

# **New Frontiers Charter School, Inc.**

Financial Report  
August 31, 2016 and 2015

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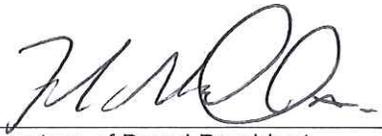
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New Frontiers Charter School, Inc.

Federal Employer Identification Number: 31-1598661  
Certificate of Board

We, the undersigned, certify that the attached financial and compliance reports of the above-named charter holder 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 14th day of December, 2016.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the governing body of the charter holder disapproved the independent auditor's report, the reason(s) for disapproving it is (are):  
  
[Attach list as necessary]



RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
New Frontiers Charter School, Inc.  
San Antonio, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of New Frontiers Charter School, Inc. (NFCS, Inc.), which comprise the statements of financial position as of August 31, 2016; the related statements of activities and changes in net assets, and cash flows for the year then ended; and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to NFCS, Inc.'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 NFCS, Inc.'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 NFCS, Inc. as of August 31, 2016, and the changes in net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The financial statements of NFCS, Inc., as of and for the year ended August 31, 2015, were audited by other auditors, whose report, dated December 16, 2015, expressed an unmodified opinion on those statements.

Our audit of the financial statements was conducted for the purpose of forming an opinion on those statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of NFCS, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NFCS, Inc.'s internal control over financial reporting and compliance.

*RSM US LLP*

San Antonio, Texas  
December 20, 2016

## **Financial Statements**

New Frontiers Charter School, Inc.

Statements of Financial Position  
August 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,742,316	\$ 2,472,999
Due from state	451,310	386,421
Due from federal agencies	90,492	49,458
<b>Total current assets</b>	<b>3,284,118</b>	<b>2,908,878</b>
Noncurrent assets:		
Restricted cash:		
Debt service reserve fund	58,645	45,250
Repair and replacement fund	134,744	122,982
Bond issuance costs, net of accumulated amortization of \$176,046 in 2016 and \$155,392 in 2015	229,714	250,368
Property and equipment, net	6,088,242	6,429,861
Property held for future use	840,463	840,463
<b>Total noncurrent assets</b>	<b>7,351,808</b>	<b>7,688,924</b>
<b>Total assets</b>	<b>\$ 10,635,926</b>	<b>\$ 10,597,802</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Trade payables	\$ 111,411	\$ 36,020
Construction payables	34,850	-
Payroll deductions and withholdings	39,726	76,172
Accrued interest	19,045	19,872
Due to student groups	13,267	1,035
Current maturities of bonds payable	240,000	230,000
<b>Total current liabilities</b>	<b>458,299</b>	<b>363,099</b>
Noncurrent liabilities:		
Bonds payable, less current maturities	6,130,000	6,370,000
<b>Total liabilities</b>	<b>6,588,299</b>	<b>6,733,099</b>
Net assets:		
Unrestricted	50,026	40,581
Temporarily restricted	3,997,601	3,824,122
<b>Total net assets</b>	<b>4,047,627</b>	<b>3,864,703</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,635,926</b>	<b>\$ 10,597,802</b>

See notes to financial statements.

**New Frontiers Charter School, Inc.**

**Statement of Activities and Changes in Net Assets  
Year Ended August 31, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>Revenues and other support:</b>			
Local support:			
E-Rate Program	\$ -	\$ 34,421	\$ 34,421
Food service	-	16,710	16,710
Interest income	2,285	-	2,285
Contributions	-	10,000	10,000
Co-curricular, enterprising services or activities	32,375	-	32,375
<b>Total local support</b>	<b>34,660</b>	<b>61,131</b>	<b>95,791</b>
State program revenues:			
Foundation School Program	-	6,169,279	6,169,279
Textbook allotment	-	18,465	18,465
Food service	-	2,964	2,964
<b>Total state program revenues</b>	<b>-</b>	<b>6,190,708</b>	<b>6,190,708</b>
Federal program revenues:			
Title I, Part C—Migrant	-	7,635	7,635
Title I, Part A—Grants to Local Education Agencies	-	278,452	278,452
Title I, Focus and Priority School Grant	-	19,000	19,000
Title III, Part A—English Language Enhancement	-	9,232	9,232
Child Nutrition Cluster	-	416,362	416,362
IDEA B-Formula	-	145,552	145,552
IDEA B-Preschool	-	2,252	2,252
Title II, Part A—Improving Teacher Quality	-	48,688	48,688
United States Department of Agriculture Donated commodities	-	30,315	30,315
Federal interest subsidy	-	159,457	159,457
<b>Total federal program revenues</b>	<b>-</b>	<b>1,116,945</b>	<b>1,116,945</b>
Net assets released from restrictions:			
Restrictions satisfied by payments	7,195,305	(7,195,305)	-
<b>Total revenues and other support</b>	<b>7,229,965</b>	<b>173,479</b>	<b>7,403,444</b>

(Continued)

**New Frontiers Charter School, Inc.**

**Statement of Activities and Changes in Net Assets (Continued)**  
**Year Ended August 31, 2016**

	Unrestricted	Temporarily Restricted	Total
Expenses:			
11 Instructional	\$ 3,505,343	\$ -	\$ 3,505,343
13 Curriculum development and instructional staff development	110,595	-	110,595
21 Instructional leadership	527	-	527
23 School leadership	492,885	-	492,885
31 Guidance, counseling and evaluation services	137,837	-	137,837
33 Health services	78,394	-	78,394
34 Student (pupil) transportation	1,209	-	1,209
35 Food services	545,866	-	545,866
41 General administration	780,145	-	780,145
51 Plant maintenance and operations	988,697	-	988,697
52 Security and monitoring services	816	-	816
53 Data processing services	35,926	-	35,926
61 Community services	28,178	-	28,178
71 Debt service	503,904	-	503,904
81 Fundraising	10,198	-	10,198
<b>Total expenses</b>	<b>7,220,520</b>	<b>-</b>	<b>7,220,520</b>
<b>Change in net assets</b>	9,445	173,479	182,924
Net assets at beginning of year	40,581	3,824,122	3,864,703
Net assets at end of year	\$ 50,026	\$ 3,997,601	\$ 4,047,627

See notes to financial statements.

**New Frontiers Charter School, Inc.**

**Statement of Activities and Changes in Net Assets (Continued)**  
**Year Ended August 31, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Revenues and other support:</b>			
Local support:			
E-Rate Program	\$ -	\$ 32,307	\$ 32,307
Food service	-	3,593	3,593
Interest income	4,716	-	4,716
Co-curricular, enterprising services or activities	15,880	-	15,880
<b>Total local support</b>	<b>20,596</b>	<b>35,900</b>	<b>56,496</b>
State program revenues:			
Foundation School Program	-	5,721,203	5,721,203
Textbook allotment	-	67,955	67,955
Food service	-	2,473	2,473
<b>Total state program revenues</b>	<b>-</b>	<b>5,791,631</b>	<b>5,791,631</b>
Federal program revenues:			
Title I, Part C—Migrant	-	4,765	4,765
Title I, Part A—Grants to Local Education Agencies	-	293,108	293,108
Title III, Part A—English Language Enhancement	-	5,636	5,636
Child Nutrition Cluster	-	342,565	342,565
IDEA B-Formula	-	139,642	139,642
IDEA B-Preschool	-	2,252	2,252
Title II, Part A—Improving Teacher Quality	-	44,432	44,432
United States Department of Agriculture			
Donated commodities	-	25,615	25,615
Federal interest subsidy	-	168,819	168,819
<b>Total federal program revenues</b>	<b>-</b>	<b>1,026,834</b>	<b>1,026,834</b>
Net assets released from restrictions:			
Restrictions satisfied by payments	6,621,020	(6,621,020)	-
<b>Total revenues and other support</b>	<b>6,641,616</b>	<b>233,345</b>	<b>6,874,961</b>

(Continued)

**New Frontiers Charter School, Inc.**

**Statement of Activities and Changes in Net Assets (Continued)  
Year Ended August 31, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Expenses:</b>			
11 Instructional	\$ 3,334,499	\$ -	\$ 3,334,499
13 Curriculum development and instructional staff development	89,562	-	89,562
21 Instructional leadership	366	-	366
23 School leadership	521,191	-	521,191
31 Guidance, counseling and evaluation services	111,386	-	111,386
33 Health services	84,315	-	84,315
35 Food services	399,459	-	399,459
41 General administration	767,576	-	767,576
51 Plant maintenance and operations	771,234	-	771,234
52 Security and monitoring services	952	-	952
53 Data processing services	24,000	-	24,000
71 Debt service	522,038	-	522,038
81 Fundraising	38,264	-	38,264
<b>Total expenses</b>	<b>6,664,842</b>	<b>-</b>	<b>6,664,842</b>
<b>Change in net assets</b>	<b>(23,226)</b>	<b>233,345</b>	<b>210,119</b>
Net assets at beginning of year	63,807	3,590,777	3,654,584
Net assets at end of year	<u>\$ 40,581</u>	<u>\$ 3,824,122</u>	<u>\$ 3,864,703</u>

See notes to financial statements.

**New Frontiers Charter School, Inc.**

**Statements of Cash Flows  
Years Ended August 31, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 182,924	\$ 210,119
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	384,166	370,776
Amortization of bond issuance costs	20,654	20,040
Changes in assets and liabilities:		
Due from state	(64,889)	(35,937)
Due from federal agencies	(41,034)	38,021
Capital campaign—pledges receivable	-	12,100
Prepaid expenses and other assets	-	20,997
Trade payables	75,391	31,723
Construction payables	34,850	-
Payroll deductions and withholdings	(36,446)	66,679
Accrued interest	(827)	(791)
Due to student groups	12,232	553
<b>Net cash provided by operating activities</b>	<b>567,021</b>	<b>734,280</b>
Cash flows from investing activities:		
Capital expenditures	(7,697)	(93,745)
Construction in progress expenditures	(34,850)	-
<b>Net cash used in investing activities</b>	<b>(42,547)</b>	<b>(93,745)</b>
Cash flows from financing activities:		
Bond principal payment	(230,000)	(220,000)
<b>Net cash used in financing activities</b>	<b>(230,000)</b>	<b>(220,000)</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>294,474</b>	<b>420,535</b>
Cash, cash equivalents and restricted cash at beginning of year	2,641,231	2,220,696
Cash, cash equivalents and restricted cash at end of year	\$ 2,935,705	\$ 2,641,231
Cash and cash equivalents:	\$ 2,742,316	\$ 2,472,999
Restricted cash:		
Debt service reserve fund	58,645	45,250
Repair and replacement fund	134,744	122,982
	\$ 2,935,705	\$ 2,641,231
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 483,543	\$ 502,793

See notes to financial statements.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 1. Organization and Significant Accounting Policies

**Organization:** New Frontiers Charter School, Inc. (NFCS, Inc.) is a Texas nonprofit corporation located in San Antonio, Texas. NFCS, Inc. is governed by a Board of Directors (the Board) composed of six members, in accordance with the open-enrollment charter described below. The Board is selected pursuant to the bylaws of NFCS, Inc. and has the authority to make decisions, appoint the chief executive officer and significantly influence operations. The Board has the primary accountability for the fiscal affairs of NFCS, Inc.

In 1998, the State Board of Education of the state of Texas granted NFCS, Inc. an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, NFCS, Inc. established New Frontiers Charter School (the School), formerly San Antonio Advantage Charter School, in the summer of 1998. The School serves kindergarten through ninth grade, but is authorized to render services to prekindergarten through 12th grade, with a maximum enrollment of 1,176 students. The terms of the current applicable Contract for Charter are from August 1, 2008, to July 31, 2018.

NFCS, Inc. opened the Frank L. Madla Early College High School in the 2014-2015 school year. The school began serving ninth grade students and will add one grade level per year through the 2018 school year. It is anticipated that the early college high school will serve approximately 425 students in grades nine to 12.

NFCS, Inc. only operates the School and does not conduct any other charter or noncharter activities. NFCS, Inc.'s sole mission is to provide educational services to students in the community in which the School operates. Therefore, the School's resources are expended solely for the benefit of its students.

NFCS, Inc. receives substantially all its funding from the Texas Education Agency (TEA) based on the School's average daily attendance. Since NFCS, Inc. receives funding from local, state and federal government sources, it must comply with the eligibility requirements of the entities providing those funds.

**Basis of presentation:** The financial statements of NFCS, Inc. have been prepared on the accrual basis of accounting applicable to nonprofit organizations in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP).

The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing nonprofit accounting and financial reporting principles.

Revenues and other support are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, as applicable, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reclassified to unrestricted net assets and reported as net assets released from restrictions.

**Unrestricted:** Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 1. Organization and Significant Accounting Policies (Continued)

**Temporarily restricted:** Temporarily restricted net assets are those resources subject to donor-imposed restrictions that will be satisfied by the actions of NFCS, Inc. or the passage of time. This temporarily restricted description requires NFCS, Inc. to use state funding for the benefit of educating students enrolled in the School. At fiscal year-end, temporarily restricted net assets represent the net assets of the food service fund, which must be used for future food service activities, state funds that may be used in the following fiscal years and any unspent state foundation monies.

**Permanently restricted:** Permanently restricted net assets are those resources subject to donor-imposed restriction that will be maintained permanently by NFCS, Inc. The donors of these resources require that the principal be invested in perpetuity and permit the income earned, including unrealized appreciation, to be used, all or in part, for unrestricted or temporarily restricted purposes. As of August 31, 2016 and 2015, NFCS, Inc. had no permanently restricted net assets.

**Cash and cash equivalents:** NFCS, Inc. considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents consist of all cash on hand and in banks and money market accounts.

**Restricted cash:** Restricted cash is limited as to its use under the terms of the bond indenture. The restricted cash represents amounts restricted for payment of long-term debt, interest expense and repair and replacement expenses.

**Revenue recognition:** Capitation received, including base capitation, entitlements and special services, is recognized in the period services are provided and eligibility requirements are met. Revenues from the state of Texas are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

NFCS, Inc. reports all its state funding and federal awards as restricted support. When these restrictions are fulfilled, that is, when the stipulated time restriction ends or purpose restriction (i.e., eligible expenditures are incurred) is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

E-Rate Program revenue is earned by a discount received from certain vendors for technology-related expenses. The expenses are grossed up to the amount that would have been paid without the applicable discount and local revenue is recorded in the amount of the discount.

**Due from state:** Due from state consists of the instructional days accrual and underpayments for the foundation school program made to NFCS, Inc. from TEA.

**Due from federal agencies:** Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables. Advances from government agencies are recorded as deferred revenues. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the awards.

**Regulated industry:** The majority of NFCS, Inc.'s activities and revenues are a result of contracts with TEA. NFCS, Inc.'s operations are concentrated in the education field. As such, NFCS, Inc. operates in a heavily regulated environment. The operations of NFCS, Inc. are subject to administrative directives; rules; and regulations of federal, state and local regulatory agencies, including, but not limited to, TEA. Such administrative directives, rules and regulations are subject to change by an act of Congress or act of the state legislature, or an administrative change mandated by TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

**New Frontiers Charter School, Inc.**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

**Allowance for doubtful accounts:** The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. NFCS, Inc. considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

**Bond issuance costs:** Bond issuance costs are amortized over the term of the respective financing.

**Property and equipment:** Property and equipment are stated at cost, if purchased, or at fair value if donated. Additions and improvements are capitalized, while ordinary repairs and maintenance are charged to expense as incurred. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful life of the asset. The capitalization threshold for NFCS, Inc. is \$5,000.

<u>Asset Classification</u>	<u>Estimated Useful Life in Years</u>
Buildings and improvements	25
Improvements—other than building	5
Furniture and equipment	10
Computer software	5

**Property held for future use:** Property held for future use is valued at cost and represents property and land purchased by NFCS, Inc. that has not been put into service as of August 31, 2016. The property will be used for future expansion and will not be depreciated until it is put into its intended use.

**Due to student groups:** Due to student groups represents cash that belongs to various student fundraising groups that is being held by NFCS, Inc.

**Federal income taxes:** NFCS, Inc. is a nonprofit organization and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC), except to the extent it has unrelated business income. As such, no provision for federal income taxes has been made in the accompanying financial statements. NFCS, Inc. generally is no longer subject to income tax examinations by federal authorities for the years prior to August 31, 2013.

**Use of estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising costs:** NFCS, Inc. expenses advertising costs when they are incurred. Advertising costs for the years ended August 31, 2016 and 2015, totaled \$3,207 and \$2,298, respectively.

**Functional allocation of expenses:** The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 1. Organization and Significant Accounting Policies (Continued)

**Subsequent events:** NFCS, Inc. has evaluated subsequent events that occurred after August 31, 2016, through the date of this report on December 20, 2016. Any material subsequent events that occurred during this time have been properly recognized or disclosed in the financial statements. No events are required to be disclosed other than the item in Note 13.

**Reclassification:** Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

#### Recent Accounting Pronouncements

##### **Pending Adoption of ASU 2016-02, *Leases (Topic 842)***

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. NFCS, Inc. is currently evaluating the impact of our pending adoption of the new standard on the financial statements.

##### **Pending Adoption of ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs***

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU will be effective for NFCS, Inc. for fiscal years beginning after December 15, 2015.

##### **Pending Adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. NFCS, Inc. has not yet selected a transition method and is currently evaluating the effect the standard will have on the financial statements.

##### **ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities***

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The updated standard will improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of NFPs are sound, but could be improved to provide more useful information to donors, grantors, creditors and other users of financial statements. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

New Frontiers Charter School, Inc.

Notes to Financial Statements

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**Note 1. Organization and Significant Accounting Policies (Continued)**

**ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)***

In November 2016, the FASB issued No. ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. Stakeholders indicated that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under *Topic 230, Statement of Cash Flows*. Entities classify transfers between cash and restricted cash as operating, investing, or financing activities or as a combination of those activities, in the statement of cash flows. Also, some entities present direct cash receipts into, and direct cash payments made from, a bank account that holds restricted cash as cash inflows and cash outflows, while others disclose those cash flows as noncash investing or financing activities. This update addresses that diversity. The amendments in this update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

**Note 2. Functional Expenses**

Functional expenses consists of the following:

	August 31	
	2016	2015
Program activity:		
School education	\$ 5,926,273	\$ 5,336,964
General and administration (G&A):		
Debt service	503,904	522,038
Other G&A	780,145	767,576
	<u>1,284,049</u>	<u>1,289,614</u>
Fundraising	10,198	38,264
	<u>\$ 7,220,520</u>	<u>\$ 6,664,842</u>

**New Frontiers Charter School, Inc.**

**Notes to Financial Statements**

**Note 3. Due From State/Due From Federal Agencies**

Due from state and due from federal agencies consist of the following:

	August 31	
	2016	2015
Due from state:		
Foundation School Program:		
Days of instruction	\$ 447,611	\$ 372,734
Settlement of current-year underpayment	3,699	13,687
<b>Total due from state</b>	<b>\$ 451,310</b>	<b>\$ 386,421</b>
Due from federal agencies:		
Child Nutrition Cluster	\$ 33,458	\$ 22,341
Title I, Part A—Grants to Local Education Agencies	-	7,095
Title II, Part A—Improving Teacher Quality	25,104	3,767
IDEA B-Cluster	29,683	16,255
E-Rate Program	2,247	-
<b>Total due from federal agencies</b>	<b>\$ 90,492</b>	<b>\$ 49,458</b>

**Note 4. Property and Equipment**

Property and equipment consist of the following:

	August 31	
	2016	2015
Land and improvements	\$ 209,664	\$ 209,664
Buildings and improvements	7,216,857	7,216,857
Furniture and equipment	988,232	980,535
Computer software	26,698	26,698
Vehicles	8,784	8,784
Constuction in progress	34,850	-
	8,485,085	8,442,538
Less accumulated depreciation	2,396,843	2,012,677
<b>Net property and equipment</b>	<b>\$ 6,088,242</b>	<b>\$ 6,429,861</b>

Depreciation expense totaled \$384,166 and \$370,776, respectively, for the years ended August 31, 2016 and 2015.

**Note 5. Bonds Payable**

In October 2010, NFCS, Inc. received \$7,580,000 in bond proceeds to fund the purchase of school facilities; major renovations of the purchased building, including the construction of additional parking spaces and a covered outdoor physical education pavilion; and the purchase and installation of portable modular classroom buildings.

The bonds outstanding are in the form of Education Revenue Bonds Series 2010A and 2010Q issued by the Texas Public Finance Authority Charter School Finance Corporation (TPFACSFC). The Series 2010A bonds qualify for tax-exempt status.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 5. Bonds Payable (Continued)

The Series 2010A bonds outstanding total \$3,185,000, bear interest at 5.80 percent per annum and are payable semiannually on February 15 and August 15 of each year. The Series 2010A bonds mature during 2040 and are secured by a first lien on substantially all assets of NFCS, Inc.

The Series 2010Q bonds outstanding total \$3,185,000, bear interest at 8.75 percent per annum and are payable semiannually on February 15 and August 15 of each year. The Series 2010Q bonds mature during 2027 and are secured by substantially all assets of NFCS, Inc.

Bonds payable consist of the following:

	August 31	
	2016	2015
Series 2010A	\$ 3,185,000	\$ 3,185,000
Series 2010Q	3,185,000	3,415,000
	<u>6,370,000</u>	<u>6,600,000</u>
Less current maturities	240,000	230,000
Bonds payable, less current maturities	<u>\$ 6,130,000</u>	<u>\$ 6,370,000</u>

Aggregate maturities required on bonds payable at August 31, 2016, are as follows:

	Principal
Years ending August 31:	
2017	\$ 240,000
2018	250,000
2019	260,000
2020	265,000
2021	275,000
Thereafter	5,080,000
	<u>\$ 6,370,000</u>

As part of the loan agreements for the bonds, NFCS, Inc. is required to establish and maintain several trustee-held funds, which are not available for general use. The loan agreements contain certain financial covenants.

NFCS, Inc. receives an annual Qualified School Construction Bond federal subsidy to assist in the payment of interest on the bonds. During the years ended August 31, 2016 and 2015, NFCS, Inc. received the subsidy benefit of \$159,457 and \$168,819, respectively, which was paid directly to the bond trustee on behalf of NFCS, Inc. and is reported as revenue in the accompanying statements of activities and changes in net assets.

In 2016, the net interest cost of these bonds was \$324,086, which consists of interest expense of \$483,543, less the federal subsidy benefit of \$159,457. In 2015, net interest cost of these bonds was \$333,182, which consists of interest expense of \$502,001, less the federal subsidy benefit of \$168,819.

**Debt covenants:** The bonds contain certain financial covenants with which the School must stay in compliance.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 5. Bonds Payable (Continued)

**Revenue fund:** NFCS, Inc. is required to transfer revenues from its operating account to the revenue fund on a monthly basis. These revenues are transferred on a monthly basis to the Debt Service Reserve Fund and, therefore, the balance is \$-0- at August 31, 2016 and 2015.

**Debt service reserve fund:** Amounts in this fund are used to meet debt service requirements of the bonds payable and are reserved by NFCS, Inc. These funds totaled \$58,645 and \$45,250 as of August 31, 2016 and 2015, respectively.

**Reserve fund guaranty:** In addition, in connection with the Texas Credit Enhancement Program for Charter Schools and a guaranty agreement dated October 1, 2010, between NFCS, Inc. and TPFACSF, a reserve fund guaranty was established on behalf of NFCS, Inc. for the maximum amount of \$600,000. The reserve fund guaranty is held on deposit with the Texas Comptroller of Public Accounts solely to provide security for repayment of the bonds. The funds are not available for the current debt service payments of NFCS, Inc., but serve as a guaranty if future payments are unable to be made by NFCS, Inc. If the trustee draws on the guaranty to make a payment, NFCS, Inc. is then obligated to reimburse TPFACSF for any amounts paid on its behalf. This guaranty expires on the earlier of August 15, 2040, or upon full payments of the bonds.

**Repair and replacement fund:** This fund is used to pay for major repairs and renovations on an as-needed basis. As of August 31, 2016 and 2015, the balance in this fund totaled \$134,744 and \$122,982, respectively. On November 15, 2016, NFCS, Inc. deposited an additional \$10,000 into this trustee-held fund.

#### Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	August 31	
	2016	2015
Child Nutrition Program	\$ 137,740	\$ 116,389
Title I, Part A	8,748	624
IDEA B	-	2,686
State fiscal stabilization	-	6,712
Summer Program 2017	10,000	-
Foundation School Program	3,841,113	3,697,711
	<u>\$ 3,997,601</u>	<u>\$ 3,824,122</u>

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 6. Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	Years Ended August 31	
	2016	2015
Child Nutrition Program	\$ 445,000	\$ 375,762
Federal programs	512,128	493,029
Foundation School Program	6,044,299	5,539,003
E-Rate Program	34,421	32,307
Federal interest subsidy	159,457	168,819
Capital campaign	-	12,100
	<u>\$ 7,195,305</u>	<u>\$ 6,621,020</u>

#### Note 7. Operating Leases

NFCS, Inc. leases property and equipment under noncancelable operating leases. Rental expense for the years ended August 31, 2016 and 2015, totaled \$112,296 and \$111,737, respectively.

Future minimum payments on long-term noncancelable operating leases at August 31, 2016, are as follows:

Years ending August 31:	
2017	\$ 117,998
2018	134,460
2019	28,078
	<u>\$ 280,536</u>

#### Note 8. Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

**Grants:** NFCS, Inc. receives a portion of its funding from federal and state programs that are governed by various rules and regulations of the grantors. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

#### Note 9. Pension Plan Obligations

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

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 9. Pension Plan Obligations (Continued)

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

TRS' plan differs from single-employer plans in the following ways:

- Charters are legally separate entities from the state and each other.
- Assets contributed by one charter or independent school district (ISD) may be used for the benefit of an employee of another charter or ISD.
- The unfunded obligations get passed along to other charters or ISDs.
- There is not a withdrawal penalty for leaving the TRS system.

**Pension plan fiduciary net position:** Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling +1 512 542 6592.

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code, Section 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83<sup>rd</sup> Texas Legislature General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature GAA established the employer contribution rates for fiscal years 2016 and 2017.

## New Frontiers Charter School, Inc.

### Notes to Financial Statements

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#### Note 9. Pension Plan Obligations (Continued)

Contributors to the plan include members, NFCS, Inc. and the state of Texas as the only nonemployer contributing entity (NECE). The state is the employer for senior colleges, medical schools and state agencies, including TRS. In each respective role, the state contributes to the plan in accordance with state statutes and the GAA.

As the NECE for public education and junior colleges, the state of Texas contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by NFCS, Inc. NFCS, Inc. is required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from noneducational and general, or local funds.
- When the employing district is a public junior college or junior college district, the district shall contribute to TRS an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees and 100 percent of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5 percent of the state contribution rate for certain instructional or administrative employees; and 100 percent of the state contribution rate for all other employees.

In addition to NFCS, Inc.'s employer contributions listed below, when employing a retiree of TRS, NFCS, Inc. shall pay both the member contribution and the state contribution as an employment after retirement surcharge. NFCS, Inc.'s contribution to TRS does not represent more than 5 percent of the total contributions to the TRS plan. There have been no changes that would affect the comparison of employer contributions from year to year.

	2016	2015
Member	7.2%	6.7%
NECE	6.8%	6.8%
Employers	6.8%	6.8%
Employer contributions	\$ 38,435	\$ 50,732
Member contributions	303,732	270,871
Non-OASDI contributions	53,504	47,002

## **New Frontiers Charter School, Inc.**

### **Notes to Financial Statements**

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#### **Note 10. Health Care Coverage**

During the years ended August 31, 2016 and 2015, employees of NFCS, Inc. were covered by a health insurance plan. NFCS, Inc. contributed 95 percent of the employee's premium and none of dependent's premium during the years ended August 31, 2016 and 2015. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. During the year ended August 31, 2016, NFCS, Inc. paid medical premiums of \$265 and dental premiums of \$27 per month, per employee with an aggregate cost of \$229,295 for the year (\$245,435 in 2015). All premiums were paid to licensed insurers.

#### **Note 11. State Compliance Matters**

The final budgeted amounts varied by more than 10 percent of the original budgeted as follows:

- Revenues and other support—other local and intermediate sources were not increased by approximately \$34,000 for e-rate revenue in the final budget.
- Function 13 budgeted amount increased due to moving the Director of Curriculum salary to function 13.
- Function 21 final budgeted amount increased due to costs related to the shared services agreements with Education Service Center (ESC) Region 20. ESC Region 20 allocation is provided at year-end and can vary from year to year.
- Function 35 original budgeted amount was short in payroll and food costs in the amounts of approximately \$52,000 and \$100,000, respectively.
- Function 41 final budgeted amount decreased to the reclass of two positions to function 13 and 51 by approximately \$53,000.
- Function 52 budget was short by approximately \$2,000 due to additional contract services rendered.
- Function 61 budgeted amount increased by approximately \$28,000 due to a position that was added during fiscal year 2016.

The actual expenses varied by more than 10 percent from the final amended budget as follows:

- Function 51 depreciation budgeted amount was short by approximately \$255,000.
- Function 53 budgeted amount was short by approximately \$4,000.
- Function 71 was over budgeted by approximately \$520,000.
- Function 81 was over budgeted by approximately \$32,000.

#### **Note 12. Cash Balance and Credit Risk**

NFCS, Inc. maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Interest-bearing accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000. In addition, NFCS, Inc. has an agreement with its bank institution where the bank provides pledged collateral in NFCS, Inc.'s name in the event deposits exceed FDIC limits. NFCS, Inc. has not experienced any losses in such accounts.

**New Frontiers Charter School, Inc.**

**Notes to Financial Statements**

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**Note 13. Subsequent Events**

On November 11, 2016, NFCS, Inc., signed a construction agreement in the amount of \$228,995 to renovate an existing building.

## **Supplemental Information**

**New Frontiers Charter School, Inc.**

**Schedules of Expenses  
Years Ended August 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Expenses:		
6100 Payroll costs	<b>\$ 4,497,618</b>	\$ 4,184,511
6200 Professional and contracted services	<b>1,075,332</b>	913,292
6300 Supplies and materials	<b>587,879</b>	460,211
6400 Other operating costs	<b>555,779</b>	584,790
6500 Debt service costs	<b>503,912</b>	522,038
	<hr/>	<hr/>
<b>Total expenses</b>	<b>\$ 7,220,520</b>	<b>\$ 6,664,842</b>

**New Frontiers Charter School, Inc.**

**Schedule of Ownership Interest  
August 31, 2016**

Object Code	Asset Classification	Ownership Interest		
		Local	State	Federal
1510	Property held for future use	\$ -	\$ 840,463	\$ -
1510	Land and improvements	-	209,664	-
1520	Buildings and improvements	-	7,216,857	-
1520	Construction in progress	-	34,850	-
1531	Vehicles	-	-	8,784
1539	Furniture and equipment	-	922,454	65,780
1549	Computer software	-	26,696	-
		<u>\$ -</u>	<u>\$ 9,250,984</u>	<u>\$ 74,564</u>

**New Frontiers Charter School, Inc.**

**Budgetary Comparison Schedule  
Year Ended August 31, 2016**

		Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
		Original	Final		
Revenues and other support:					
5700	Other local and intermediate sources	\$ 109,000	\$ 67,447	\$ 95,791	\$ 28,344
5800	State program revenues	6,299,064	6,201,065	6,190,708	(10,357)
5900	Federal program revenues	993,271	1,086,631	1,116,945	30,314
<b>Total revenues and other support</b>		<b>7,401,335</b>	<b>7,355,143</b>	<b>7,403,444</b>	<b>48,301</b>
Expenses:					
11	Instructional	3,578,099	3,709,458	3,505,343	204,115
13	Curriculum development and instructional staff development	12,000	110,596	110,595	1
21	Instructional leadership	-	527	527	-
23	School leadership	538,359	524,062	492,885	31,177
31	Guidance, counseling and evaluation services	143,900	145,315	137,837	7,478
33	Health services	81,887	83,541	78,394	5,147
34	Transportation	-	1,209	1,209	-
35	Food services	356,906	536,874	545,866	(8,992)
41	General administration	852,338	759,554	780,145	(20,591)
51	Plant maintenance and operations	732,718	698,838	988,697	(289,859)
52	Security and monitoring services	2,500	815	816	(1)
53	Data processing services	30,000	31,926	35,926	(4,000)
61	Community	-	28,176	28,178	(2)
71	Debt service	1,107,702	1,004,077	503,904	500,173
81	Fundraising	43,000	43,000	10,198	32,802
<b>Total expenses</b>		<b>7,479,409</b>	<b>7,677,968</b>	<b>7,220,520</b>	<b>457,448</b>
<b>Change in net assets</b>		<b>(78,074)</b>	<b>(322,825)</b>	<b>182,924</b>	<b>505,749</b>
Net assets at beginning of year		3,864,703	3,864,703	3,864,703	-
Net assets at end of year		<b>\$ 3,786,629</b>	<b>\$ 3,541,878</b>	<b>\$ 4,047,627</b>	<b>\$ 505,749</b>



# **New Frontiers Charter School, Inc.**

Compliance Report  
August 31, 2016

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RSM US LLP

**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  
New Frontiers Charter School, Inc.  
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of New Frontiers Charter School, Inc. (NFCS, Inc.) as of August 31, 2016, and the related notes to the financial statements, which collectively comprise NFCS, Inc.'s financial statements and have issued a report thereon dated December 20, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NFCS, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NFCS, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of NFCS, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NFCS, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, as described in the accompanying schedule of findings and questioned cost that we consider to be significant deficiency as item 2016-001.

NFCS, Inc.'s responses to the internal control over financial reporting finding identified in our audit are described in the accompanying schedule of findings and questioned costs. NFCS, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NFCS, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, Public Funds Investment Act 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Public Funds Investment Act.

**NFCS, Inc.'s Response to Findings**

NFCS, Inc.'s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NFCS, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

**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 NFCS, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NFCS, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

San Antonio, Texas  
December 20, 2016

**Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

To the Board of Directors  
New Frontiers Charter School, Inc.  
San Antonio, Texas

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

We have audited New Frontiers Charter School, Inc.'s (NFCS, Inc.) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NFCS, Inc.'s major federal program for the year ended August 31, 2016. NFCS, Inc.'s major federal program is identified in the summary of Independent Auditor's Results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for NFCS, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) 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 NFCS, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of NFCS, Inc.'s compliance.

**Opinion on the Major Federal Program**

In our opinion, NFCS, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002 through 2016-005. Our opinion on the major federal program is not modified with respect to these matters.

NFCS, Inc.'s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NFCS, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

## **Report on Internal Control Over Compliance**

Management of NFCS, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NFCS, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 NFCS, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. *A significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-002 through 2016-005 that we considered to be a significant deficiencies.

NFCS, Inc.'s responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NFCS, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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.

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

We have audited the financial statements of NFCS, Inc., as of and for the year ended August 31, 2016, and have issued our report thereon dated December 20, 2016, 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.

*RSM US LLP*

San Antonio, Texas  
December 20, 2016

**New Frontiers Charter School, Inc.**

**Schedule of Expenditures of Federal Awards  
For The Year Ended August 31, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Child Nutrition Cluster</b>			
United States Department of Agriculture:			
Passed through the State Department of Education:			
United States Department of Agriculture donated commodities	10.555	N/A	\$ 30,315
National School Breakfast Program	10.553	714015	107,422
National School Lunch Program	10.555	713015	308,940
<b>Subtotal</b>			<u>446,677</u>
<b>Total United States Department of Agriculture</b>			<u>446,677</u>
<b>Total Child Nutrition Cluster</b>			<u>446,677</u>
<b>Special Education Cluster</b>			
United States Department of Education:			
Passed through the State Department of Education:			
IDEA B-Formula	84.027A	156600010158056000	145,552
IDEA B-Preschool	84.173A	156610010158056000	2,252
<b>Total Special Education Cluster</b>			<u>147,804</u>
Title I, Part A—Grants to Local Education Agencies	84.010A	15610101015805	278,452
Title I, Focus and Priority School Grant	84.010A	16610112015805000	19,000
Title II, Part A—Improving Teacher Quality	84.367A	15694501015805	48,688
<b>Subtotal</b>			<u>493,944</u>
Passed through Education Service Center Region 20:			
Title III, Part A—English Language Enhancement	84.365	N/A	9,232
Title I, Part C—Migrant	84.011	N/A	7,635
<b>Total passed through Education Service Center Region 20</b>			<u>16,867</u>
<b>Total United States Department of Education</b>			<u>510,811</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 957,488</u></u>

See notes to schedule of expenditures of federal awards.

**New Frontiers Charter School, Inc.**

**Notes to Schedule of Expenditures of Federal Awards  
Year Ended August 31, 2016**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the NFCS, Inc. under programs of the federal government for the year ended August 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of NFCS, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the NFCS, Inc.

NFCS, Inc. had no federally funded insurance program or loan guarantees during the year ended August 31, 2016.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented when available.

**Note 3. Indirect Cost Rate**

NFCS, Inc. has elected not to use the 10 percent minimis indirect cost rate allowed under the Uniform Guidance.

**Note 4. Federal Program Revenues Reconciliation**

Total federal program revenues for the year ended August 31, 2016 are as follows:

Federal program revenues per schedule of expenditures of federal awards	\$ 957,488
Federal interest subsidy	159,457
<b>Total federal program revenues</b>	<b><u><u>\$ 1,116,945</u></u></b>

**Note 5. Noncash Assistance—Food Donation**

Commodities represent the amount of donated food received during the 2015-2016 fiscal year. Commodities are valued at fair value, as determined at the time of donation at an amount of \$30,315.

**Note 6. Non-Profit Charter School Chart of Accounts**

For all federal programs, NFCS, Inc. used the net asset classes and codes specified by Teacher Education Agency (TEA) in the *Special Supplement to Financial Accounting and Reporting, Non-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

**New Frontiers Charter School, Inc.**

**Schedule of Findings and Questioned Costs  
Year Ended August 31, 2016**

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I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued on the financial statements: Unmodified
2. Internal control over financial reporting:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported
3. Noncompliance material to financial statements noted?  Yes  No

B. Federal Awards

1. Type of auditor's report issued on compliance for major programs: Unmodified
2. Internal control over major program:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(es) identified?  Yes  None reported
3. Type of auditor's report issued on compliance for major programs: Unmodified
  - Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 of the Uniform Guidance?  Yes  No

4. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.555, 10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A or Type B programs: \$750,000

Auditee qualify as a low-risk auditee?  Yes  No

**New Frontiers Charter School, Inc.**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended August 31, 2016**

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II. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

**2016-001**

**Segregation of Duties  
Significant Deficiency**

*Criteria or specific requirement:* Proper segregation of duties are to be maintained for proper checks and balances.

*Condition:* During the audit, we noted there is an incompatible function of the bank reconciliation and signing of the checks.

*Context:* Bank reconciliation process and signing of checks.

*Effect:* The individual performing the bank reconciliation function can also sign checks.

*Cause:* Lack of internal controls and segregation of duties.

*Recommendation:* We recommend these duties be maintained separately to maintain a good sound internal control environment. The bank reconciliation process can be delegated to the accounting staff.

*Views of responsible officials and planned corrective actions:* To correct this deficiency, NFCS, Inc., will have the staff accountant reconcile the Broadway operating and the NFCS, Inc. bank accounts. The Executive Director of Finance will review the completed reconciliations and sign and date the reconciliations for evidence of review and approval. The Executive Director of Finance will continue to sign checks on these two bank accounts. The Executive Director of Finance will reconcile the Wells Fargo Trustee and TexPool bank accounts, since the Executive Director of Finance does not sign checks for these two bank accounts.

**New Frontiers Charter School, Inc.**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended August 31, 2016**

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**2016-002**

**U.S. Department of Agriculture**

**Child Nutrition Cluster**

**Special Test and Provision—Paid Lunch Equity Calculation**

**Significant Deficiency and Noncompliance**

**CFDA 10.555/10.553**

*Criteria or specific requirement:* School's that participate in the National School Lunch Program are required to ensure sufficient funds are provided to its nonprofit school food service account from lunches served to students not eligible for free or reduced price meals.

*Condition:* The paid lunch equity calculation to be completed at the beginning of the year was not performed as required for the high school. The calculation only applies to the high school as it is the only school that charges for paid meals based on student eligibility. Subsequently, NFCS, Inc. performed the calculation for the school year 2015-2016 and noted that there was no price increase requirement needed and that the price charged for paid lunch was appropriate.

*Questioned costs:* None

*Context:* The calculations pertaining to paid lunch equity prepared by NFCS, Inc. and submitted to the administering agency.

*Effect:* NFCS, Inc. did not determine if sufficient funds were provided to the school food service account on a timely basis.

*Cause:* Lack of internal controls and management oversight resulted in the failure to determine if sufficient funds were provided to the school food service account.

*Recommendation:* NFCS, Inc. should establish effective internal controls to ensure that paid equity is implemented properly and conducted at the beginning of the school year.

*Views of responsible officials and planned corrective actions:* The PEIMS Coordinator at the beginning of the school year will go the National School Lunch "Square Meals" website and printout the updated Reimbursement Rate Schedule to determine the full paid lunch price for the current school year. The new rate will be reviewed, signed, and dated by the Executive Director of Finance for evidence of review and approval.

**New Frontiers Charter School, Inc.**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended August 31, 2016**

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**2016-003**

**U.S. Department of Agriculture  
Child Nutrition Cluster  
Review of Student's Eligibility  
Significant Deficiency  
CFDA 10.555/10.553**

Criteria or specific requirement: A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size.

Condition: During the testing of eligibility, we noted there was no evidence of the review and approval process on the student application.

Questioned Cost: None

Context: Obtained 25 student applications to test eligibility.

Effect: Potential misclassification between free, reduced, or paid.

Cause: Lack of internal controls and management oversight during the review of student applications.

Recommendation: Although we noted no noncompliance issues, we recommend NFCS, Inc. implement a formal review and approval process for reviewing student eligibility. The review and approval should be signed and dated on the student's application. Regulation also requires that the review process be documented by initialing and signing application.

Views of responsible officials and planned corrective actions: The student's annual application will be submitted to the Administrative Assistant at the high school. The Administrative Assistant will enter the information into the POS (point of sale) system to determine the student's eligibility and sign and date the application. The application will be reviewed by the PEIMS Coordinator and/or a different Administrative Assistant who will sign and date the application for evidence of review and approval.

**2016-004**

**U.S. Department of Agriculture  
Child Nutrition Cluster  
Reporting—Meal Claims Submission  
Significant Deficiency and Noncompliance  
CFDA 10.555/10.553**

Criteria or specific requirement: To obtain cash and donated food assistance, a local program operator must submit monthly claims for reimbursement to its administering agency. All meals claimed must meet federal requirements and be served to eligible children.

Condition: During our testing of the meal reimbursement claims report, we noted that the breakfast for the month of August 2016 for the high school only reported the total meals served as "free" counts and the meals served as "reduced" and "paid" were not included. In addition, the total meals served per the POS system did not agree to the meal claims report for the high school for the month of August 2016. We noted that the meal reimbursement claims report was reviewed by the same person in the accounting department. The lack of formal review and approval process may have contributed to the incorrect information reported.

**New Frontiers Charter School, Inc.**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended August 31, 2016**

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*Questioned Cost:* None

*Context:* Four meal reimbursement claims reports were reviewed.

*Effect:* Incorrect meal count information was submitted for reimbursement.

*Cause:* Lack of internal controls and management oversight resulted in the failure to ensure that meal claims reported accurate information. The program was undercharged a total of \$237.

*Recommendation:* We recommend meal reimbursement claim reports be prepared by an individual in the accounting department and then reviewed by a different individual in the accounting department. Also, documentation of such review of these reports should be made on the reports and maintained, preferably by signing and dating the respective reports.

*Views of responsible officials and planned corrective actions:* The PEIMS Coordinator will print the reports from the Student Data System and the POS system, sign and date the reports and then provide the reports to the Executive Director of Finance for review. The Executive Director of Finance will prepare the "Reimbursement Claim" and the Staff Accountant will review and date. After the Staff Accountant reviews the Reimbursement Claim, the Executive Director of Finance will submit the Reimbursement Claim report to the National School lunch website.

**2016-005**

**U.S. Department of Agriculture  
Child Nutrition Cluster  
Activities Allowed or Unallowed  
Significant Deficiency and Noncompliance  
CFDA 10.555/10.553**

*Criteria or specific requirement:* The specific requirements for activities allowed or unallowed are unique to each federal program and are found in the federal statutes regulations, and the terms and conditions of the award.

*Condition:* During our testing of activities allowed or unallowed, we noted two instances in which payroll expenses for two employees totaling \$1,613 were incorrectly coded to the Child Nutrition program in the accounting system. In addition, we noted one instance in which a purchase requisition for the Child Nutrition program was not reviewed for allowability in the amount of \$155.

*Questioned Cost:* None

*Context:* Twenty-five Child Nutrition program expenditures were tested.

*Effect:* Incorrect expenses were booked to the Child Nutrition program.

*Cause:* Lack of internal controls and management oversight resulted in the failure to ensure proper expenditures were recorded.

*Recommendation:* Although there are controls in place, we recommend reviewers be careful in oversight for these costs that are not allowed.

*Views of responsible officials and planned corrective actions:* The Staff Accountant will prepare and enter overtime pay in the Payroll Module. The Human Resource Manager will review for proper coding, sign and date the report as evidence of such review procedure.

**New Frontiers Charter School, Inc.**

**Summary Schedule of Prior Audit Findings  
Year Ended August 31, 2016**

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None.

**New Frontiers Charter School, Inc.**

**Corrective Action Plan  
Year Ended August 31, 2016**

Comment Number	Comment	Corrective Action Plan	Contact Person	Anticipated Date of Completion
<b>Findings for Financial Statements</b>				
<b>Significant Deficiencies</b>				
2016-001	During the audit, we noted there is an incompatible function of the bank reconciliation and signing of the checks.	See corrective action plan at 2016-001	Executive Director of Finance	August 31, 2017
<b>Findings and Questioned Costs for Federal Awards</b>				
2016-002	The paid lunch equity calculation to be completed at the beginning of the year was not performed, as required for the high school. The calculation only applies to the high school, as it is the only school that charges for paid meals based on student eligibility.	See corrective action plan at 2016-002	Executive Director of Finance	August 31, 2017
2016-003	During the testing of eligibility, we noted that there was no evidence of the review and approval process on the student application.	See corrective action plan at 2016-003	Executive Director of Finance	August 31, 2017
2016-004	During our testing of the meal reimbursement claims report, we noted the breakfast for the month of August 2016 for the high school only reported the total meals served as "free" counts and the meals served as "reduced" and "paid" were not included. In addition, the total meals served per the POS (point of sale) system did not agree to the meal claims report for the high school for the month of August 2016.	See corrective action plan at 2016-004	Executive Director of Finance	August 31, 2017
2016-005	During our testing of activities allowed or unallowed, we noted two instances in which payroll expenses for two employees totaling \$1,613 were incorrectly coded to the Child Nutrition program in the accounting system. In addition, we noted one instance in which a purchase requisition for the Child Nutrition program was not reviewed for allowability in the amount of \$155.	See corrective action plan at 2016-005	Executive Director of Finance	August 31, 2017

