

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

**Annual Financial and Compliance Audit**

**Year Ended August 31, 2015**

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

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## 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, 2015, 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, 2015, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 12, 2016, 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 12, 2016

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED AUGUST 31, 2015**

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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 224 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 721 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, 2015, the School's unrestricted net assets were \$1,976,249.

**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, 2015**

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restricted. At August 31, 2015, the School's temporarily restricted net assets were \$3,281,897.

**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, 2015.

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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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, 2015, 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, 2015, the School had unrestricted cash equivalents of \$3,438,336.

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, 2015 totaled \$6,821 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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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 2012 through 2014 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 April 2013, the FASB issued Accounting Standards Update (ASU) 2013-06 – Not-for-profit Entities (Topic 958), *Services Received from Personnel of an Affiliate*, which requires a not-for-profit entity to recognize all services received from personnel of an affiliate at either (a) the cost recognized by the affiliate for the personnel providing that service or (b) the fair value of that service. If the recipient not-for-profit entity is required to provide a performance indicator, the entity should report an increase in net assets associated with the services rendered as an equity transfer. This update was adopted for the School's 2015 annual financial statements and the implementation of the new standard had no effect on the Organization'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 total cash maintained by the School in all banks as of August 31, 2015 was \$3,502,136 of which \$204,312 exceeded the FDIC insured limit and was not

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otherwise insured. Management believes that such credit 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, 2015 of which 86% was provided by the State of Texas. 99% of the total state funding or 86% 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, 2015:</b> | Fair value measurement using input<br>considered as: |              |         |
|-------------------------|--|--------------|---------|
| Fair Value              | Level 1  | Level 2      | Level 3 |
| Certificates of deposit | \$ 1,547,349   | \$ 1,547,349 | \$ -    |

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, 2015, the School had earned the following revenues which were not received until after year end:

|                                       | <b>Amount</b> |
|---------------------------------------|---------------|
| Foundation School Program             | \$ 204,346    |
| Title I Part A – Improving Basic      | 26,280        |
| IDEA B - Formula                      | 5,114         |
| Title II Part A – Teacher & Principal | 10,729        |
| Title III Income                      | 14,749        |
|                                       | \$ 261,218    |

**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, 2015 totaled \$294,244 and is included in plant maintenance and operations on the statement of activities.

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**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, 2015, the School had temporarily restricted net assets of \$3,280,897. During the year ended August 31, 2015, net assets of \$8,148,656 were released from TEA restrictions by satisfying restrictions.

**8. STATE FOUNDATION PROGRAM REVENUE**

The School's charter schools had 6 days of instruction in August, 2015. Based on the estimated State Foundation Program revenue for the 2014-2015 school year as provided by the Texas Education Agency, the School's charter schools earned \$204,346 of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2015 and will be received after September 1, 2015.

**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, 2015 amounted to \$176,353.

Estimated future minimum lease payments on non-cancellable operating leases at August 31, 2015 are as follows:

| Year Ending August 31, | Principal         |
|------------------------|-------------------|
| 2016                   | \$ 166,300        |
| 2017                   | 83,500            |
| 2018                   | 83,000            |
| 2019 and thereafter    | 66,800            |
| Total                  | <u>\$ 399,600</u> |

**10. PENSION PLAN OBLIGATIONS**

Plan Description

The School is a participating employer in multiemployer defined benefit pension plan for the benefit of School employees. The School contributes to the Teacher Retirement System of Texas (the "TRS"), a public employee retirement system. TRS administers service retirement

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and disability annuities, and death and survivor benefits to TRS' members and beneficiaries. TRS 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. TRS 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 TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS 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 are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) 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 (c) if an entity chooses to stop participating in one of its multiemployer plans, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from its multiemployer plan.

The following presents information about the School's multiemployer pension plan as of August 31, 2015, and for the year ended August 31, 2015:

| Name of Pension Fund | EIN and Plan Number, if Available | Pension Protection Act Zone Status |               | Contributions for the Year Ended August 31, |  | Surcharge Imposed | Expiration of Collective Bargaining Agreement |
|----------------------|-----------------------------------|------------------------------------|---------------|---|--|-------------------|---|
|                      |                                   | 2015                               | FIP/RP Status | 2015  |  |                   |   |
| TRS                  | N/A                               | N/A                                | N/A           | \$486,379                                   |  | No                | N/A   |

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, 2015, the School's employees contributed a total of \$307,907 and \$29,873 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 \$25,280, \$68,947 and \$10,793 for TRS Entity Fee, TRS Entity Payment for Non-OASDI Members and TRS New Member Fee, respectively.

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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 \$37,984 and \$5,595 for the year ended August 31, 2015.

**11. HEALTH CARE COVERAGE**

During the year ended August 31, 2015, 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, 2015, 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 School's management believes it has meritorious defenses since there was a third party liable for the non-payment in question. The School intends to vigorously contest any such claims or litigation and believes that resolution of this suit will not have a material adverse effect on its financial position. Should the Organization be held liable for the non-payment, the potential liability would be in the range of \$50,000 to \$100,000.

At August 31, 2015, 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

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**YEAR ENDED AUGUST 31, 2015**

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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, 2015.

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

**14. RELATED PARTY TRANSACTIONS**

The school made payments totaling \$19,215 to Your Place for Fitness for a wellness program at the Scyene campus during the year ended August 31, 2015. Your Place for Fitness is owned by someone who is related to a member of the Board of Directors.

**15. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 12, 2016 the date financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

## **SUPPLEMENTARY INFORMATION**

**NOVA CHARTER SCHOOL**  
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**Schedule I**

**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS**  
**AUGUST 31, 2015**

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**ASSETS**

**CURRENT ASSETS:**

|   |              |
|---|--------------|
| Cash and cash equivalents, unrestricted | \$ 1,001,530 |
| Investments                             | 693,443      |
| Due from Texas Education Agency         | 71,990       |
| Other receivables                       | <u>7,800</u> |

Total current assets 1,774,763

**NONCURRENT ASSETS:**

|                             |               |
|-----------------------------|---------------|
| Property and equipment, net | <u>13,979</u> |
|-----------------------------|---------------|

Total noncurrent assets 13,979

**TOTAL ASSETS** \$ 1,788,742

**LIABILITIES AND NET ASSETS:**

**CURRENT LIABILITIES:**

|                          |                  |
|--------------------------|------------------|
| Accrued salaries payable | \$ <u>42,492</u> |
|--------------------------|------------------|

Total current liabilities 42,492

**TOTAL LIABILITIES** 42,492

**NET ASSETS:**

|                        |                  |
|------------------------|------------------|
| Unrestricted           | 516,081          |
| Temporarily restricted | <u>1,230,169</u> |

**TOTAL NET ASSETS** 1,746,250

**TOTAL LIABILITIES AND NET ASSETS** \$ 1,788,742

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**Schedule II**

**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF ACTIVITIES**  
**YEAR ENDED AUGUST 31, 2015**

|  | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Total</b>        |
|--|---------------------|-----------------------------------|---------------------|
| <b>REVENUES:</b>   |                     |                                   |                     |
| Local support:   |                     |                                   |                     |
| 5740 Other revenues from local sources                                   | \$ 6,005            | \$ -                              | \$ 6,005            |
| 5750 Revenue from cocurricular, enterprising<br>services or activities   | 13,763              | -                                 | 13,763              |
| Total local support  | 19,768              | -                                 | 19,768              |
| State program revenues:  |                     |                                   |                     |
| 5810 Foundation school program activity revenues                         | -                   | 1,538,716                         | 1,538,716           |
| 5820 State program revenues distributed by the<br>Texas Education Agency | -                   | 6,526                             | 6,526               |
| Total state program revenues   | -                   | 1,545,242                         | 1,545,242           |
| Federal program revenues:  |                     |                                   |                     |
| 5920 Federal revenues distributed by the Texas<br>Education Agency       | -                   | 284,490                           | 284,490             |
| Net assets released from restrictions:                                   |                     |                                   |                     |
| Restrictions satisfied by payments                                       | 1,760,191           | (1,760,191)                       | -                   |
| <b>TOTAL REVENUES</b>  | <b>1,779,959</b>    | <b>69,541</b>                     | <b>1,849,500</b>    |
| <b>EXPENSES:</b>   |                     |                                   |                     |
| 11 Instruction   | 860,354             | -                                 | 860,354             |
| 13 Curriculum development and instructional staff<br>development         | 57,557              | -                                 | 57,557              |
| 23 School leadership   | 149,300             | -                                 | 149,300             |
| 35 Food services   | 170,574             | -                                 | 170,574             |
| 36 Cocurricular/extracurricular activities                               | 14,273              | -                                 | 14,273              |
| 41 General administration  | 208,299             | -                                 | 208,299             |
| 51 Plant maintenance and operations                                      | 194,364             | -                                 | 194,364             |
| 52 Security and monitoring   | 31,584              | -                                 | 31,584              |
| 53 Data processing services  | 86,493              | -                                 | 86,493              |
| 61 Community services  | 123                 | -                                 | 123                 |
| <b>TOTAL EXPENSES</b>  | <b>1,772,921</b>    | <b>-</b>                          | <b>1,772,921</b>    |
| <b>CHANGE IN NET ASSETS</b>  | <b>7,038</b>        | <b>69,541</b>                     | <b>76,579</b>       |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                                     | <b>509,043</b>      | <b>1,160,628</b>                  | <b>1,669,671</b>    |
| <b>NET ASSETS, END OF YEAR</b>   | <b>\$ 516,081</b>   | <b>\$ 1,230,169</b>               | <b>\$ 1,746,250</b> |

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

**Schedule III**

**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF CASH FLOWS**  
**YEAR ENDED AUGUST 31, 2015**

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|   |                     |
|---|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                     |
| State grant receipts  | \$ 1,528,285        |
| Federal grant receipts  | 284,490             |
| Receipts from miscellaneous sources   | 19,768              |
| Payments to vendors for goods and services rendered   | (470,647)           |
| Payments to charter school personnel for services rendered                                  | (1,300,416)         |
| Net cash provided by operating activities   | <u>61,480</u>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                     |
| Purchase of investments   | <u>(1,767)</u>      |
| Net cash used in investing activities   | <u>(1,767)</u>      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>59,713</b>       |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <u>941,817</u>      |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <u>\$ 1,001,530</u> |
| <b>Reconcile to change in net assets to net cash provided by operating activities:</b>      |                     |
| Change in net assets  | \$ 76,579           |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |
| Depreciation  | 610                 |
| Changes in operating assets and liabilities:  |                     |
| Due from Texas Education Agency   | (16,957)            |
| Accrued salaries payable  | 1,248               |
| Total adjustments   | <u>(15,099)</u>     |
| Net cash provided by operating activities   | <u>\$ 61,480</u>    |

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

**Schedule IV**

**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF EXPENSES**  
**YEAR ENDED AUGUST 31, 2015**

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EXPENSES:

|      |                                      |    |                         |
|------|--------------------------------------|----|-------------------------|
| 6100 | Payroll costs                        | \$ | 1,301,664               |
| 6200 | Professional and contracted services |    | 328,460                 |
| 6300 | Supplies and materials               |    | 114,828                 |
| 6400 | Other operating costs                |    | <u>27,969</u>           |
|      |                                      | \$ | <u><u>1,772,921</u></u> |

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

**Schedule V**

**NOVA ACADEMY OAK CLIFF**  
**SCHEDULE OF CAPITAL ASSETS**  
**AUGUST 31, 2015**

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|                               | <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          | \$ -                      | \$ 55,686    | \$ -           | \$ 55,686    |
| Less accumulated depreciation | -                         | 41,707       | -              | 41,707       |
| Total capital assets, net     | \$ -                      | \$ 13,979    | \$ -           | \$ 13,979    |

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

**Schedule VI**

**NOVA ACADEMY OAK CLIFF**  
**BUDGETARY COMPARISON SCHEDULE**  
**AUGUST 31, 2015**

|   | <u>Budgeted Amounts</u> |                  | <u>Actual<br/>Amounts</u> | <u>Variance</u> |
|---|-------------------------|------------------|---------------------------|-----------------|
|   | <u>Original</u>         | <u>Final</u>     |                           |                 |
| <b>REVENUES:</b>  |                         |                  |                           |                 |
| Local support:  |                         |                  |                           |                 |
| 5740 Other revenues from local sources                                | \$ 3,900                | \$ 5,800         | \$ 6,005                  | \$ (205)        |
| 5750 Revenue from cocurricular, enterprising services or activities   | 15,000                  | 15,000           | 13,763                    | 1,237           |
| Total local support   | <u>18,900</u>           | <u>20,800</u>    | <u>19,768</u>             | <u>1,032</u>    |
| State program revenues:   |                         |                  |                           |                 |
| 5810 Foundation school program activity revenues                      | 1,529,000               | 1,529,000        | 1,538,716                 | (9,716)         |
| 5820 State program revenues distributed by the Texas Education Agency | 7,000                   | 7,000            | 6,526                     | 474             |
| Total state program revenues  | <u>1,536,000</u>        | <u>1,536,000</u> | <u>1,545,242</u>          | <u>(9,242)</u>  |
| Federal program revenues:   |                         |                  |                           |                 |
| 5920 Federal revenues distributed by the Texas Education Agency       | 290,500                 | 290,500          | 284,490                   | 6,010           |
| <b>TOTAL REVENUES</b>   | <u>1,845,400</u>        | <u>1,847,300</u> | <u>1,849,500</u>          | <u>(2,200)</u>  |
| <b>EXPENSES:</b>  |                         |                  |                           |                 |
| 11 Instruction  | 808,610                 | 808,610          | 860,354                   | (50,744)        |
| 13 Curriculum development and instructional staff development         | 300                     | 55,150           | 57,557                    | (2,407)         |
| 21 Instructional leadership   | 60,000                  | -                | -                         | -               |
| 23 School leadership  | 105,000                 | 153,000          | 149,300                   | 3,700           |
| 35 Food services  | 176,000                 | 176,000          | 170,574                   | 5,426           |
| 36 Cocurricular/extracurricular activities                            | 15,000                  | 15,000           | 14,273                    | 727             |
| 41 General administration   | 265,000                 | 217,000          | 208,299                   | 8,701           |
| 51 Plant maintenance and operations                                   | 203,000                 | 203,000          | 194,364                   | 8,636           |
| 52 Security and monitoring  | 32,000                  | 32,000           | 31,584                    | 416             |
| 53 Data processing services   | 98,000                  | 98,000           | 86,493                    | 11,507          |
| 61 Community services   | -                       | 125              | 123                       | 2               |
| <b>TOTAL EXPENSES</b>   | <u>1,762,910</u>        | <u>1,757,885</u> | <u>1,772,921</u>          | <u>(15,036)</u> |
| <b>CHANGE IN NET ASSETS</b>   | <u>82,490</u>           | <u>89,415</u>    | <u>76,579</u>             | <u>12,836</u>   |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                                  |                         |                  | <u>1,669,671</u>          |                 |
| <b>NET ASSETS, END OF YEAR</b>  |                         |                  | <u>\$ 1,746,250</u>       |                 |

**Tickmarks:**

(a) Oak Cliff school district did not incur ERATE consulting services for \$5,500 as expected.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2015**

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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, 2015. The information in the Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, 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.

**5. RECONCILIATION TO FINANCIAL STATEMENT**

The following reconciles federal award expenditures as included in the accompanying Schedule to the revenue and expenditures reported in the financial statements of the School for the year ended August 31, 2015:

|   | <u>Amount</u>       |
|---|---------------------|
| Total expenditures per the statement of activities                    | \$ 8,226,077        |
| Less: Non-federal expenditures  | (6,797,982)         |
| Depreciation and amortization   | <u>(258,479)</u>    |
| Total expenditures per the Schedule of Expenditures of Federal Awards | \$ <u>1,169,616</u> |



**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 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, 2015, and the related statement of activities, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2016.

**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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instance of noncompliance or other matter that is 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 12, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of  
Nova Charter School

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

We have audited the compliance of Nova Charter School (the "School") 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 the School's major federal programs for the year ended August 31, 2015. 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**

The School's 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 the School's 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on the School's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the School 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, 2015.

## 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*McConell & Jones LLP*

Houston, Texas  
January 12, 2016

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2015**

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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         |
| 3. 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 Section 510(a) of OMB Circular A-133? | No         |
| 4. Identification of major programs:  |            |

| Federal - CFDA Number | Name of Federal Program/Cluster |
|-----------------------|---------------------------------|
| 84.010A               | ESEA Title I; Part A            |

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B federal programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?   | Yes       |

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2015**

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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, 2015**

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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, 2014**

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

None reported.