payments and \$10,560 of interest.

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 30,000	2,643	\$ 32,643
2019	25,000	2,202	27,202
	<u>\$ 55,000</u>	<u>4,845</u>	<u>\$ 59,845</u>

Interest expense for the years ended August 31, 2017 was \$2,643.

FURNITURE AND EQUIPMENT:

On November 2014 South Texas Educational Technologies, Inc, entered into a lease with VAR Resources, Inc. The School agreed to pay \$5,310 per month for 60 totaling \$275,074 of principle payments and \$43,504 of interest.

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 55,015	8,700	\$ 63,715
2019	55,015	8,700	63,715
2020	13,753	1,450	10,619
Thereafter	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 123,783</u>	<u>\$ 18,850</u>	<u>\$ 142,633</u>

Interest expense for the years ended August 31, 2017 was \$8,700.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements
For the Fiscal Year Ended August 31, 2017

NOTE 12 – CAPITAL LEASES PAYABLE (Continued)

COMPUTER EQUIPMENT:

On October 25, 2016 South Texas Educational Technologies, Inc, entered into a lease with PCM Financial Services. The School agreed to pay \$941.05 per month for 42 months totaling \$38, 433 of principle payments and \$1,091 of interest.

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 10,981	312	\$ 11,293
2019	10,981	312	11,293
2020	9,151	260	9,411
Thereafter	<u>\$ 31,113</u>	<u>884</u>	<u>\$ 31,997</u>

Interest expense for the years ended August 31, 2017 was \$207.81.

CAPITAL LEASE TOTALS:

Capital Lease Payable	\$ 209,896
Less Current Portion	<u>(95,996)</u>
Total	<u>\$ 113,900</u>

NOTE 13 – OPERATING LEASES

Effective September 1, 2015 South Texas Educational Technologies, Inc. entered into a lease with Mr. Alim U. Ansari, related party, for the rental of a school building facility for the campus Horizon Montessori at 1222 W. Sugar Cane Drive, Weslaco, Texas until August 31, 2020. The school agreed to pay monthly payments of \$ 12,352 plus all the expenses. Annual rental expense under this lease agreement was \$ 118,224. This lease agreement is expected to continue for the next five years, totaling \$ 591,120. Total payments for facility and other rental charges during the current year were \$ 126,268. This constitutes a related party transaction as noted in note 17.

In November of 2005 South Texas Educational Technologies, Inc entered into a lease with Paramount Enterprises, fifty percent owned by Mr. Alim U. Ansari, a related party, for the rental of a school building facility for the campus Horizon Montessori at 221 N. Main, McAllen, Texas in yearly basis. The school agreed to pay \$ 19,623 per month plus all the expenses. Total payments for facility and other rental charges during the current year were \$ 290,518. This constitutes a related party transaction as noted in note 17.

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

NOTE 13 – OPERATING LEASES (Continued)

In April of 2012 South Texas Educational Technologies, Inc entered into a copier operating lease with TFS Leasing a Program of De Lage requiring monthly payments in the amount of \$2,343 through May 2017. Total payments including other rental charges during the current year were \$ 9,980.

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>
2018	317,813	317,813
2019	332,183	332,183
2020	346,638	346,638
2021	362,992	362,992
2022	379,537	379,537
There after	<u>4,095,880</u>	<u>4,095,880</u>
Total	\$ <u>5,835,043</u>	\$ <u>5,835,043</u>

NOTE 15 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at August 31:

	<u>2017</u>
Child Nutrition Fund	\$ <u>350,581</u>
Campus Activity Fund	<u>32,599</u>
Foundation School Fund	<u>3,188,317</u>
Total	\$ <u><u>3,571,497</u></u>

SOUTH TEXAS EDUCATIONAL TECHNOLOGIES, INC.

Notes to Financial Statements

For the Fiscal Year Ended August 31, 2017

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 – RELATED PARTY TRANSACTIONS

The CEO also entered into a ten year operating lease agreement with the South Texas Educational Technologies, Inc for the lease of a school building on Sugar Cane Drive. Also the CEO, 50% owner, of Paramount Enterprises entered into an operating lease. Details to these transactions are found in note 13 to the financial statements. A board member, James O. Hayes, C.P.A. is on retainer in advisory capacity and is compensated \$4,000 per month plus expenses, with the stipulation that any work performed by members of his personal office staff are paid from his funds and not the school's. South Texas Educational Technologies, Inc. has adopted a policy regarding transactions between the charter school, the charter holder, and the related parties.

NOTE 18 – SUPPLEMENTARY FINANCIAL INFORMATION

South Texas Educational Technologies, Inc. operates a single charter school and does not conduct any non-charter activities; accordingly several of the financial schedules as prescribed by the *Special Supplement to the Financial Accountability System Resource Guide, Nonprofit Charter Schools* have been satisfied with the exhibits as presented in the general purpose financial statements.

NOTE 19 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 5, 2018, the date which the financial statements were available to be issued.

NOTE 20 – RECONCILIATION OF REVENUES FROM FEDERAL PROGRAMS

The Charter School received revenues from federal programs for the year August 31, 2017 as follows:

Federal Expenditures total per SEFA	1,809,001
Federal revenues total per financial statements	<u>1,984,537</u>
Difference	(175,536)
Child Nutrition Excess Revenues	114,048
Federal Subsidy	57,394
Due from State	<u>4,094</u>
Balance	<u>\$0</u>

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SUPPLEMENTARY INFORMATION

Horizon Montessori Public Schools
Statement of Financial Position for Individual Charter School
August 31, 2017

Assets

Current assets:

Cash in bank	\$ 3,136,734
Certificate of deposit	275,938
Due from state	402,022
Inventories	10,435
Other assets	22,802
Total Current Assets	<u><u>3,847,932</u></u>

Fixed Assets:

Land	302,238
Building and improvements	8,971,009
Furniture and Equipment	869,741
Vehicles	334,534
Construction in Progress	37,828
Less: Accumulated Depreciation	<u>(2,030,359)</u>
Property and Equipment, net	<u><u>8,484,991</u></u>

Other Assets:

Restricted Cash	55,090
Bond Issuance (net of accumulated amortization)	<u>417,507</u>
Total Other Assets	<u><u>472,597</u></u>

Total Assets

\$ 12,805,519

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 90,930
Accrued wages payable	496,532
Payroll liabilities payable	23,378
Accrued Interest payable	32,186
Current portion of long-term debt	467,708
Total Current Liabilities	<u><u>1,110,734</u></u>

Long-term liabilities

Bond payable	5,819,370
Capital lease payable	<u>113,900</u>
Total Long-term liabilities	<u><u>5,933,270</u></u>

Total Liabilities

7,044,004

Net assets:

Unrestricted	2,190,019
Temporarily restricted	<u>3,571,496</u>
Total net assets	<u><u>5,761,515</u></u>

Total Liabilities and Net Assets

\$ 12,805,519

Horizon Montessori Public Schools
Statement of Activities for Individual Charter School
For the Fiscal Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Local Support			
5740 Tuition, Rent and Afterschool	\$ 131,324	\$ -	\$ 131,324
5750 Food Sales	230,162	-	230,162
5748 Other Revenues from Local Sources-Locally Defined	-	-	-
5749 Other Revenues from Local Sources	-	-	-
Total local support	<u>361,487</u>	<u>-</u>	<u>361,487</u>
State Program Revenues			
5810 Foundation School Program	-	9,968,817	9,968,817
5820 State Program Revenues Distributed by the Texas Education Agency	-	125,084	125,084
5830 Revenues from Texas Government Agencies	-	-	-
Total State Program Revenue	<u>-</u>	<u>10,093,901</u>	<u>10,093,901</u>
Federal program revenues			
5920 Federal Revenues Distributed by the Texas Education Agency	-	1,762,510	1,762,510
5930 Federal Revenues Distributed Not by Texas Education Agency	-	222,026	222,026
Total Federal Program Revenue	<u>-</u>	<u>1,984,537</u>	<u>1,984,537</u>
Net assets released from restrictions: Restrictions satisfied by payments	<u>10,951,823</u>	<u>(10,951,823)</u>	<u>(0)</u>
Total Revenue and Other Support	<u>11,313,309</u>	<u>1,126,615</u>	<u>12,439,924</u>
EXPENSES			
11 Instruction	5,327,195	-	5,327,195
12 Instructional Resources and Media Services	82,381	-	82,381
13 Curriculum Development and Instructional Staff Development	19,294	-	19,294
21 Instructional Leadership	105,826	-	105,826
23 School Leadership	563,192	-	563,192
31 Guidance, Counseling, and Evaluation	130,628	-	130,628
33 Health Services	122,672	-	122,672
34 Transportation	1,201	-	1,201
35 Food Services	933,077	-	933,077
36 Cocurricular/Extracurricular Activities	150,543	-	150,543
41 General Administration	767,191	-	767,191
51 Plant Maintenance and Operations	2,177,675	-	2,177,675
52 Security and Monitoring Services	144,010	-	144,010
53 Data Processing	233,907	-	233,907
61 Community Services	193,365	-	193,365
71 Debt	375,270	-	375,270
81 Fund Raising	13,740	-	13,740
Total Expenses	<u>11,341,169</u>	<u>-</u>	<u>11,341,169</u>
CHANGE IN NET ASSETS	(27,859)	1,126,615	1,098,756
NET ASSETS BEGINNING OF YEAR	<u>2,217,878</u>	<u>2,444,881</u>	<u>4,662,759</u>
NET ASSETS END OF YEAR	<u>\$ 2,190,019</u>	<u>\$ 3,571,496</u>	<u>\$ 5,761,515</u>

Horizon Montessori Public Schools
Statement of Cash Flows for Individual Charter School
For the Fiscal Year Ended August 31, 2017

Cash Flows From Operating Activities	
Change in Net Assets	\$ 1,098,756
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	397,753
(Increase) Decrease in:	
Due from State	4,094
(Increase) Decrease in:	
Inventories	963
Increase (Decrease) in:	
Other Assets	(941)
Accounts Payable	41,807
Accrued Wages Payable	159,107
Payroll Liabilities Payable	(47,085)
Accrued Expenses	-
Cash Flows From Operating Activities	<u>1,654,453</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	(262,324)
	<u>(262,324)</u>
Cash Flows From Financing Activities	
Accrued Interest Payable	6,418
Loan Issuance Cost	32,527
Principal Payments	(411,606)
	<u>(372,661)</u>
Net Increase (Decrease) in Cash	1,019,469
Cash at Beginning of Year	<u>2,448,293</u>
Cash at End of Year	<u><u>\$ 3,467,762</u></u>
Summary of Cash:	
Cash in Bank	3,136,734
Restricted Cash	55,090
Certificates of Deposit	275,938
Total Cash	<u><u>\$ 3,467,762</u></u>
Supplemental Information:	
Cash Paid for Interest	\$ 375,270

**Horizon Montessori Public Schools
Schedule of Expenses for Individual Charter School
August 31, 2017**

Exhibit C-1

Expenses

6100 Payroll Costs	\$ 7,451,147
6200 Professional and Contract Services	1,339,663
6300 Supplies and Materials	1,253,981
6400 Other Operating Costs	921,108
6500 Interest Expense	375,270
Total Expenses	<u>\$ 11,341,169</u>

Horizon Montessori Public Schools
Schedule of Capital Assets for Individual Charter School
August 31, 2017

Exhibit D-1

	Ownership Interest			Total
	Local	State	Federal	
1510 Land and Improvements	\$ -	\$ 302,238	\$ -	\$ 302,238
1520 Buildings and Improvements	-	8,971,009	-	8,971,009
1531 Vehicles		334,534	-	334,534
1539 Furniture, Fixtures and Equipment	869,741	-	-	869,741
1580 Construction in Progress	37,828	-	-	37,828
Total Property and Equipment	\$ 907,569	\$ 9,607,781	\$ -	\$ 10,515,350

Horizon Montessori Public Schools
Budgetary Comparison Schedule for Individual Charter School
For the Year Fiscal Ended August 31, 2017

Exhibit E-1

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	from Final Budget
REVENUE AND OTHER SUPPORT				
Local Support				
5740 Tuition, Rent, and Earnings and Temporal Investments	\$ 249,211	\$ 134,827	\$ 131,324	\$ 3,503
5750 Contributions	50,789	233,988	230,162	3,825
Total local support	300,000	368,815	361,487	7,328
State Program Revenues				
5810 Foundation School Program	10,520,300	9,990,446	9,968,817	21,629
5820 State Program Revenues Distributed by the Texas Education Agency	79,700	125,089	125,084	4
5830 Revenues from Texas Government Agencies	-	-	-	-
Total State Program Revenue	10,600,000	10,115,535	10,093,901	21,633
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	1,804,869	1,822,154	1,762,510	59,644
5930 Federal Revenues Not Distributed by the Texas Education Agency	135,000	234,624	222,026	12,598
Total Federal Program Revenue	1,939,869	2,056,779	1,984,537	72,242
Total Revenue and Other Support	12,839,869	12,541,128	12,439,924	101,203
EXPENSES				
11 Instruction	5,752,345	5,401,536	5,327,195	74,341
12 Instructional Resources and Media Services	60,168	83,427	82,381	1,046
13 Curriculum Development and Instructional Staff Development	53,409	20,000	19,294	706
21 Instructional Leadership	226,509	110,000	105,826	4,175
23 School Leadership	641,837	582,874	563,192	19,682
31 Guidance, Counseling, and Evaluation Services	184,991	137,001	130,628	6,373
33 Health Services	127,153	128,314	122,672	5,641
34 Transportation Services	5,486	1,300	1,201	99
35 Food Services	712,284	1,012,000	933,077	78,923
36 Cocurricular/Extracurricular Activities	16,443	160,000	150,543	9,457
41 General Administration	1,016,917	807,022	767,191	39,831
51 Plant Maintenance and Operations	2,113,266	2,253,000	2,177,675	75,325
52 Security and Monitoring Services	118,250	150,957	144,010	6,946
53 Data Processing	213,858	241,175	233,907	7,269
61 Community Services	194,513	194,998	193,365	1,634
71 Interest on Debt Service	519,201	378,001	375,270	2,730
81 Fundraising	41,661	15,000	13,740	1,260
Total Expenses	11,998,291	11,676,606	11,341,168	335,438
CHANGE IN NET ASSETS	841,578	864,522	1,098,756	234,235
NET ASSETS BEGINNING OF PERIOD	4,662,759	4,662,759	4,662,759	-
NET ASSETS END OF PERIOD	\$ 5,504,337	\$ 5,527,281	\$ 5,761,515	\$ 234,235

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**COMPLIANCE
AND
INTERNAL CONTROL SECTION**

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Raul Hernandez & Company, P. C.

Certified Public Accountants

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Holly-Staples Square

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**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, 2017, 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 5, 2018.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Texas Educational Technologies, Inc.'s financial statements are free of 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 organization'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 organization's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

Raul Hernandez & Company, P.C.

Corpus Christi, TX

January 5, 2018

Raul Hernandez & Company, P.C.

Certified Public Accountants

5422 Holly Rd.

Holly-Staples Square

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, 2017. 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, 2017.

Report on Internal Control over Compliance

Management of South Texas Educational Technologies, Inc. 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 South Texas Educational Technologies, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Texas Educational Technologies, Inc.'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 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.

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

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of South Texas Educational Technologies, Inc. as of and for the year ended August 31, 2017, and have issued our report thereon dated January 5, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements of to the 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 financial statements taken as a whole.

Raul Hernandez & Company, P.C.

Corpus Christi, TX

January 5, 2018

South Texas Educational Technologies, Inc.

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended August 31, 2017

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. Type of auditors' report issued on compliance for major programs | Unmodified |
| 6. Findings disclosed by the audit of the financial statements which the auditor is required to report | None |
| 7. Major Programs: | |
| National School Breakfast Program (10.553) | |
| National School Lunch Program (10.555) | |
| 8. The dollar threshold used to distinguish between Type A and Type B programs | \$ 750,000 |
| 9. 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.
Schedule of Prior Audit Findings

For the Fiscal year ended August 31, 2017

I. Status of Prior Year Findings:

None

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

For the Fiscal year ended August 31, 2017

N/A

South Texas Educational Technologies, Inc
Schedule of Expenditure of Federal Awards
For the Year Ended August 31, 2017

Grant/Program	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
United States Department of Education			
Passed Through State Department of Education:			
ESEA Title I part A 2017	84.010A	17610101108802	\$ 397,219
IDEA Part-B Formula 2017	84.027A	176600011088026000	159,235
Title II, Part A-Teacher and Principal Training and Recruiting 2017	84.367A	17694501108802	79,909
Title III, Part A-LEP 2017	84.365A	17671001108802	52,641
Title I (A) Priority and Focus Grant 2017	84.010A	17610112108802100	28,019
IDEA-B Preschool	84.173A	176610011088026000	659
Prekindergarten Grant Program 2017		17026301108802	99,228
Summer School LEP Program	84.369A	69551502	3,495
Project Rise TIF Grant	84.374A	28717HORIZON	<u>9,624</u>
Total United States Department of Education			830,029
Passed Through State Department of Education			
National School Lunch	10.555	71301501	685,280
School Breakfast Program	10.553	71401501	<u>293,691</u>
Total State Department of Education			978,971
Total Expenditures of Federal Awards			<u><u>\$ 1,809,001</u></u>

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

For the Fiscal Year Ended August 31, 2017

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.

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