

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)  
**Annual Financial and Compliance Audit**  
**Year Ended August 31, 2016**

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

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**AUGUST 31, 2016**

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**NOVA CHARTER SCHOOL**

(Federal Employer Identification Number: 75-2740102)  
Certificate of Board

Nova Academy Oak Cliff

Dallas 057-809

Nova Academy Southeast

Dallas 057-827

We, the undersigned, certify that the attached Financial and Compliance Report of Nova Charter School was reviewed and (check one)  approved  disapproved for the year ended August 31, 2016, at a meeting of the governing body of the charter holder on the 17<sup>th</sup> day of January, 2017.



Signature of Board Secretary



Signature of Board President



## Independent Auditor's Report

To the Board of Directors of  
NOVA Charter School

We have audited the accompanying financial statements of Nova Charter School (the "School"), a nonprofit organization, which comprise the statement of financial position as of August 31, 2016, 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*

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

### *Auditor's Responsibility*

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School'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 the School as of August 31, 2016, 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 Matter***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents are presented for purposes of additional analysis as required by the Texas Education Agency, and is not a required part of the financial statements of the School. Similarly, the accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements of the School. 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, this information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*McConell & Jones LLP*

Houston, Texas  
January 6, 2017

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**STATEMENT OF FINANCIAL POSITION**  
**AUGUST 31, 2016**

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**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents, unrestricted	\$ 3,118,839
Cash and cash equivalents, restricted	66,388
Investments	2,283,989
Accounts receivable	3,414
Due from Texas Education Agency	<u>311,033</u>
<b>Total current assets</b>	<u><u>5,783,663</u></u>

**NONCURRENT ASSETS:**

Investments - long-term	461,284
Deferred charges	181,370
Property and equipment, net	<u>4,851,779</u>
<b>Total noncurrent assets</b>	<u>5,494,433</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 11,278,096</u></u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accrued expenses	\$ 399,416
Bonds payable	<u>275,000</u>
<b>Total current liabilities</b>	<u>674,416</u>

**NONCURRENT LIABILITIES:**

Bonds payable	6,139,246
Deferred loss on refunding	<u>(1,315,809)</u>
<b>Total noncurrent liabilities</b>	<u>4,823,437</u>
<b>TOTAL LIABILITIES</b>	<u>5,497,853</u>

**NET ASSETS:**

Temporarily restricted	3,956,489
Unrestricted	<u>1,823,754</u>
<b>TOTAL NET ASSETS</b>	<u>5,780,243</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 11,278,096</u></u>

See accompanying notes to the financial statements.

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**STATEMENT OF ACTIVITIES**  
**YEAR ENDED AUGUST 31, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUES:</b>			
Local support:			
5740 Other revenues from local sources	\$ 27,835	\$ -	\$ 27,835
5750 Revenue from cocurricular, enterprising services or activities	73,745	-	73,745
Total local support	101,580	-	101,580
State program revenues:			
5810 Foundation school program activity revenues	-	8,151,051	8,151,051
5820 State program revenues distributed by the Texas Education Agency	-	8,342	8,342
5830 State revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	7,500	7,500
Total state program revenues	-	8,166,893	8,166,893
Federal program revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	1,100,884	1,100,884
Net assets released from restrictions:			
Restriction satisfied by payments	8,593,185	(8,593,185)	-
<b>TOTAL REVENUES</b>	<b>8,694,765</b>	<b>674,592</b>	<b>9,369,357</b>
<b>EXPENSES:</b>			
11 Instruction	4,025,650	-	4,025,650
13 Curriculum development and instructional staff development	209,909	-	209,909
23 School leadership	793,557	-	793,557
31 Guidance & Counseling, Education	77,667	-	77,667
35 Food services	763,992	-	763,992
36 Cocurricular/extracurricular activities	81,951	-	81,951
41 General administration	649,155	-	649,155
51 Plant maintenance and operations	1,485,582	-	1,485,582
52 Security and monitoring	64,148	-	64,148
53 Data processing services	306,237	-	306,237
61 Community services	2,562	-	2,562
71 Interest on debt	386,850	-	386,850
<b>TOTAL EXPENSES</b>	<b>8,847,260</b>	<b>-</b>	<b>8,847,260</b>
<b>CHANGE IN NET ASSETS</b>	(152,495)	674,592	522,097
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,976,249	3,281,897	5,258,146
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,823,754</b>	<b>\$ 3,956,489</b>	<b>\$ 5,780,243</b>

See accompanying notes to the financial statements.

**NOVA CHARTER SCHOOL**  
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**STATEMENT OF CASH FLOWS**  
**YEAR ENDED AUGUST 31, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

State grant receipts	\$ 8,109,578
Federal grant receipts	1,108,384
Receipts from miscellaneous sources	143,749
Payments to vendors for goods and services rendered	(823,578)
Payments to charter school personnel for services rendered	(7,139,440)
Payments on long-term debt for interest expense	(277,678)
<b>Net cash provided by operating activities</b>	<b>1,121,015</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of investments	(1,197,924)
<b>Net cash used in investing activities</b>	<b>(1,197,924)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Repayment on long-term debt	(240,000)
<b>Net cash used in financing activities</b>	<b>(240,000)</b>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (316,909)

<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,502,136</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 3,185,227</b>

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ 522,097
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	294,244
Amortization-bond costs	150,309
Changes in operating assets and liabilities:	
Due from Texas Education Agency	(49,815)
Accounts receivable	42,169
Accrued interest payable	(41,138)
Accrued salaries payable	203,149
Total adjustments	598,918
<b>Net cash provided by operating activities</b>	<b>\$ 1,121,015</b>

See accompanying notes to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2016**

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**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Organization

Nova Charter School (the School) is a not-for-profit organization incorporated in the State of Texas in 1998. The School is governed by a Board of Directors comprised of 10 members. The Board of Directors is selected pursuant to the bylaws of the School and has the authority to make decisions, appoint the chief executive officer of the School, and significantly influence operations. The Board of Directors has primary accountability for the affairs of the School.

Since the School received funding from local state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

Nova Academy operates under two separate Local Education Agencies. Nova Academy Oak Cliff provides educational services for grades Pre-K through 3rd grade. The current year's enrollment was 196 students and received the Texas Education Agency Accountability Rating of "Met Standard". Nova Academy Southeast provides educational services for grades Kinder through 8th grade. The current year's enrollment was 766 students and received the Texas Education Agency Accountability Rating of "Met Standard". The School's Board of Directors governs their programs, services, activities and functions.

Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation

The School is required by accounting principles generally accepted in the United States of America to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as defined below:

**Unrestricted net assets** – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the School. Unrestricted net assets may be designated for specific purpose by action of the Board of Directors. At August 31, 2016, the School's unrestricted net assets were \$1,823,754.

**Temporarily restricted net assets** – These are resources that are subject to donor-imposed stipulations that may be met, either by actions of the School and/or the passage of time. This classification includes contributions, underwriting, and unconditional promises to give for which the ultimate purposes of the proceeds are not permanently

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**YEAR ENDED AUGUST 31, 2016**

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restricted. At August 31, 2016, the School's temporarily restricted net assets were \$3,956,489.

**Permanently restricted net assets** – These are resources that are subject to donor-restrictions requiring that principal be held in perpetuity and any income thereon be used by the School. The School did not have any permanently restricted net assets as of August 31, 2016.

In addition, the School is required by Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*, to present statements of activities and cash flows.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue Recognition

Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. State and federal grant revenues are recognized when services are rendered. State Foundation School Program revenues are recognized based on the reported student attendance. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time.

Standard Financial Accounting System

For all federal and state programs, Nova Academy Southeast and Nova Academy Oak Cliff used the net asset classes and codes specified by the Texas Education Agency (TEA) 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 asset codes.

Contributions

The School accounts for contributions in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities-Revenue Recognition*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. 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.

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**YEAR ENDED AUGUST 31, 2016**

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Contributed Services

The School recognizes contributed services at their fair value if the services provide value to the School and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors, as established by FASB ASC Topic 958-605. During the fiscal year ended August 31, 2016, the School did not receive any services that would meet the criteria for recognition in the financial statements as prescribed in FASB ASC 958-605.

Cash and Cash Equivalents

The School considers all monies in banks and highly liquid investments with maturity of three months or less from date of purchase to be cash equivalents. The carrying value of cash approximates fair value because of the short maturities of those financial instruments. At August 31, 2016, the School had unrestricted cash equivalents of \$3,118,839.

Investments

The School carries investments in certificates of deposit with readily determinable fair values in the statement of financial position. Investment income for the year ended August 31, 2016 totaled \$8,350 and is included in the change in net assets in the accompanying statement of activities.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at their estimated fair value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Presently, the School does not have any assets which have donor-imposed restrictions.

The School's policy is to capitalize all asset acquisitions with useful life expectancy of greater than one year and with a cost of \$5,000 or greater. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 25 years. Maintenance and repairs are charged to expense when incurred. Renewals and betterments which extend the useful life of the assets are capitalized.

Income Taxes

The School is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, income taxes are not provided for in the accompanying financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code.

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**YEAR ENDED AUGUST 31, 2016**

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The School applies the provisions of FASB ASC 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The School's Federal income tax returns for years 2013 through 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the School's financial statements are related to the School's estimate of revenue and receivable for the Foundation School Program, depreciation expense and the functional allocation of expenses.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – *Leases* (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the School's 2021 annual financial statements. Management is currently evaluating the impact this update will have on the School's financial statements.

**2. CONCENTRATION OF CREDIT AND BUSINESS RISKS**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover its deposits. The School maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk by maintaining deposits at institutions with demonstrated financial strength. Balances in interest bearing accounts at the banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The combined carrying amount of the School's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in investments) were \$5,930,500 and the bank balance was \$5,966,678 as of August 31, 2016. The School's deposits at two of its banks included the sum of \$3,990,940, in funds collateralized by pledging securities from pledgors' investment portfolio which provided additional coverage leaving the un-insured balance of \$209,570 as of August 31, 2016. Management believes that such credit

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2016**

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risk exposure was mitigated by the financial strength of the banking institutions in which the deposits were held.

The State of Texas and Federal Government provided a total of 99% of the School's total revenues for the year ended August 31, 2016 of which 87% was provided by the State of Texas. 99% of the total state funding or 87% of total revenue consists of Foundation School Program, FSP, income. Cash and cash equivalents reported in the statement of financial position is different from the cash and cash equivalents at banks due to outstanding checks and similar reconciling items.

### **3. FAIR VALUE MEASUREMENTS**

FASB ASC Topic 820, *Fair Value Measurements*, provides a revised definition of fair value and establishes a framework for measuring fair value. The statement also establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs).

The fair value hierarchy in FASB ASC Topic 820 prioritizes fair value measurements into three levels based on the nature of the inputs. The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

#### Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

#### Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

#### Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a summary of the School's investments by level, within the fair value hierarchy, as of:

<b>August 31, 2016</b>	Fair Value	Fair value measurement using input considered as:		
	Level 1	Level 2	Level 3	
Certificates of deposit	\$ 2,745,273	\$ 2,745,273	\$ -	\$ -

Investments are exposed to various risks such as interest rate risk, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position and the statements of activities.

**4. DUE FROM TEXAS EDUCATION AGENCY**

As of August 31, 2016, the School had earned the following revenues which were not received until after year end:

	<b>Amount</b>
Foundation School Program	\$ 265,164
Title I Part A - Improving Basic	10,540
IDEA B - Formula	5,132
Title II Part A - Teacher & Principal	16,308
Title III Income	13,889
	\$ 311,033

**5. PROPERTY AND EQUIPMENT**

Capital assets acquired with public funds received by the School for the operation of Nova Academy Southeast and Nova Academy Oak Cliff constitutes public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for each individual charter school. Depreciation expense for the period ended August 31, 2016 totaled \$294,244 and is included in plant maintenance and operations on the statement of activities.

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**YEAR ENDED AUGUST 31, 2016**

Property and equipment at August 31, 2016 was as follows:

	<b>Amount</b>
Land	\$ 76,627
Land improvements	127,283
Buildings and improvements	5,837,532
Furniture and equipment	314,699
Vehicles	45,000
	6,401,141
Less: accumulated depreciation	(1,549,362)
Property and equipment, net	\$ 4,851,779

**6. BONDS PAYABLE**

On June 30 2015, in order to refund the existing Education Revenue Bonds, Series 2010 (“Retired bond”), the School issued \$6,055,000 of “Qualified Tax Exempt” Education Revenue Bonds, Series 2015A and \$185,000 of taxable Education Revenue Bonds, Series 2015B as follows:

<b>Description</b>	<b>Interest Rates</b>	<b>Maturity</b>	<b>Balance</b>
Education Revenue Bonds, Series 2015A	4.0%	8/15/2034	\$ 5,860,000
Education Revenue Bonds, Series 2015B	2.5%	8/15/2019	140,000
Total			\$ 6,000,000

The deferred loss on refunding in the amount of \$1,315,809 is the difference between booked value of Retired bond and reacquisition price. Deferred loss is amortized over the original remaining life of Retired bond.

There are certain restrictive covenants set forth in the Master Bond Indenture and related loan agreements related to the Education Revenue Bonds, Series 2015. The School is in compliance with bond covenants as of August 31, 2016.

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**YEAR ENDED AUGUST 31, 2016**

The following is a summary of the bonds payable of Series 2015 of the School at August 31, 2016:

	<b>Beginning Balance September 1, 2015</b>	<b>Additions</b>	<b>Reduction</b>	<b>Ending Balance August 31, 2016</b>
Bonds payable, Series 2015	\$ 6,240,000	\$ -	\$ 240,000	\$ 6,000,000
Plus: unamortized premiums	513,042	-	26,020	487,022
Less: underwriter discount	(83,347)	-	(10,571)	(72,776)
	\$ 6,669,695	\$ -	\$ 255,449	\$ 6,414,246
 Bonds payable, due within one year				 \$ 275,000
Bonds payable, due in more than one year				\$ 6,139,246

Amortization for the underwriter discount and bond issue cost for the period ended August 31, 2016 totaled \$10,571 and \$38,810 are included in interest on debt on the statement of activities. Unamortized bond issue costs at August 31, 2016 totaled \$181,370 is included in deferred charges on the statement of financial position.

Future maturities on bonds payable of Series 2015 at August 31, 2016 are as follows:

<b>Year ending August 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	275,000	237,900	512,900
2018	280,000	227,575	507,575
2019	300,000	217,050	517,050
2020	260,000	205,800	465,800
2021	265,000	195,400	460,400
2022 and thereafter	4,620,000	1,394,600	6,014,600
	6,000,000	2,478,325	8,478,325
Plus: unamortized premium	487,022	-	487,022
Less: underwriter discount	(72,776)	-	(72,776)
	\$ 6,414,246	\$ 2,478,325	\$ 8,892,571

**7. TEMPORARILY RESTRICTED NET ASSETS**

As required by House Bill 6, 77th Legislative Session, all Foundation School Programs and other state aid received after September 1, 2001 by the School is considered temporarily restricted funds to be held in trust by the School for the benefit of the students of the School's charter schools. As of August 31, 2016, the School had temporarily restricted net assets of \$3,956,489. During the year ended August 31, 2016, net assets of \$8,593,185 were released from TEA restrictions by satisfying restrictions.

**8. STATE FOUNDATION PROGRAM REVENUE**

The School's charter schools had 8 days of instruction in August 31, 2016. Based on the estimated State Foundation Program revenue for the 2015-2016 school year as provided by the Texas Education Agency, the School's charter schools earned \$265,169 of State

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**YEAR ENDED AUGUST 31, 2016**

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Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2016 and will be received after September 1, 2016.

**9. OPERATING LEASES**

The School leases office spaces and office equipment under non-cancellable operating leases that expire in June 2019. Total rental expense for all operating leases for the year ended August 31, 2016 amounted to \$177,556.

Estimated future minimum lease payments on non-cancellable operating leases at August 31, 2016 are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>
2017	\$ 178,200
2018	84,600
2019 and thereafter	<u>66,800</u>
	<u>\$ 329,600</u>

**10. PENSION PLAN OBLIGATIONS**

Plan Description

The School contributes to the Teacher Retirement System of Texas (the “System” or “TRS”), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the School, but are the liability of the State of Texas. The System administers retirement and disability annuities, and death and survivor benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the 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 issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the System’s Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the System’s Communications Department at 1-800-223-8778, or by downloading the report from the System’s Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

The risk of participating in this multiemployer defined benefit pension plan is different from a single-employer plan because: (a) the School is a legally separate entity from the State of Texas, (b) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (c) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (d) if an entity chooses to stop

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2016**

participating in the multiemployer plan, there is no withdrawal liability to the plan. The School has no plans to withdraw from its multiemployer plan.

The following present information about the School's multiemployer pension plan as of August 31, 2016, and for the year ended August 31, 2016:

Collective Bargaining Agreement	School's Contributions	More than 5% of Total Contributions	FIP/RP Status	Surcharge Imposed
N/A	\$ 393,094	N/A	N/A	No

  

Name of Pension Fund	EIN and Plan Number	Total Plan Assets (in thousands) 2016	Accumulated Benefit Obligations (in thousands) 2016	% funded 2016
TRS	N/A	\$ 152,925,647	\$ 171,797,150	78%

Funding policy

Under provisions in State law, TRS plan members are required to contribute 6.70% of their annual covered salary for retirement. Effective September 1, 2014, the school was required to contribute 1.50% of all TRS-covered employees' salaries who does not contribute to Social Security. None of the school's TRS-covered employees contribute to Social Security. For the fiscal year ended August 31, 2016, the School's employees contributed a total of \$360,543 and \$32,551 to TRS for retirement and TRS Care.

Under provisions in the State of Texas law, the School is required to pay a 0.55% administrative TRS entity fee, an entity payment of 1.5% for Non-OASDI members for covered salary and a 6.8% administrative TRS new member fee for the first three (3) months for each new TRS member working at the school. The School total administrative fee to the TRS was \$27,387, \$74,693 and \$18,726 for TRS Entity Fee, TRS Entity Payment for Non-OASDI Members and TRS New Member Fee, respectively.

For payroll covered by federal government funded grants, the School is required to contribute to the defined benefit plan matching contribution amount of 6.80% to TRS Retirement and 1% for TRS Care for the charter school's covered payroll. The employer's contributions made to the TRS Retirement and TRS Care were \$33,752 and \$4,963 for the year ended August 31, 2016.

**NOVA CHARTER SCHOOL**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2016**

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**11. HEALTH CARE COVERAGE**

During the year ended August 31, 2016, employees of the School were covered by a health insurance plan (the “Plan”). The School contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

**12. CHARTER HOLDER OPERATIONS**

The School operated two charter schools for the year ended August 31, 2016, named Nova Academy Oak Cliff (Scyene) and Nova Academy Southeast (Prichard and Bruton Campus) and did not conduct any other charter or non-charter activities.

**13. COMMITMENTS AND CONTINGENCIES**

The School is defending an action alleging non-payment of services rendered during the final construction of the Prichard Campus in late 2011. The case was called to trial on May 9, 2016 and continued to May 12, 2016. The court determined that Plaintiff did provide services and equipment directly to the School rather than the General Contractor and awarded the Plaintiff its damages, costs, fees and expenses in the amount of \$171,022.

At August 31, 2016, there were other lawsuits and claims pending against the School related to its operations. In the best judgment of the School’s management, and after consultation with its legal counsel, the outcome of any present legal proceedings will not have a material adverse effect on the accompanying financial statements.

The School receives grants from federal, state and local sources that are governed by various statutes and regulations and are subject to review and audit by the funding sources. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. In addition, expenses charged to federal and state programs are subject to audit and adjustment by the grantor agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs resulting in a liability. Consequently, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the School with the terms of the grants/contracts. However, in the opinion of the School’s management, any such disallowances, if any, will not have a material effect on any of the financial statement amounts included herein or on the overall financial position of the School at August 31, 2016.

In the event of a single period of prolonged inability to work due to the result of a sickness or an injury, the CEO will be compensated her base salary for 1 (one) year during this period of illness. Also, if the CEO elects to terminate her employment or the Board terminates her employment due to a school closing, being sold or subject to a change of control, a one-time

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**YEAR ENDED AUGUST 31, 2016**

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severance payment of \$250,000 will be due as well as a pro-rata portion of incentive compensation and vacation pay.

**14. BUDGET AMENDMENTS**

Prior to the beginning of each school year, Nova Charter School prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the programs, the budget must be amended on a regular basis.

For 5820 State revenues from State of Texas Government Agencies (other than Texas Education Agency) for both school districts, the revenue was related to School District Training Grants from Texas Department of Agriculture. There were no original or final budgets because the School was not aware of the training grants at the time the budgets were submitted.

For Oak Cliff school district, function 51 (Plant maintenance and operations) contained an unfavorable variance of \$32,880 from budget. The variance was primarily due to internet access services originally planned to be reimbursed with ERATE Technology funds but not awarded by USAC.

For Southeast school district, function 52 (Security and monitoring) contained an unfavorable variance of \$6,500 from budget. The variance was primarily due to extra traffic security was added for student safety. In addition, function 71 (Interest on debt) contained an unfavorable variance of \$43,445 from budget. The variance was primarily due to debt service related to bond refinanced in 2016 incorrectly budgeted as \$6,600/month instead of \$12,500/month.

**15. SUBSEQUENT EVENTS**

In December 2016, the School entered an agreement with an entity to purchase a property at Cedar Hill, TX. A payment of \$400,000 will be paid in advance for the thirty-six month lease agreement.

## **SUPPLEMENTARY INFORMATION**

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS**  
**AUGUST 31, 2016**

**Schedule I**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents, unrestricted	\$ 551,491
Investments	937,330
Due from Texas Education Agency	<u>69,749</u>

**Total current assets** 1,558,570

**NONCURRENT ASSETS:**

Investments - long-term	245,494
Property and equipment, net	<u>13,370</u>

**Total noncurrent assets** 258,864

**TOTAL ASSETS** \$ 1,817,434

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accrued salaries payable	<u>\$ 48,726</u>
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**Total current liabilities** 48,726

**TOTAL LIABILITIES** 48,726

**NET ASSETS:**

Unrestricted	521,842
Temporarily restricted	<u>1,246,866</u>

**TOTAL NET ASSETS** 1,768,708

**TOTAL LIABILITIES AND NET ASSETS** \$ 1,817,434

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF ACTIVITIES**  
**YEAR ENDED AUGUST 31, 2016**

**Schedule II**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES:</b>			
Local support:			
5740 Other revenues from local sources	\$ 5,174	\$ -	\$ 5,174
5750 Revenue from cocurricular, enterprising services or activities	12,730	-	12,730
Total local support	<u>17,904</u>	<u>-</u>	<u>17,904</u>
State program revenues:			
5810 Foundation school program activity revenues	-	1,475,207	1,475,207
5820 State program revenues distributed by the Texas Education Agency	-	5,712	5,712
5830 State revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	5,000	5,000
Total state program revenues	<u>-</u>	<u>1,485,919</u>	<u>1,485,919</u>
Federal program revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	240,687	240,687
Net assets released from restrictions:			
Restriciton satisfied by payments	1,709,909	(1,709,909)	-
<b>TOTAL REVENUES</b>	<u>1,727,813</u>	<u>16,697</u>	<u>1,744,510</u>
<b>EXPENSES:</b>			
11 Instruction	805,969	-	805,969
13 Curriculum development and instructional staff development	62,586	-	62,586
23 School leadership	156,259	-	156,259
35 Food services	180,037	-	180,037
36 Cocurricular/extracurricular activities	12,143	-	12,143
41 General administration	173,780	-	173,780
51 Plant maintenance and operations	227,113	-	227,113
52 Security and monitoring	32,724	-	32,724
53 Data processing services	71,096	-	71,096
61 Community services	345	-	345
<b>TOTAL EXPENSES</b>	<u>1,722,052</u>	<u>-</u>	<u>1,722,052</u>
<b>CHANGE IN NET ASSETS</b>	5,761	16,697	22,458
<b>NET ASSETS, BEGINNING OF YEAR</b>	516,081	1,230,169	1,746,250
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 521,842</u>	<u>\$ 1,246,866</u>	<u>\$ 1,768,708</u>

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF CASH FLOWS**  
**YEAR ENDED AUGUST 31, 2016**

**Schedule III**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

State grant receipts	\$ 1,488,160
Federal grant receipts	240,687
Receipts from miscellaneous sources	25,704
Payments to vendors for goods and services rendered	(427,723)
Payments to charter school personnel for services rendered	(1,287,486)
<b>Net cash provided by operating activities</b>	<u>39,342</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of investments	(489,381)
<b>Net cash used in investing activities</b>	<u>(489,381)</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (450,039)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 1,001,530  
**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 551,491

Reconcile to change in net assets to net cash provided by operating activities:

Change in net assets	\$ 22,458
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	609
Changes in operating assets and liabilities:	
Due from Texas Education Agency	2,241
Other Receivables	7,800
Accrued salaries payable	6,234
Total adjustments	<u>16,884</u>
<b>Net cash provided by operating activities</b>	<u>\$ 39,342</u>

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF EXPENSES**  
**YEAR ENDED AUGUST 31, 2016**

**Schedule IV**

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EXPENSES:

6100	Payroll Costs	\$	1,293,720
6200	Professional and contracted services		342,610
6300	Supplies and materials		59,775
6400	Other operating costs		25,947
			<u>25,947</u>
		\$	<u>1,722,052</u>

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF CAPITAL ASSETS**  
**AUGUST 31, 2016**

**Schedule V**

	<b>Ownership Interest</b>			<b>Total</b>
	<b>Local</b>	<b>State</b>	<b>Federal</b>	
Building and improvements	\$ -	\$ 15,250	\$ -	\$ 15,250
Furniture and equipment	-	40,436	-	40,436
Total capital assets	<u>\$ -</u>	<u>\$ 55,686</u>	<u>\$ -</u>	<u>\$ 55,686</u>
Less accumulated depreciation	-	(42,316)	-	(42,316)
Total capital assets, net	<u><u>\$ -</u></u>	<u><u>\$ 13,370</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 13,370</u></u>

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**NOVA ACADEMY OAK CLIFF**  
**BUDGETARY COMPARISON SCHEDULE**  
**AUGUST 31, 2016**

**Schedule VI**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Local support:				
5740 Other revenues from local sources	\$ 6,300	\$ 4,800	\$ 5,174	\$ 374
5750 Revenue from cocurricular, enterprising services or activities	11,800	11,800	12,730	930
Total local support	<u>18,100</u>	<u>16,600</u>	<u>17,904</u>	<u>1,304</u>
State program revenues:				
5810 Foundation school program activity revenues	1,600,000	1,475,000	1,475,207	207
5820 State program revenues distributed by the Texas Education Agency	6,700	5,700	5,712	12
5830 State revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	-	5,000	5,000
Total state program revenues	<u>1,606,700</u>	<u>1,480,700</u>	<u>1,485,919</u>	<u>5,219</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	245,750	245,750	240,687	(5,063)
<b>TOTAL REVENUES</b>	<u>1,870,550</u>	<u>1,743,050</u>	<u>1,744,510</u>	<u>1,460</u>
<b>EXPENSES:</b>				
11 Instruction	834,650	805,000	805,969	(969)
13 Curriculum development and instructional staff development	60,400	60,400	62,586	(2,186)
23 School leadership	153,000	153,000	156,259	(3,259)
35 Food services	182,000	182,000	180,037	1,963
36 Cocurricular/extracurricular activities	14,500	14,500	12,143	2,357
41 General administration	171,950	171,950	173,780	(1,830)
51 Plant maintenance and operations	193,120	226,000	227,113	(1,113)
52 Security and monitoring	32,000	32,000	32,724	(724)
53 Data processing services	91,000	71,000	71,096	(96)
61 Community services	1,000	250	345	(95) (a)
<b>TOTAL EXPENSES</b>	<u>1,733,620</u>	<u>1,716,100</u>	<u>1,722,052</u>	<u>(5,952)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(1,733,620)</u>	<u>(1,716,100)</u>	<u>22,458</u>	<u>7,412</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>			<u>1,746,250</u>	
<b>NET ASSETS, END OF YEAR</b>			<u>\$ 1,768,708</u>	

**Tickmarks:**

(a) Parental & Community Involvement costs were more than original planned.

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY SOUTHEAST**  
**SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS**  
**AUGUST 31, 2016**

**Schedule VII**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents, unrestricted	\$ 2,567,348
Cash and cash equivalents, restricted	66,388
Investments	1,346,659
Due from Texas Education Agency	241,284
Other receivables	<u>3,414</u>

**Total current assets** 4,225,093

**NONCURRENT ASSETS:**

Investments - long-term	215,790
Deferred charges	181,370
Property and equipment, net	<u>4,838,409</u>
<b>Total noncurrent assets</b>	<u>5,235,569</u>

**TOTAL ASSETS** \$ 9,460,662

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accrued salaries payable	\$ 350,690
Bonds payable	<u>275,000</u>
<b>Total current liabilities</b>	<u>625,690</u>

**LONG-TERM LIABILITIES:**

Bonds payable	6,139,246
Deferred loss on refunding	<u>(1,315,809)</u>
<b>Total long-term liabilities</b>	<u>4,823,437</u>

**TOTAL LIABILITIES** 5,449,127

**NET ASSETS:**

Unrestricted	1,301,912
Temporarily restricted	<u>2,709,623</u>
<b>TOTAL NET ASSETS</b>	<u>4,011,535</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 9,460,662

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY SOUTHEAST  
SCHEDULE OF ACTIVITIES  
YEAR ENDED AUGUST 31, 2016**

**Schedule VIII**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES:</b>			
Local support:			
5740 Other revenues from local sources	\$ 22,661	\$ -	\$ 22,661
5750 Revenue from cocurricular, enterprising services or activities	61,015	-	61,015
Total local support	<u>83,676</u>	<u>-</u>	<u>83,676</u>
State program revenues:			
5810 Foundation school program activity revenues	-	6,675,844	6,675,844
5820 State program revenues distributed by the Texas Education Agency	-	2,630	2,630
5830 State revenues from State of Texas Government Agencies (Other than Texas Education Agency)	-	2,500	2,500
Total state program revenues	<u>-</u>	<u>6,680,974</u>	<u>6,680,974</u>
Federal program revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	860,197	860,197
Net assets released from restrictions:			
Restriciton satisfied by payments	6,883,276	(6,883,276)	-
<b>TOTAL REVENUES</b>	<u>6,966,952</u>	<u>657,895</u>	<u>7,624,847</u>
<b>EXPENSES:</b>			
11 Instruction	3,219,681	-	3,219,681
13 Curriculum development and instructional staff development	147,323	-	147,323
23 School leadership	637,298	-	637,298
31 Guidance & Counseling, Education	77,667	-	77,667
35 Food services	583,955	-	583,955
36 Cocurricular/extracurricular activities	69,808	-	69,808
41 General administration	475,375	-	475,375
51 Plant maintenance and operations	1,258,469	-	1,258,469
52 Security and monitoring	31,424	-	31,424
53 Data processing services	235,141	-	235,141
61 Community services	2,217	-	2,217
71 Interest on debt	386,850	-	386,850
<b>TOTAL EXPENSES</b>	<u>7,125,208</u>	<u>-</u>	<u>7,125,208</u>
<b>CHANGE IN NET ASSETS</b>	(158,256)	657,895	499,639
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,460,168</u>	<u>2,051,728</u>	<u>3,511,896</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,301,912</u>	<u>\$ 2,709,623</u>	<u>\$ 4,011,535</u>

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY SOUTHEAST  
SCHEDULE OF CASH FLOWS  
YEAR ENDED AUGUST 31, 2016**

**Schedule IX**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
State grant receipts	\$ 6,628,918
Federal grant receipts	860,197
Receipts from miscellaneous sources	118,045
Payments to vendors for goods and services rendered	(395,855)
Payments to charter school personnel for services rendered	(5,851,954)
Payments on long-term debt for interest expense	(277,678)
<b>Net cash provided by operating activities</b>	<u>1,081,673</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of investments	<u>(708,543)</u>
<b>Net cash used in investing activities</b>	<u>(708,543)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Repayment on long-term debt	<u>(240,000)</u>
<b>Net cash used in financing activities</b>	<u>(240,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	133,130
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,500,606</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 2,633,736</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ 499,639
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	293,635
Amortization-bond costs	150,309
Changes in operating assets and liabilities:	
Due from Texas Education Agency	(52,056)
Accounts receivable	34,369
Accrued interest payable	(41,138)
Accrued salaries payable	196,915
Total adjustments	<u>582,034</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 1,081,673</u></u>

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY SOUTHEAST**  
**SCHEDULE OF EXPENSES**  
**YEAR ENDED AUGUST 31, 2016**

**Schedule X**

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EXPENSES:			
6100	Payroll Costs	\$	4,700,239
6200	Professional and contracted services		1,302,591
6300	Supplies and materials		311,859
6400	Other operating costs		423,669
6500	Interest and amortization cost		386,850
		\$	<u>7,125,208</u>

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY SOUTHEAST**  
**SCHEDULE OF CAPITAL ASSETS**  
**AUGUST 31, 2016**

**Schedule XI**

	<b>Ownership Interest</b>			<b>Total</b>
	<b>Local</b>	<b>State</b>	<b>Federal</b>	
Land and improvements	\$ -	\$ 203,910	\$ -	\$ 203,910
Building and improvements	-	5,822,282	-	5,822,282
Furniture and equipment	-	274,263	-	274,263
Vehicles	-	45,000.00	-	45,000
Total capital assets	\$ -	\$ 6,345,455	\$ -	\$ 6,345,455
Less accumulated depreciation	-	1,507,046	-	1,507,046
Total capital assets, net	\$ -	\$ 4,838,409	\$ -	\$ 4,838,409

**NOVA CHARTER SCHOOL**  
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**NOVA ACADEMY SOUTHEAST**  
**BUDGETARY COMPARISON SCHEDULE**  
**AUGUST 31, 2016**

**Schedule XII**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Local support:				
5740 Other revenues from local sources	\$ 21,010	\$ 23,980	\$ 22,661	\$ (1,319)
5750 Revenue from cocurricular, enterprising services or activities	<u>63,000</u>	<u>60,000</u>	<u>61,015</u>	<u>1,015</u>
Total local support	<u>84,010</u>	<u>83,980</u>	<u>83,676</u>	<u>(304)</u>
State program revenues:				
5810 Foundation school program activity revenues	6,502,100	6,502,110	6,675,844	173,734
5820 State program revenues distributed by the Texas Education Agency	5,150	2,650	2,630	(20)
5830 State revenues from State of Texas Government Agencies (Other than Texas Education Agency)	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>2,500</u>
Total state program revenues	<u>6,507,250</u>	<u>6,504,760</u>	<u>6,680,974</u>	<u>176,214</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>925,990</u>	<u>925,990</u>	<u>860,197</u>	<u>(65,793)</u>
<b>TOTAL REVENUES</b>	<u>7,517,250</u>	<u>7,514,730</u>	<u>7,624,847</u>	<u>110,117</u>
<b>EXPENSES:</b>				
11 Instruction	3,057,000	3,057,000	3,219,681	(162,681)
13 Curriculum development and instructional staff development	134,000	134,000	147,323	(13,323)
23 School leadership	639,000	639,000	637,298	1,702
31 Guidance & Counseling, Education	71,900	71,900	77,667	(5,767)
35 Food services	654,900	654,900	583,955	70,945
36 Cocurricular/extracurricular activities	78,500	70,000	69,808	192
41 General administration	446,800	446,800	475,375	(28,575)
51 Plant maintenance and operations	1,061,000	1,061,000	1,258,469	(197,469) (a)
52 Security and monitoring	26,500	33,000	31,424	1,576
53 Data processing services	211,100	211,100	235,141	(24,041) (b)
61 Community services	3,000	850	2,217	(1,367) (c)
71 Interest on debt	<u>343,455</u>	<u>386,900</u>	<u>386,850</u>	<u>50</u>
<b>TOTAL EXPENSES</b>	<u>6,727,155</u>	<u>6,766,450</u>	<u>7,125,208</u>	<u>(358,758)</u>
<b>CHANGE IN NET ASSETS</b>	<u>790,095</u>	<u>748,280</u>	<u>499,639</u>	<u>468,875</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>			<u>3,511,896</u>	
<b>NET ASSETS, END OF YEAR</b>			<u>\$ 4,011,535</u>	

**Tickmarks:**

- (a) Additional internet access fees incurred due to reduced ERATE.
- (b) New technology staff member benefits were higher than budget planning.
- (c) Parental & Community Involvement costs were more than original planned.

**SINGLE AUDIT SECTION**

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education</b>			
Passed-through Texas Education Agency:			
ESEA Title I; Part A - Grants to Local Education Agencies	84.010A	16610101057827	\$ 319,730
ESEA Title I; Part A - Grants to Local Education Agencies	84.010A	16610101057809	86,727
Total CFDA Number 84.010A			<u>406,457</u>
IDEA, Part B - Special Education-Formula	84.027A	166600010578276600	106,885
IDEA, Part B - Special Education-Formula	84.027A	166600010578096600	28,455
Total CFDA Number 84.027A			<u>135,340</u>
IDEA, Part B - Special Education-Preschool	84.173A	166610010578096610	1,050
Total CFDA Number 84.173A			<u>1,050</u>
Total Special Education Cluster(IDEA)			<u>136,390</u>
Title VI, Part A – State Assessment Grants	84.369A	057827	1,113
Title VI, Part A – State Assessment Grants	84.369A	057809	1,113
Total State Assessment Grants			<u>2,226</u>
<b>Total passed through Texas Education Agency</b>			<u>545,073</u>
Passed-through Education Service Center, Region X:			
Title II, Part A - Improving Teacher Quality Grant	84.367A	16694501057950	35,354
Title III, ESL - English Language Acquisition Grants	84.365	16671001057950	19,466
<b>Total passed through Education Service Center, Region X</b>			<u>54,820</u>
<b>Total U.S. Department of Education</b>			<u>599,893</u>
<b>U.S. Department of Agriculture</b>			
Passed-through Texas Education Agency:			
*National School Lunch Program	10.555	71301601	87,625
*National School Lunch Program	10.555	71301601	323,561
Total CFDA Number 10.555			<u>411,186</u>
*School Breakfast Program	10.553	71401601	21,904
*School Breakfast Program	10.553	71401601	67,901
Total CFDA Number 10.553			<u>89,805</u>
Total Child Nutrition Cluster*			<u>500,991</u>
<b>Total passed through Texas Education Agency</b>			<u>500,991</u>
<b>Total U.S. Department of Agriculture</b>			<u>500,991</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,100,884</u>

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

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2016**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal grant activities of the School under programs of the federal government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the 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”). Because the Schedule present only a selected portion of the operation of the School, they are not intended to and do not present the financial position, changes in net assets, and cash flows of the School.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. RELATIONSHIP TO FINANCIAL REPORT SUBMITTED TO GRANTOR AGENCIES**

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedules may not agree because of accruals which will be included in the next report filed with the agencies, matching requirements not included in the Schedules and different program year ends.

**4. COMMITMENTS AND CONTINGENCIES**

Federal grants received by the School are subject to review and audit by grantor agencies. The School’s management believes that the results of such audits will not have a material effect on the Schedule.



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Nova Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Nova Charter School. (the “School”), a nonprofit organization, which comprise the statement of financial position as of August 31, 2016, and the related statement 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 6, 2017 which contained an unmodified opinion on these financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School’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 the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’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 consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McConell & Jones LLP*

Houston, Texas  
January 6, 2017



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Nova Charter School

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

We have audited Nova Charter School’s (the “School”) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School’s major federal programs for the year ended August 31, 2016. The School’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 its federal programs.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of the School’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 the School’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 the School’s compliance.

## Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of 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, 2016.

## Report on Internal Control over Compliance

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

**Report on Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the School as of and for the year ended August 31, 2016, and have issued our report thereon dated January 6, 2017, 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 the 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

*McConell & Jones LLP*

Houston, Texas  
January 6, 2017

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2016**

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**PART 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statement Section**

- |  |            |
|--|------------|
| 1. Type of auditor’s report issued:  | Unmodified |
| 2. Internal control over financial reporting:  |            |
| a) Material weaknesses identified?   | No         |
| b) Significant deficiencies identified which are not considered to be material weaknesses? | No         |
| c) Noncompliance material to the financial statements noted?                               | No         |

**Federal Awards Section**

- |   |            |
|---|------------|
| 1. Internal control over major programs:  |            |
| a) Material weaknesses identified?  | No         |
| b) Significant deficiencies identified which are not considered to be material weaknesses?                        | No         |
| 2. Type of auditor’s report issued on compliance for major programs:  | Unmodified |
| 3. Any audit findings disclosed, which are required to be reported in accordance with 2 CFR section 200.6.516(a)? | No         |
| 4. Identification of major programs:  |            |

Federal - CFDA Number	Name of Federal Program/Cluster
10.553	National School Breakfast Program
10.555	National School Lunch Program

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B federal programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee under 2 CFR section 200.520?             | Yes       |

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2016**

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**PART II: FINDINGS – FINANCIAL STATEMENT**

None reported.

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2016**

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**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM**

None reported.

**NOVA CHARTER SCHOOL**  
(A Texas Nonprofit Organization)

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED AUGUST 31, 2016**

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**PART IV: STATUS OF PRIOR YEAR FINDINGS**

None reported