
AGENDA

UNIVERSITY OF HOUSTON SYSTEM SPECIAL CALLED BOARD OF REGENTS MEETING

DATE: Wednesday, January 23, 2013

TIME: 10:00 AM

PLACE: Board Room 128, ECullen Building
4800 Calhoun Road
Houston, Texas 77204

Chair: Durga D. Agrawal
Vice Chair: Beth Madison
Members: Alonzo Cantu
John A. McCall, Jr.
Ricky A. Raven
Mielad Ziaee- Non Voting
Tilman J. Fertitta, Ex Officio

I. **Board of Regents Meeting**

A. Call to Order

Presenter: Chair Nelda Luce Blair

B. Review and Approval of Audit Report and Financial Statements, University of Houston Charter School, FY 2012 - University of Houston System

2

Action: Approval

Presenter: Don Guyton, Chief Audit Executive

C. Executive Session

Presenter: Chair Nelda Luce Blair

1. Section 551.071 - Consultation with System Attorneys

2. Section 551.072 - Deliberations Concerning Purchase, Lease or Value of Real Property

3. Section 551.073 - Deliberations about Negotiated Contracts for Prospective Gifts or Donations

4. Section 551.074 - Personnel Matters, Including Appointment, Evaluation or Dismissal of Personnel

D. Report and Action from Executive Session

E. Adjourn

Presenter: Chair Nelda Luce Blair

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

ITEM: Review and Approval of Audit Report and Financial Statements, University of Houston Charter School, FY 2012

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Approval is requested for the Audit Report and Financial Statements of the University of Houston Charter School for Fiscal Year 2012. Certification of the audit and financial information by the Board is required by the Texas Education Code, Title 2, Chapter 44, Section 44.008(d).

The key points of the report include the following:

- Report on Internal Control over Financial Reporting (page 1)
- Annual Financial Report (page 3)
- Letter of Transmittal (page 9)
- Financial Section (page 13)
- Management's Discussion and Analysis (page 16)
- Basic Financial Statements (page 27)
- Notes to Basic Financial Statements (page 34)
- Supplementary Information (page 41)

SUPPORTING

DOCUMENTATION: Audit Report and Financial Statements of the UH Charter School for FY 2012

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Administration recommends approval of this item

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

Don Guyton
Don Guyton

12/11/12

DATE

CHANCELLOR

Renu Khator

DATE



KPMG LLP
811 Main Street
Houston, TX 77002

**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***

The board of Regents
University of Houston Charter school:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (Charter School) as of and for the year ended August 31, 2012, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated December 7, 2012. 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.

Internal Control over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter School's internal control over financial reporting as a basis for designing our auditing procedures 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 Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Charter School's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of regents, others within the entity, and the Texas Education Agency and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2012



UNIVERSITY OF HOUSTON CHARTER SCHOOL

Annual Financial Report

August 31, 2012

(With Independent Auditors' Report Thereon)

UNIVERSITY OF HOUSTON CHARTER SCHOOL

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

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INTRODUCTORY SECTION

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Certificate of Board

Pending approval from the University of Houston Board of Regents

UNIVERSITY OF HOUSTON CHARTER SCHOOL

University of Houston System Board of Regents – Board Members

Fiscal Year Ended August 31, 2012

Chairman: Nelda Luce Blair
Vice Chairman: Michele “Mica” Mosbacher
Secretary: Jarvis V. Hollingsworth
Spencer D. Armour, III
Nandita V. Berry
Tilman J. Fertitta
Jacob M. Monty
Roger F. Welder
Welcome W. Wilson, Jr.
Gage A. Raba (Student Regent)

Officers of the Board (Fiscal Year 2013)

- **Chairman:** Nelda Luce Blair
- **Vice Chairman:** Jarvis V. Hollingsworth
- **Secretary:** Tilman J. Fertitta

Member(s) with terms set to expire August 31, 2013

- Nelda Luce Blair
- Jacob M. Monty
- Michele “Mica” Mosbacher

Member(s) with terms set to expire August 31, 2015

- Nandita V. Berry
- Tilman J. Fertitta
- Jarvis V. Hollingsworth

Member(s) with terms set to expire August 31, 2017

- Spencer D. Armour, III
- Roger F. Welder
- Welcome W. Wilson, Jr.

Member(s) with terms set to expire May 31, 2013

- Gage A. Raba (Student Regent)

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Letter of Transmittal

The discussion and analysis of the financial position of the University of Houston Charter School (the Charter School or UHCS) provides an overview of the activities for the fiscal years ended August 31, 2012 and 2011. The Management's Discussion and Analysis (MD&A) is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. The MD&A should be read in conjunction with the transmittal letter, the basic financial statements, and the notes to the basic financial statements, which follow this section.

Charter School Profile

In 1996, the Texas State Board of Education (SBOE) granted a five-year charter to operate a public school to the University of Houston, one of the nineteen first generation Texas charter schools. The SBOE then granted a 10-year charter that expired on July 1, 2012. A renewal application was submitted to the Texas Education Agency during the 2011-12 fiscal years. This renewed charter will be in effect until July 1, 2021.

The University of Houston System (UH) Board of Regents is the governing body of UHCS. The school initially enrolled students on a first-come, first-served basis. In 1999, the Texas Education Agency (TEA) required UHCS to begin enrolling students using a lottery system since the school was oversubscribed. The Charter School serves students and families from the greater Houston area. The Charter School opened on January 27, 1997 with one kindergarten/first grade class and three employees. For the 2012 fiscal year, 132 students are enrolled in six classes from kindergarten through fifth grade. Parents of 24.6% of the currently enrolled children are either UH employees or students. The school is housed in 14,000 square feet of the first floor of Melcher Gymnasium.

All Charter School faculties are UH employees. All teachers meet the highly qualified standards for the "No Child Left Behind" (NCLB) program. The Charter School provides English as a Second Language (ESL), Special Education, and, for qualifying students, breakfast and hot lunches are provided through the National School Breakfast/Lunch Program. After-school and summer tutoring are provided with Title I funds. Teacher literacy and math coaching are provided from Title II funds.

The setting of a university campus provides a rich experience and base for a school. An intellectual experience grounds the school. The University of Houston (the University) supports the school with a physical location, including a playground, utilities, and custodial care. UHCS supports the University in research collaborations, University students develop, and practice in a model educational program with programs ranging from athletics to public relations. The school curriculum includes specific classes in art, music, and physical education. Discovery Camp is held each Friday and third, fourth, and fifth graders choose from a variety of classes: Middle Eastern Dance, Gardening, Cooking, Science Club, Movie Making, Art Club, and Archery. The school participates in the Texas Archery in the Schools Program. For the seventh year, a UHCS archery team has competed in the State Archery in the Schools event.

For the fifth year, the Charter School managed Camp Construct, the before- and after-school care program. The UHCS had filed for a license with the Texas Department of Children and Families to become a licensed child care facility during the 2010-11 fiscal years. The Charter School Camp Construct Program became a fully licensed child care facility in 2012, serving an average of 44 students daily. For the second year, UHCS held a summer Camp Construct program serving current UHCS students and newly enrolling students during the months of June and July.

Planning Panel meetings, three times a year, provide opportunities for faculty and parents to make decisions and work to improve the program. Parents participate on all of the 15 school committees. The Parent Advisory Committee was established with a representative from each class. Parent surveys are collected and analyzed.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Letter of Transmittal

The Charter School was assigned the TEA "Recognized" for the 2011-12 fiscal years, which reflects the students' performance on the new state assessment instrument STAAR, the State of Texas Assessment of Academic Readiness, a more rigorous assessment program that provides the foundation for a new accountability system for Texas public education. The state has yet determined the required passing standards, therefore, the current accountability rating is based on the previous assessment results on the Texas Assessment of Knowledge and Skills (TAKS). The new accountability system focuses on increasing post secondary readiness of graduating high school students and helps to ensure that Texas students are competitive with other students both nationally and internationally.

Organization Philosophy

Vision Statement – The Charter School is a model constructivist school that empowers children, parents, and faculties in the global community to fulfill their potential through autonomy, wonder, and discovery.

Motto – Challenging children to construct knowledge and community.

The ideology of the Charter School outlines the ideals and beliefs held by their employees. The Charter School strives to strengthen the social and economic foundation of Houston by offering its youth the highest quality of elementary education.

Twelve teachers (six lead and six assistant) lead classes using constructivist practices with an emphasis on technology and lesson plans designed to support children's natural curiosity. Teachers tailor classroom experiences to the needs and interest of each year's students. Reasoning, autonomy, and community are promoted throughout each child's day and life at the Charter School.

The management and staff of the Charter School endorse and support the Charter School's Mission Statement – to provide a student-centered curriculum that enhances the intellectual development, technological fluency, and leadership ability of students. The knowledge gained by the students will allow them to transfer into the sixth grade at other schools and will give them strategic advantages. The positive results that have been achieved have resulted in a continuing high demand for admission into the program, as reflected by a consistent number of applications for enrollment.

Economic Outreach

The Charter School maintains a healthy current ratio (proportion of current assets to current liabilities) of 1.54 and 1.36 for 2012 and 2011 fiscal years, respectively. The Total Resources per Student Ratio (Current Fund balance divided by the Total number of Fulltime students) is \$379, \$288, and \$940 for 2012, 2011, and 2010 fiscal years, respectively.

The job growth in the Houston area during the 2011-12 fiscal years has declined slightly in relation to prior years, but there is projected growth in the energy and professional services sectors. The Charter School wants to become more proactive in blending their elementary program with their after-school program and activities in this diverse community.

As a result of the strength and commitment of its faculty, students, and parents, the Charter School has positioned itself well to respond to future opportunities and challenges of leadership in constructivist professional development and research.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Letter of Transmittal

Accounting Systems and Annual Budgets

The necessity of legal compliance with applicable laws and regulations related to the state and federal grants requires developing and improving the accounting system, and consideration is given to the adequacy of the internal control structure.

The Charter School Planning Panel provides need assessments and prioritizes efforts for the upcoming year. An annual budget is developed for its general fund and each of its separate governmental funds. University policy requires budgeted expenditures to be no more than budgeted revenue. During the course of the fiscal year, the actual to budget amounts are reviewed and modified or adjusted as needed.

Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

The General Fund budget is adopted annually on a basis consistent with the budgetary basis of accounting. Budgetary requests are submitted so that a budget may be prepared. The budget is presented to the TEA and a final budget must be prepared and adopted no later than January of the following year.

Major Initiatives and Accomplishments

The facility renovation project was completed during 2009-10 and 2010-11 fiscal years with exception of the wall murals and classroom rugs, which were to be completed during the 2011-12 fiscal years. Due to a decrease in the state funding in fiscal year 12, these two projects were again placed on hold until funding is available. The entry was to be completed with the original renovation, but funds were not available to begin this phase of the project. The entry project will continue into the 2012-13 fiscal years and will not be complete until funds are available.

As stated earlier the Camp Construct program applied through the Texas Department of Family Services to become a Licensed Child Care facility. The process began in the spring of 2011, and the school was granted a license in May 2012. UHCS continues to look at ways to improve the Child Care program that is provided to its students and their families.

The TxEIS student accounting system was purchased and implemented during the 2011-12 fiscal years. This is the second year UHCS will be utilizing this student accounting system.

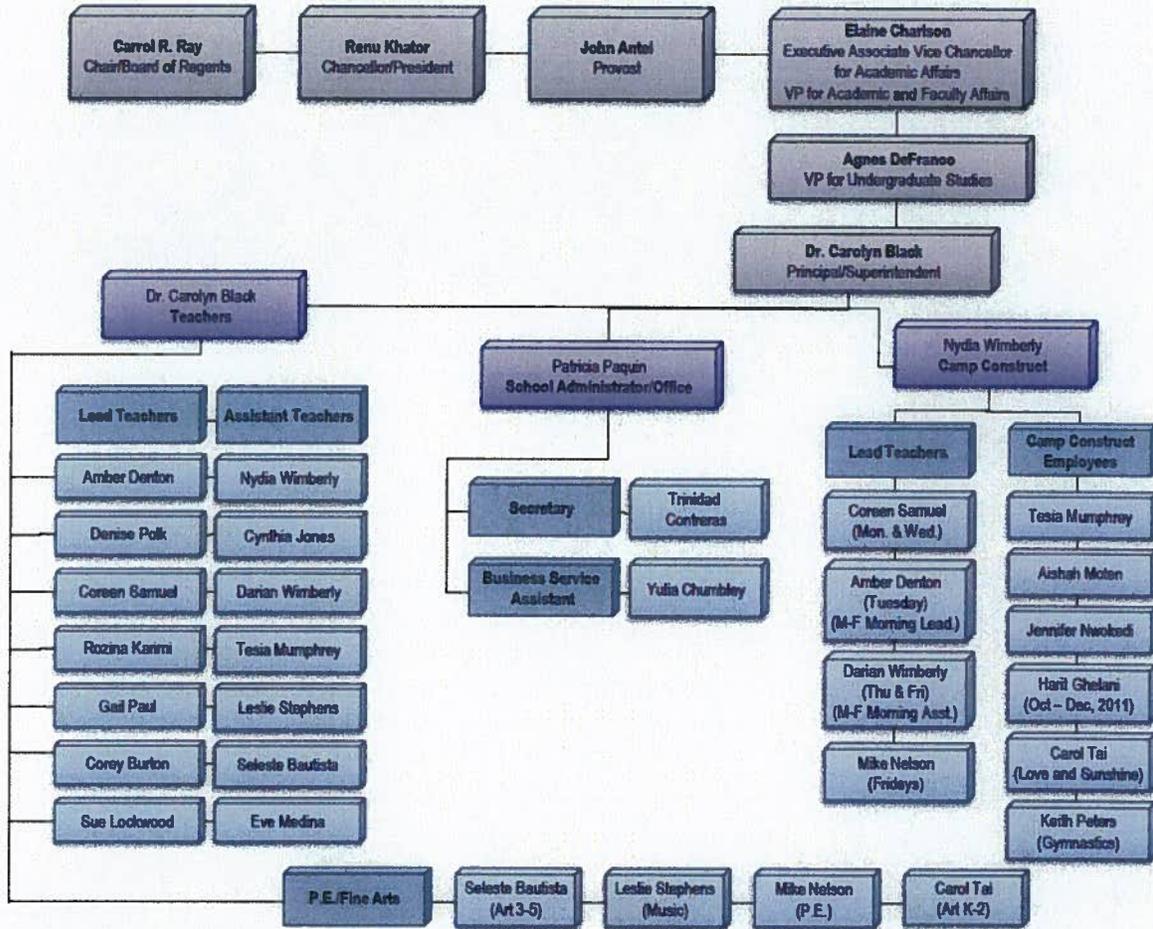
Dr. Carolyn Black continues to serve on the Board of Association for Constructionist Teaching (ACT). The ACT annual conference took place in the Woodlands, Texas from October 20, 2012 to October 22, 2012. UHCS hosted the annual ACT conference and all UHCS faculty and staff participated in the conference.

Contacting the Charter School's Financial Management

This financial report is designed to provide a general overview of the Charter School's financial position and to demonstrate the Charter School's accountability for the funds it receives. Any questions regarding this report or requests for additional financial information should be directed to the Office of the Executive Vice Chancellor/Vice President for Administration and Finance, University of Houston, Houston, Texas 77204-2016.

UNIVERSITY OF HOUSTON CHARTER SCHOOL ADMINISTRATIVE ORGANIZATION

University of Houston Charter School 2011-2012



FINANCIAL SECTION



KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

The Board of Regents
University of Houston Charter School:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (Charter School), a department of the University of Houston, as of and for the year ended August 31, 2012, which collectively comprise the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express opinions 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School as of August 31, 2012, and the respective changes in financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 on our consideration of the Charter School'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Required Supplementary Information on pages 9 – 19 and 31 – 32, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The Budgetary Comparison Schedule required by the Texas Education Agency – Child Nutrition and Schedule of Expenses included in the Other Supplementary Information Section are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Budgetary Comparison Schedule required by the Texas Education Agency – Child Nutrition and Schedule of Expenses included in the Other Supplementary Information Section have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 Budgetary Comparison Schedule required by the Texas Education Agency – Child Nutrition and Schedule of Expenses included in the Other Supplementary Information Section are fairly stated in all material respects in relation to the basic financial statements as a whole. The Introductory Section, Statistical Section, and Financial Trends Section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December 5, 2012

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Introduction

The discussion and analysis of the financial position of the University of Houston Charter School (the Charter School) provides an overview of the activities for the fiscal years ended August 31, 2012 and 2011. This Management's Discussion and Analysis is unaudited and is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts.

Overview of the Financial Statements

The Charter School herewith presents its basic financial statements for fiscal year (fiscal year) 2012. The basic financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The Charter School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements presented are the statement of net assets and the statement of activities. The notes to the basic financial statements provide additional information and disclosures that are essential to a complete understanding of the data provided in the government-wide and fund financial statements. The information contained in the basic financial statements of the Charter School is incorporated within the UH's Annual Financial Report.

Statement of Net Assets

The statement of net assets reflects all the Charter School's assets and liabilities using the full-accrual basis of accounting and represents the financial position as of the conclusion of the fiscal year. Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Net assets are equal to assets minus liabilities. Unrestricted net assets are available to the Charter School for any lawful purpose. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified. Restricted net assets represent net assets that can be utilized only in accordance with third-party-imposed restrictions.

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Statement of net assets information:			
Assets:			
Current assets	\$ 142,351	145,248	(2,897)
Total assets	<u>\$ 142,351</u>	<u>145,248</u>	<u>(2,897)</u>
Liabilities:			
Current liabilities	\$ 92,231	108,993	(16,762)
Total liabilities	<u>92,231</u>	<u>108,993</u>	<u>(16,762)</u>
Net assets:			
Restricted for various programs	39,596	31,539	8,057
Unrestricted	<u>10,524</u>	<u>4,716</u>	<u>5,808</u>
Total net assets	<u>50,120</u>	<u>36,255</u>	<u>13,865</u>
Total liabilities and net assets	<u>\$ 142,351</u>	<u>145,248</u>	<u>(2,897)</u>

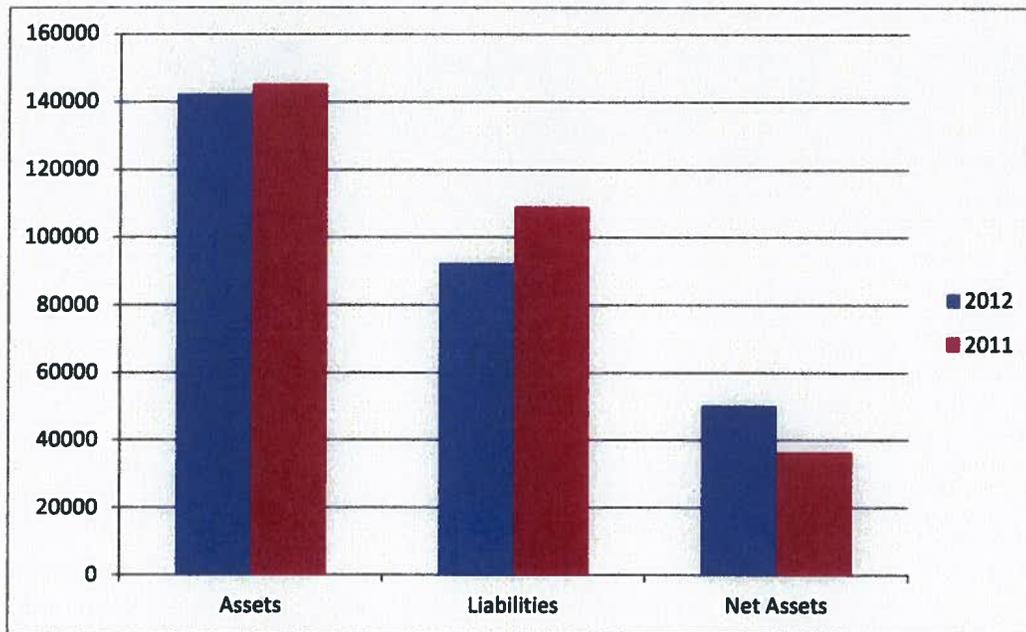
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Net Assets 2012 – 2011

Statement of Net Assets Information



Fiscal Year 2012 Compared to 2011

Cash represents almost 87% of the current assets held by the Charter School. Current assets decreased by \$2,897 or 2%. Liabilities decreased by \$16,762 or 15%. The ending net assets for restricted state and federal programs were increased by \$8,057. Unrestricted net assets increased by \$5,808.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Statement of Activities

The statement of activities identifies all of the Charter School's revenues and expenses and measures the results of the Charter School's operations during the fiscal year. All revenues and expenses are included, regardless of when cash is received or paid. Revenues are separated into those provided by external entities, which share the costs of certain programs, and those revenues provided as general revenues. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Statements of activities information:			
Revenues:			
Program revenues:			
Charges for services	\$ 135,175	131,662	3,513
Operating grants and contributions	73,857	74,355	(498)
General revenue	<u>1,119,294</u>	<u>1,142,000</u>	<u>(22,706)</u>
Total revenues	<u>1,328,326</u>	<u>1,348,017</u>	<u>(19,691)</u>
Program expenses:			
Instruction	776,873	798,646	(21,773)
Instructional resources and media services	33	88	(55)
Curriculum/instructional staff development	9,070	11,320	(2,250)
School leadership	146,956	149,634	(2,678)
Guidance/counseling and evaluation	6,104	3,975	2,129
Food services	44,024	42,849	1,175
General administration	193,725	196,026	(2,301)
Plant maintenance and operations	3,886	38,655	(34,769)
Community services	130,451	192,003	(61,552)
Fund-raising	<u>3,339</u>	<u>5,478</u>	<u>(2,139)</u>
Total program expenses	<u>1,314,461</u>	<u>1,438,674</u>	<u>(124,213)</u>
Change in net assets	13,865	(90,657)	104,522
Net assets, beginning of year	<u>36,255</u>	<u>126,912</u>	<u>(90,657)</u>
Net assets, end of year	<u>\$ 50,120</u>	<u>36,255</u>	<u>13,865</u>

Fiscal Year 2012 Compared to 2011

Instructional technology was purchased in fiscal year 11 utilizing the Academic Support Grant of \$24,705. There were no major purchases of technology in fiscal year 12, which contributed to the decrease of expenses in the instructional program.

The decrease in community services expenses was due to a decrease in enrollment in Summer Camp Construct, and there was a decrease in the number of employees in Camp Construct during the 2012 fiscal year. Decrease in

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

enrollment resulted in not having to hire additional employees to assist in the supervision of the program and a decrease in supplies and materials needed for the program. In fiscal year 11, Camp Construct employed 8 part-time workers while in fiscal year 12 only 4 part-time workers were employed.

The increase in food services is attributed to the increased participation in the food service program by the UHCS students. It was a goal of the school to increase participation of students being served by the school breakfast and lunch program. The Charter School had an average of 45 students participate in breakfast and 80 students participate in the lunch program compared to an average of 40 students participating in breakfast and 65 students participating in the lunch program the previous year. The cost of the catered breakfast and lunch meals remained the same \$1.30 for breakfast and \$2.30 for lunch.

The decrease in expenses in fund-raising was due to the decrease in fund-raising activities.

The decrease in curriculum/instructional staff development expenses is due to UH Charter School not having to provide First Aid Training (Training certifies the employee for two years) and Team Building Training to staff in August 2012 as compared to providing this training to all staff in August 2011.

The decrease in plant maintenance and operations expenses was due to the completion of the major renovation, which began in fiscal year 10 and completed in fiscal year 11. The completion of this renovation significantly reduced expenditures in this area for fiscal year 12.

The increase in guidance/counseling and evaluation expenses is due to UHCS having to fund a portion of the services usually provided by the Special Education Cooperative (Cooperative) because UHCS had used all of the funds available to UHCS from the Cooperative prior to the end of the fiscal year. It became the responsibility of UHCS to cover the cost for the counseling and evaluation services from February to August 2012. In fiscal year 11, the Cooperative was responsible for the salaries of the individuals providing counseling/evaluation services.

The decrease in expenses in school leadership is attributed to a decrease in expenditures from the ACE cost center associated with the leadership expenses during fiscal year 12 as compared to fiscal year 11.

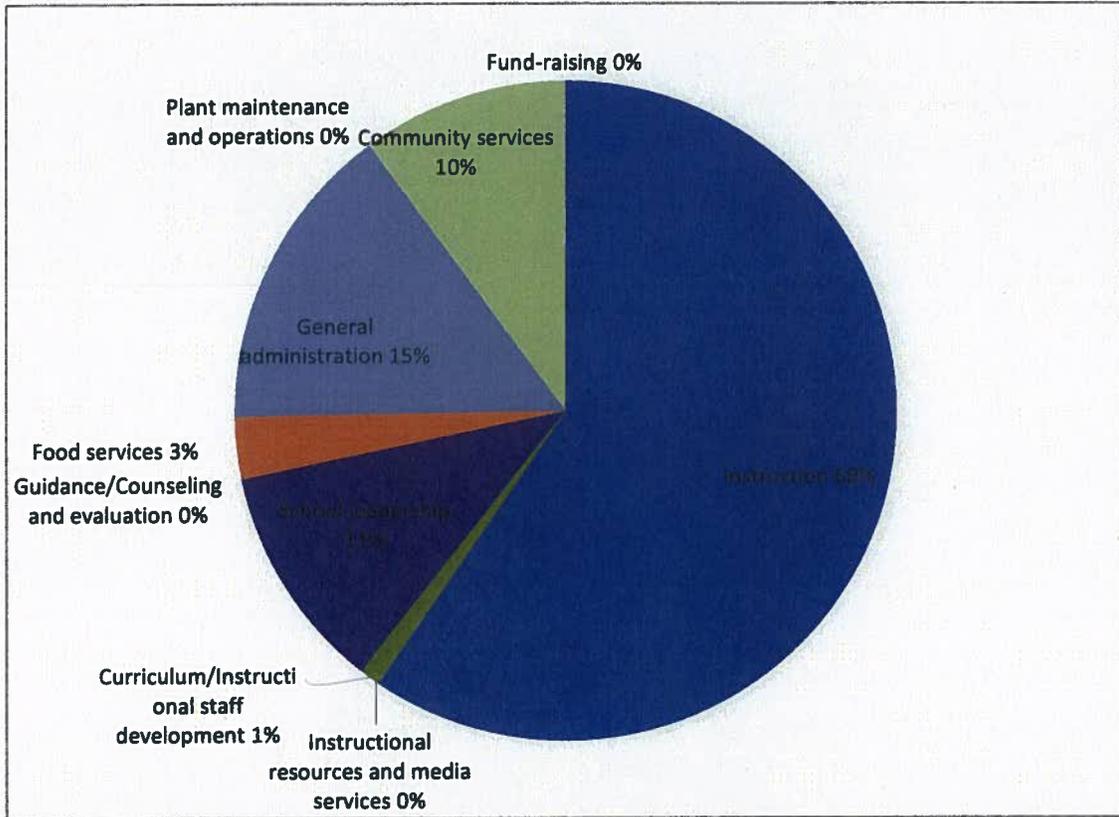
The decrease in general administration was due to decreases in expenditures in fiscal year 12 as compared to fiscal year 11 for two main reasons. In fiscal year 11, the State of Texas required all staff to be fingerprinted. In fiscal year 11, 14 staff members were fingerprinted as compared to fiscal year 12 when only 2 staff members needed to be fingerprinted. In fiscal year 11, there were expenses associated with the printing of school forms and the school directory; whereas, these expenses were not incurred in fiscal year 12.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

2012 Expenses

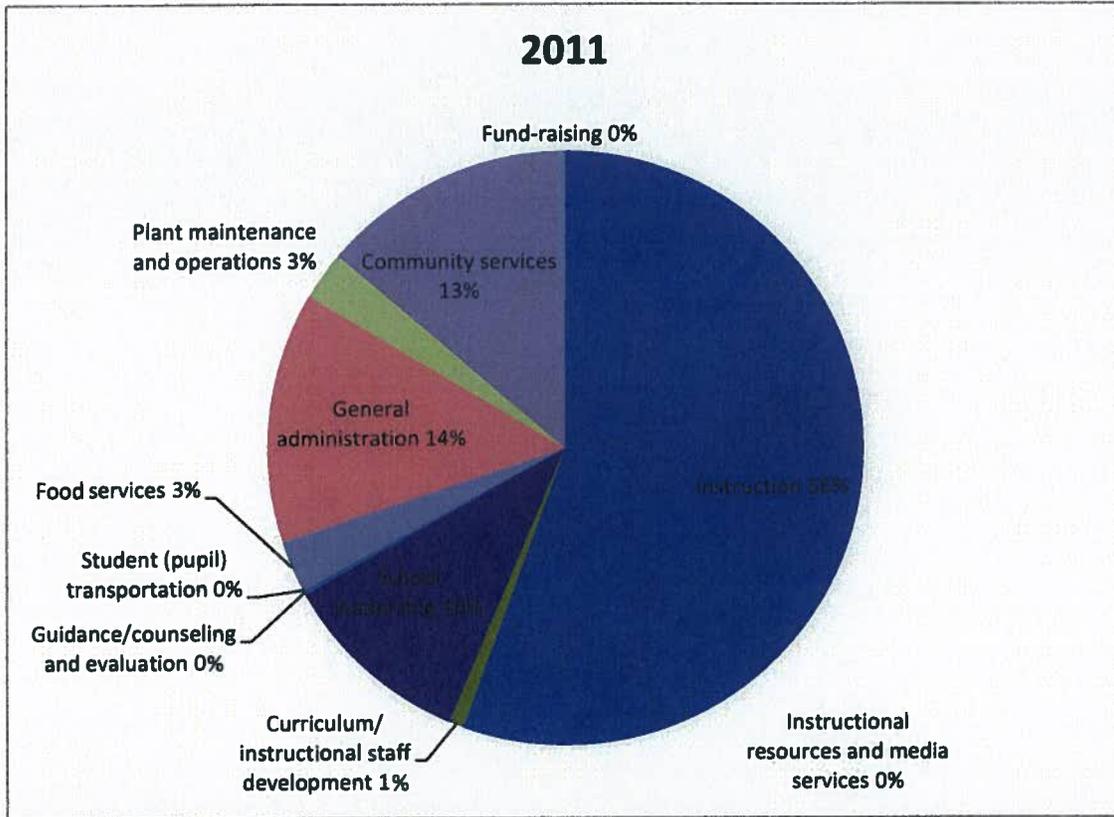


UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

2011 Expenses



The 2012 revenues include sources that are primarily used to provide services to the Charter School's students and are as follows:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 135,175	131,662	3,513
Operating grants and contributions	73,857	74,355	(498)
Total program revenues	<u>209,032</u>	<u>206,017</u>	<u>3,015</u>
General revenues	<u>1,119,294</u>	<u>1,142,000</u>	<u>(22,706)</u>
Total general revenues	<u>1,119,294</u>	<u>1,142,000</u>	<u>(22,706)</u>
Total revenues	<u>\$ 1,328,326</u>	<u>1,348,017</u>	<u>(19,691)</u>

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Fiscal Year 2012 Compared to 2011

Program revenue for 2012 increased by \$3,015 and is attributed to the increase in funds received for the Foundation School Program in fiscal year 12. In fiscal year 12 state program revenues were \$986,311 as compared to fiscal year 11 state program revenues were \$1,026,654. This decrease of \$40,343 in state funding was offset in fiscal year 12 by an increase in revenues in local funds in fiscal year 12 as compared to fiscal year 11 in the amount of \$14,183 primarily from child nutrition, camp construct, the 5th grade celebration, 4th grade field trip, and 5th grade field trip. We also received \$10,805 in revenue from the 15th birthday celebration in fiscal year 12 and did not receive similar revenue in fiscal year 11.

Program expenses are the costs necessary to provide services and to fulfill the mission of the Charter School. Program expenses are displayed in the statement using the functional method of classification and are as follows:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Program expenses:			
Instruction	\$ 776,873	798,646	(21,773)
Instructional resources and media services	33	88	(55)
Curriculum/instructional staff development	9,070	11,320	(2,250)
School leadership	146,956	149,634	(2,678)
Guidance/counseling and evaluation	6,104	3,975	2,129
Food services	44,024	42,849	1,175
General administration	193,725	196,026	(2,301)
Plant maintenance and operations	3,886	38,655	(34,769)
Community services	130,451	192,003	(61,552)
Fund-raising	3,339	5,478	(2,139)
Total program expenses	<u>\$ 1,314,461</u>	<u>1,438,674</u>	<u>(124,213)</u>

The majority of the Charter School's revenue is expended for instructional purposes, which includes teacher and support personnel salaries.

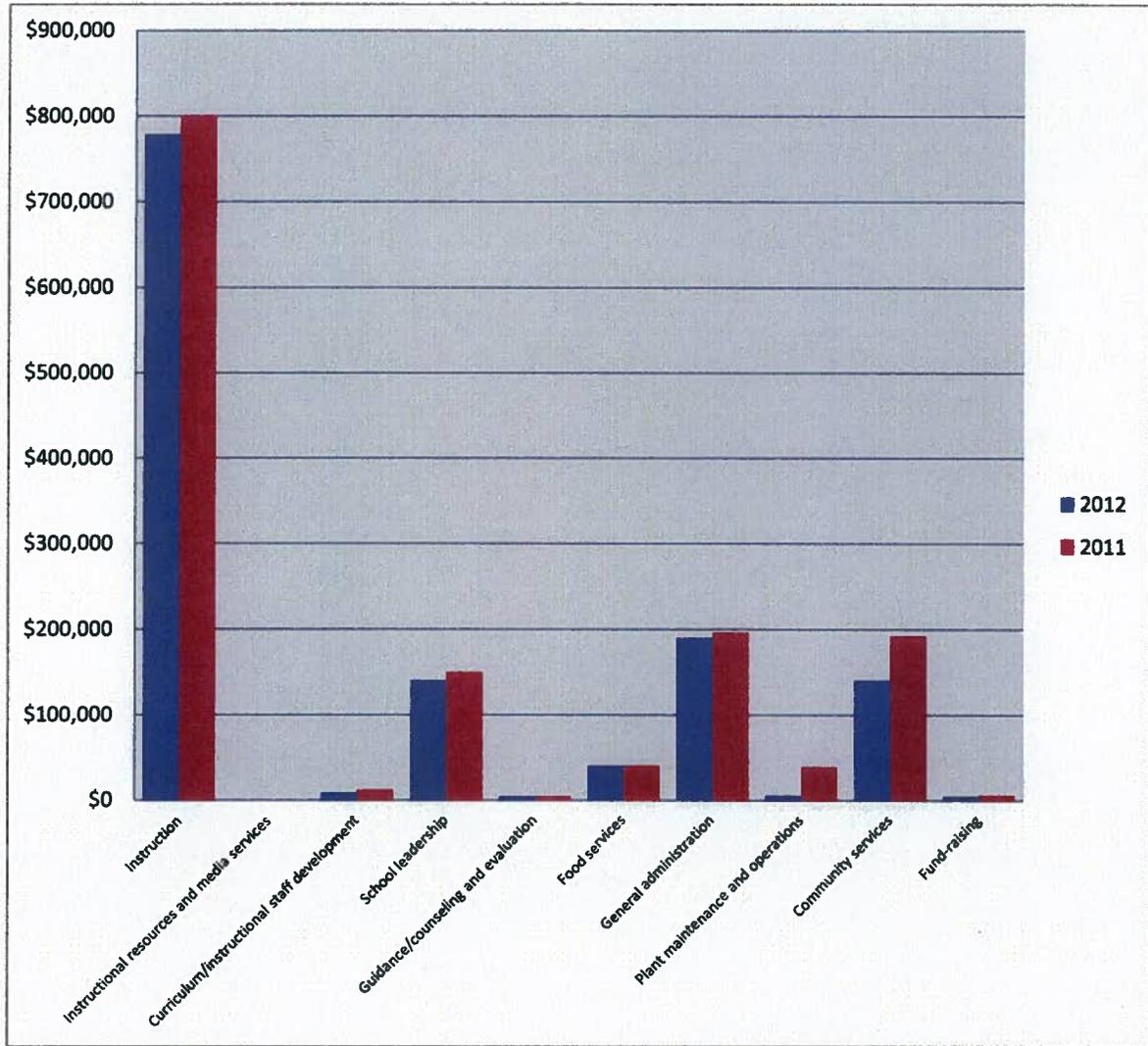
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Operating Expenses 2012 – 2011

Operating Expenses



Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives or programs. Contracts and state law require the establishment of some funds. Other funds are created by the Charter School's management to control and manage expenditures for particular purposes. The only category of funds used by the Charter School is governmental funds.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as displaying balances of spendable resources available at the end of the fiscal year. These financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Because these statements provide a detailed short-term perspective of the Charter School's general operations, they may be useful in evaluating a school's near-term financing requirements. Any differences between the broader long-term focus of the government-wide financial statements (as reported in the statement of net assets and the statement of activities) and the fund financial statements will be displayed in a reconciliation following the end of the governmental fund financial statements.

General Fund – This is the Charter School's primary operating fund. It accounts for all financial resources of the Charter School except those required to be accounted for in another fund. The major revenue source for the General Fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund. The General Fund revenues were \$986,021 and \$1,019,804 for the years ended August 31, 2012 and 2011, respectively.

The General Fund has a budget that is approved by the UH Board of Regents. The actual General Fund revenue was less than budgeted by \$55,950 and incurred expenses were less than budgeted by \$43,178.

UH Allocation – The source of this revenue is an allocation from the University of Houston System Administration General Funds to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs. The UH Allocation was \$106,153 for each of the years ended August 31, 2012 and 2011.

Summer Camp/Camp Construct Programs – The source of this revenue is from tuition payments. Funds originated in the Summer Camp and Camp Construct programs are restricted to these programs. The Summer Camp/Camp Construct revenues were \$116,046 and \$116,169 for the years ended August 31, 2012 and 2011, respectively.

Accounting Systems and Annual Budgets

The necessity of legal compliance with applicable laws and regulations related to the state and federal grants requires developing and improving the accounting system, and consideration is given to the adequacy of the internal control structure.

The Charter School Planning Panel provides need assessments and prioritizes efforts for the upcoming year. An annual budget is developed for its general fund and each of its separate governmental funds. University policy requires budgeted expenditures to be no more than budgeted revenue. During the course of the fiscal year, the actual to budget amounts are reviewed and modified or adjusted as needed.

Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

Capital Assets

As of the end of the fiscal year 2012, the Charter School did not possess any reportable capital assets. Such assets would include property, buildings, furniture, and equipment. The University provides building space, a playground area, and parking facilities for use by the Charter School.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Title to capital assets resides with the University, which allocates custody of such assets to the Charter School for its operational needs. Therefore, such assets can be transferred to or from the Charter School at the discretion of the University. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are recorded at cost and are depreciated over the estimated useful life of the asset. Useful life is established by a uniform classification system maintained by the State of Texas and is measured from the date of acquisition. The Charter School capitalizes assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of any capital assets would be provided from the Charter School's operating revenues.

Noncapital furniture and equipment, including computing equipment, are maintained by the Charter School for its operational needs. Title to these items also resides with the University, which allocates custody to the Charter School. Expenditures for these items are charged to current operating expenses as incurred as they are below the Charter School's capitalization threshold. Funds for the acquisition of such equipment are provided from the Charter School's operating revenues. Additional information regarding the capitalization of assets is in the notes to the financial statements.

Economic Condition and Outlook

Through the use of effective and judicious financial budgeting and management, and the University of Houston's contribution of facilities and other indirect services, the Charter School has been able to satisfy current year expenses with available resources. As previously discussed, the Charter School has no liability obligations other than typical business associated payables, primarily payroll related.

Since the financial operations of the Charter School are considered a governmental organization, the potential for unilateral dissolution by the University of Houston is one of the factors that need to be considered. The two primary financial supporters of the Charter School's operations, the Texas Education Agency and the University of Houston, have demonstrated endorsement of the Charter School's financial and management policies through their continued financial support and commitments in the prior years.

During fiscal year 11, the Charter School started pursuing state recognition as a certified child care provider. This certificate will allow the Charter School to become eligible for additional funding grant opportunities and Texas Education Agency support. The Charter School was granted a license in May 2012. Another measure that the School is considering is the evaluation of its current pricing structure. These two measures will ensure to counteract the increase in the payroll expenses that has occurred during this current year.

Management of neither the Charter School nor the University are aware of any other known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the 2011-12 fiscal years. Although it is not possible to predict ultimate results, management believes the Charter School's financial condition and position are strong.

Debt Administration

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions. The operating budget for the Charter School is currently structured such that annual financial obligations are satisfied through operating revenues that are received during each current fiscal year.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis (MD&A)

August 31, 2012

Contacting the Charter School's Financial Management

This financial report is designed to provide a general overview of the Charter School's financial position and to demonstrate the Charter School's accountability for the funds it receives. Any questions regarding this report or requests for additional financial information should be directed to the Office of the Executive Vice Chancellor/Vice President for Administration and Finance, University of Houston, Houston, Texas 77204-2016.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Exhibit A-1

Statement of Net Assets

August 31, 2012

<u>Data control codes</u>			
	Assets:		
1110	Cash	\$	123,329
1240	Due from other governments		18,002
1290	Other receivables		1,020
			<hr/>
1000	Total assets	\$	<u>142,351</u>
	Liabilities:		
2110	Accounts payable	\$	1,975
2150	Payroll deductions and withholdings		27,132
2160	Accrued wages payable		39,678
2210	Employees' compensable leave (other accrued expenses)		23,446
			<hr/>
2000	Total liabilities	\$	<u>92,231</u>
	Net assets:		
3800	Restricted for various programs:		
	Summer camp construct programs	\$	14,396
	Other nonmajor funds		25,200
3900	Unrestricted		10,524
			<hr/>
3000	Total net assets	\$	<u>50,120</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Exhibit B-1

Statement of Activities
Year ended August 31, 2012

Data control codes	Functions/programs	Expenses	Program revenues		Net revenue (expense) and changes in net assets
			Operating grants and contributions	Charges for services	
	Governmental activities:				
11	Instruction	\$ 776,873	42,810	—	734,063
12	Instructional resources and media services	33	—	—	33
13	Curriculum and instructional staff development	9,070	—	—	9,070
23	School leadership	146,956	—	—	146,956
31	Guidance/counseling and evaluation services	6,104	4,185	—	1,919
35	Food services	44,024	26,862	19,129	(1,967)
41	General administration	193,725	—	—	193,725
51	Plant maintenance and operation	3,886	—	—	3,886
61	Community services	130,451	—	116,046	14,405
81	Fund-raising	3,339	—	—	3,339
TG	Total governmental activities	\$ 1,314,461	73,857	135,175	1,105,429
	General revenues:				
GC	Grants and contribution not restricted to specific function				1,119,294
CN	Change in net assets				13,865
NB	Net assets, beginning of year				36,255
NE	Net assets, end of year				\$ 50,120

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Balance Sheet – Governmental Funds

August 31, 2012

Data control codes	General fund	Major funds			Nonmajor funds	Total governmental funds
		UH allocation	Summer camp/camp construct			
Assets:						
1110	\$ 67,093	29,098	16,610	10,528	123,329	
1240	—	—	—	18,002	18,002	
1290	—	—	440	580	1,020	
1000	\$ 67,093	29,098	17,050	29,110	142,351	
Liabilities:						
2110	—	1,975	—	—	1,975	
2150	25,780	—	884	468	27,132	
2160	37,275	—	1,770	633	39,678	
2000	63,055	1,975	2,654	1,101	68,785	
Fund balances:						
3450	—	—	—	7,909	7,909	
Restricted for Child Nutrition						
Restricted for fund balances:						
3490	—	—	14,396	—	14,396	
3450/3490	—	—	—	17,291	17,291	
3590	—	27,123	—	2,809	29,932	
3600	4,038	—	—	—	4,038	
3000	4,038	27,123	14,396	28,009	73,566	
4000	67,093	29,098	17,050	29,110	142,351	
Employee compensable leave is not due and payable in the current period and, therefore, not reported in the funds						
Net assets of Charter School					(23,446)	
Employees' compensable leave (other accrued expenses)					\$	50,120
2210	—	23,446	—	—	23,446	

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Statement of Revenues, Expenditures, and Changes in Fund Balances -- Governmental Funds
 Year ended August 31, 2012

Data control codes	Major funds					Total governmental funds
	General fund	UH allocation	Summer camp/camp construct	Nonmajor funds		
Revenues:						
5700	—	106,153	116,046	46,249	268,448	
5800	986,021	—	—	290	986,311	
5900	—	—	—	73,567	73,567	
5000	986,021	106,153	116,046	120,106	1,328,326	
Expenditures:						
Current:						
0011	682,954	35,686	—	58,233	776,873	
0012	33	—	—	—	33	
0013	7,993	745	—	332	9,070	
0023	146,912	35	—	9	146,956	
0031	35	2,900	—	3,169	6,104	
0035	—	—	—	44,024	44,024	
0041	145,540	50,825	—	1,324	197,689	
0051	—	3,886	—	—	3,886	
0061	—	80	132,857	—	132,937	
0081	—	—	—	3,339	3,339	
6000	983,467	94,157	132,857	110,430	1,320,911	
	2,554	11,996	(16,811)	9,676	7,415	
Excess (deficiency) of revenues over (under) expenditures						
Other financing sources (uses):						
Transfer in	—	—	13,581	—	13,581	
Transfer out	—	(13,581)	—	—	(13,581)	
Total other financing sources (uses)	—	(13,581)	13,581	—	—	
Net change in fund balance	2,554	(1,585)	(3,230)	9,676	7,415	
Fund balances, beginning of year	1,484	28,708	17,626	18,333	66,151	
Fund balances, end of year	4,038	27,123	14,396	28,009	73,566	
3000					\$ 7,415	
Net change in fund balance, per above						
Compensable absences do not require the use of current						
financial resources and, therefore, are not reported as						
expenditures in the governmental funds						
Change in net assets, per statement of activities						
					\$ 6,450	
					\$ 13,865	

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The University of Houston Charter School (the Charter School) is chartered by the State Board of Education and accredited by the Texas Education Agency (TEA). The charter is held by the University of Houston System (the University). The University is accredited with the Southern Association of Colleges and Schools. Courses are developed to the Texas Essential Knowledge and Skills (TEKS) objectives and are TEKS compliant. The Charter School is a model constructivist elementary school that implements a curriculum in which children develop cognitively, socially, morally, and physically based on a sustained mental action. The Charter School provides educational curriculum to prekindergarten through the fifth grade. The Charter School's administrators and staff are degreed and certified for the positions to which they are assigned.

The Principal of the Charter School reports to management personnel of the University and the operations of the Charter School are overseen by a committee of the University's Board of Regents.

The Charter School is a department of the University. These financial statements present financial information that is attributable to the Charter School and do not purport to, and do not present fairly, the financial position of the University.

(b) Government-wide and Fund Financial Statements

Basis of Presentation

The basic financial statements of the Charter School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the TEA's Financial Accountability System Resource Guide (Resource Guide). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Charter School follows the applicable pronouncements of GASB and pronouncements of Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements as they relate to governmental entities. Accordingly, the Charter School has presented the following sets of financial statements:

Government-wide Financial Statements

The statement of net assets and the statement of activities include the financial activities of the government as a whole. Governmental activities generally are financed through intergovernmental revenues and other nonexchange transactions.

The statement of activities presents a comparison between program direct expenses and revenues for each function of the Charter School's governmental activities. Direct expenses are those that are associated with specific programs and/or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges for services, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All other revenues are presented as general revenues.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

Fund Financial Statements

The fund financial statements provide information about the Charter School's funds, which are all classified as governmental funds. The fund financial statements are categorized into major and nonmajor funds. Major governmental funds are displayed in separate columns. Nonmajor governmental funds are reported in the aggregate.

The Charter School reports the following major governmental funds:

General Fund – This is the Charter School's primary operating fund. It accounts for all financial resources of the Charter School except those required to be accounted for in another fund. The major revenue source for the General Fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund.

UH Allocation – The source of this revenue is an allocation from the University of Houston System Administration General Funds to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs.

Summer Camp/Camp Construct Programs – The source of this revenue is from tuition payment. Funds originated in the Summer Camp and Camp Construct programs are restricted to these programs.

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Government-wide Financial Statements

Government-wide financial statement presentation is based on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Charter School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue received in cash for which eligibility requirements are not yet satisfied is reported as unearned revenue in the statement of net assets. As of August 31, 2012, the Charter School did not have any unearned revenue.

Governmental Funds' Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

Revenues received from federal, state, and local grants are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred.

(d) *Assets, Liabilities, and Net Assets or Equity*

1. Cash and Cash Equivalents

For financial statement purposes, the Charter School considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

The Charter School maintains all its cash with the University's Treasury (the Treasury). The University maintains accounts with financial institutions.

2. Deposits and Investments

The Charter School's funds are deposited with the Treasury and are not required to be maintained by the Treasury in a separate depository account with financial institutions. The Treasury maintains deposits with financial institutions in the name of the University. The Charter School reconciles the revenues and expenses in a monthly basis. The Charter School does not maintain investments of any kind, which is in compliance with the Charter School's investment policy.

3. Receivables and Payables

The Charter School believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided to further disaggregate those balances. All receivables are scheduled for collection within one year from year-end.

4. Capital Assets

Expenditures of \$5,000 or more to acquire individual assets are capitalized. Capitalized assets are recorded at cost. Donated capital assets are capitalized and recorded at their fair value when received. Capitalized assets are depreciated on a straight-line basis over the estimated useful lives of the assets. Repairs and maintenance costs are charged to expenses when incurred. The Charter School did not have any capitalized assets as of August 31, 2012. The University provides the Charter School with building facilities, furniture, playground, and parking facilities. Title to these capital assets resides with the University.

5. Compensated Absences

Employees of the Charter School are entitled to paid vacation and sick days depending on length of service. Employees with more than 35 years of service can carry over 532 hours of earned but unused vacation time at the end of each calendar year to the following calendar year. Employees with less than 35 years of service can carry forward less than 532 hours of earned but unused vacation time at the end of each calendar year to the following calendar year, based on a graduated scale tied to the length of service. Accrued leave in excess of the

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

normal maximum is converted to sick leave at the conclusion of the fiscal year. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated unused vacation. Unpaid compensable absences of \$23,446 as of August 31, 2012 have been recorded in the accompanying financial statements.

The activities of unpaid compensable absences during 2012 are as follows:

Employees' compensable leave, beginning	\$	29,896
Leave accrual expense		<u>(6,450)</u>
Employees' compensable leave, ending	\$	<u>23,446</u>

6. Long-Term Obligations

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions.

7. Net Assets/Fund Balances

Unrestricted net assets include resources not restricted to any programs or functions, which are available to support the programs and activities of the Charter School in general. The amount available for this purpose as of August 31, 2012 was \$10,524.

Restricted net assets amounted to \$39,596 and are restricted to various programs but not specific to functions as of August 31, 2012.

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted – Amounts that are restricted to specific purposes that have been externally imposed by creditors, grantors, contributors, or laws or regulations or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts that are intended for a specific purpose but do not meet the definition of restricted or committed.

Unassigned – Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When the Charter School incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Charter School's policy to use restricted resources first, then unrestricted resources.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

When an expenditure is incurred for which assigned, or unassigned fund balances are available, the Charter School considers amounts to have been spent first out of assigned funds, and then unassigned funds, as needed.

8. Data Control Codes

Data control codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

9. Income Taxes

The Charter School is a department of the University, which is a local government exempt from income taxes under Section 115(a) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

(e) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures.

(2) Other Information

(a) Risk Management

1. General

Approximately 74% of the Charter School's revenues for fiscal year 2012 were provided by the State of Texas.

2. Healthcare Coverage and Risk Management

The University provides healthcare benefits to all the Charter School's employees who meet the University's employment qualifications and requirements. Contributions are required from the Charter School's employees for coverage of their dependents and for higher level of coverage beyond standard benefits. During the year, the University deducted amounts from the Charter School's cash accounts to cover the Charter School's portion of healthcare coverage, based on an allocation determined by the state, and records a corresponding expense. Healthcare benefits costs attributable to the Charter School for fiscal years 2012, 2011, and 2010 were \$112,004, \$100,068, and \$90,649, respectively.

3. Risk of Loss

The Charter School is exposed to various risks of loss related to torts, injuries to employees, and natural disasters. The University of Houston System carries commercial insurance to cover losses to which the Charter School may be exposed.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

(b) *Contingent Liabilities*

The Charter School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. In addition, costs charged to federal programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Charter School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, Charter School funds may be subject to refund if so determined by the TEA or the grantor agencies. In the opinion of the Charter School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the various state and federal program grants, therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

(c) *Pension Plan*

All employees of the Charter School, who are not exempt from membership under the Texas Constitution and Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost-sharing multiple-employer defined-benefit pension plan with the liability for all risks and costs for the State of Texas. All Charter School employees, except those employed for less than one half the standard work load and who are not exempt by law, are required to participate in TRS as a condition of employment. Benefits are established by state statute and vary based on age at retirement along with number of years of state service.

By statute, covered employees must contribute 6.4% of their salary to the plan and the Charter School contributes an amount equal to 6% times the aggregate annual compensation during the fiscal year. The TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, TRS, which is subject to amendment by the Texas Legislature. The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling 800-877-0123.

The Charter School's total contribution to the TRS for the years ended August 31, 2012, 2011, and 2010 was \$50,736, \$53,544, and \$49,768, respectively. These contributions represent 100% of the required contribution.

(d) *Related-Party Transactions*

For the fiscal year ended August 31, 2012, the University provided the Charter School with direct funding in the amount of \$106,153 in fiscal year 2012. The amount has been included in the revenues reported in the financial statements for the year.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2012

In addition, the University provided the Charter School with management oversight and other administrative human resources support, office and classroom building facilities, transportation equipment, playground equipment, and certain other services and supplies estimated at \$104,993 for fiscal year 2012. The University provided the Charter School with indirect support for operation and maintenance estimated at \$63,085.

(e) Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provision, if any, should be disclosed along with actions taken to address such violations. Management of the Charter School believes that it has not violated any finance-related legal and contractual provisions for the fiscal year ended August 31, 2012.

(f) Recently Issued Accounting Standards

The Charter School plans to adopt the following new accounting pronouncements when required:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, required for fiscal periods beginning after December 15, 2011. This statement is intended to enhance the usefulness of its codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. Management is in the process of determining the effects that the adoption of this Statement will have on the Charter School's financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, required for fiscal periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Management is in the process of determining the effects that the adoption of this statement will have on the Charter School's financial statements.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, required for fiscal periods beginning after December 15, 2012. This statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62. Management is in the process of determining the effects that the adoption of this statement will have on the Charter School's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Schedule G-1

Budgetary Comparison Schedule – General Fund

Year ended August 31, 2012

Unaudited

Data control codes		Budgeted amounts		Actual	Variance with final budget positive (negative)
		Original	Final		
	Revenues:				
5800	State program revenues	\$ 1,041,971	1,041,971	986,021	55,950
5000	Total revenues	1,041,971	1,041,971	986,021	55,950
	Expenditures:				
	Current:				
	Instruction and instruction related services:				
0011	Instruction	686,277	708,652	682,954	25,698
0012	Instructional resources and media services	2,000	2,000	33	1,967
0013	Curriculum and instructional staff development	3,092	3,092	7,993	(4,901)
	Total instruction and instruction related services	691,369	713,744	690,980	22,764
	Instructional and school leadership:				
0023	School leadership	144,138	144,138	146,912	(2,774)
	Total instruction and school leadership	144,138	144,138	146,912	(2,774)
	Support services student:				
0031	Guidance/counseling and evaluation services	—	—	35	(35)
	Total guidance and counseling	—	—	35	(35)
	Administrative support services:				
0041	General administration	167,063	167,063	145,540	21,523
	Total administrative support services	167,063	167,063	145,540	21,523
	Support services nonstudent based:				
0051	Plant maintenance and operations	1,700	1,700	—	1,700
	Total plant maintenance	1,700	1,700	—	1,700
6000	Total expenditures	1,004,270	1,026,645	983,467	43,178
	Excess of revenues over expenditures	37,701	15,326	2,554	12,772
	Net change in fund balance	37,701	15,326	2,554	12,772
	Fund balances, beginning of year	1,484	1,484	1,484	—
3000	Fund balances, end of year	\$ 39,185	16,810	4,038	12,772

See accompanying note to required supplementary information.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Note to Required Supplementary Information

Year ended August 31, 2012

Unaudited

Budgetary Information

Annually, a General Fund budget is adopted on a basis consistent with generally accepted accounting principles. Budgetary requests are submitted so that a budget may be prepared. The budget is presented to the Texas Education Agency and a final budget must be prepared and adopted no later than January of the following year.

OTHER SUPPLEMENTARY INFORMATION

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Schedule J-1

Child Nutrition
 Budgetary Comparison Schedule
 Year ended August 31, 2012
 Unaudited

Data control codes		Budgeted amounts		Actual	Variance with final budget positive (negative)
		Original	Final		
	Revenues:				
5700	Local and intermediate sources	\$ 36,112	36,112	19,129	16,983
5800	State program revenues	21,112	21,112	26,861	(5,749)
5900	Federal program revenues	—	—	—	—
5000	Total revenues	<u>57,224</u>	<u>57,224</u>	<u>45,990</u>	<u>11,234</u>
	Expenditures:				
	Current:				
0035	Food services	<u>44,023</u>	<u>44,023</u>	<u>44,023</u>	<u>—</u>
		<u>44,023</u>	<u>44,023</u>	<u>44,023</u>	<u>—</u>
6000	Total expenditures	<u>44,023</u>	<u>44,023</u>	<u>44,023</u>	<u>—</u>
	Excess of revenues over expenditures	<u>13,201</u>	<u>13,201</u>	<u>1,967</u>	<u>11,234</u>
	Net change in fund balance	<u>13,201</u>	<u>13,201</u>	<u>1,967</u>	<u>11,234</u>
	Fund balances, beginning of year	<u>5,942</u>	<u>5,942</u>	<u>5,942</u>	<u>—</u>
3000	Fund balances, end of year	<u>\$ 19,143</u>	<u>19,143</u>	<u>7,909</u>	<u>11,234</u>

See accompanying note to other supplementary information.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Schedule of Expenses

Year ended August 31, 2012

<u>Data control codes</u>		
	Expenses:	
6100	Payroll costs	\$ 1,102,973
6200	Professional and contractual services	51,063
6300	Supplies and materials	109,469
6400	Other operating costs	<u>50,956</u>
	Total expenses	<u>\$ 1,314,461</u>

See accompanying note to other supplementary information.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Note to Other Supplementary Information

Year ended August 31, 2012

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board, and is not considered a part of the basic financial statements. It may, however, include information that is required by other entities such as Texas Education Agency.

STATISTICAL SECTION

Unaudited

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Statistical Section

Unaudited

The statistical section of the University of Houston Charter School's (the Charter School) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Charter School's overall financial health.

Contents

Financial Trends

These schedules contain information to help the reader understand how the Charter School's financial performance has changed over time.

FINANCIAL TRENDS

Unaudited

UNIVERSITY OF HOUSTON CHARTER SCHOOL

General Revenues and Total Changes in Net Assets

Years ended August 31, 2012 and 2011

Unaudited

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Grants and contributions:			
Charges for services	\$ 135,175	131,662	3,513
Operating grants and contributions	73,857	74,355	(498)
General revenue	1,119,294	1,142,000	(22,706)
Total grants and contributions	<u>1,328,326</u>	<u>1,348,017</u>	<u>(19,691)</u>
Operating expenses:			
Instruction	776,873	798,646	(21,773)
Instructional resources and media services	33	88	(55)
Curriculum/instructional staff development	9,070	11,320	(2,250)
School leadership	146,956	149,634	(2,678)
Guidance/counseling and evaluation	6,104	3,975	2,129
Food services	44,024	42,849	1,175
General administration	193,725	196,026	(2,301)
Plant maintenance and operations	3,886	38,655	(34,769)
Community services	130,451	192,003	(61,552)
Fund-raising	3,339	5,478	(2,139)
Total operating expenses	<u>1,314,461</u>	<u>1,438,674</u>	<u>(124,213)</u>
Change in net assets	13,865	(90,657)	104,522
Net assets, beginning of year	<u>36,255</u>	<u>126,912</u>	<u>(90,657)</u>
Net assets, end of year	<u>\$ 50,120</u>	<u>36,255</u>	<u>13,865</u>

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Governmental Funds Fund Balances

Last two fiscal years
(Modified accrual basis of accounting)

Unaudited

	<u>2012</u>	<u>2011</u>
Fund balances:		
Restricted for various programs	\$ 39,596	34,024
Assigned	2,809	30,643
Unassigned	<u>31,161</u>	<u>1,484</u>
Total fund balances	\$ <u>73,566</u>	<u>66,151</u>

Governmental Funds Revenues

Last two fiscal years

	<u>2012</u>	<u>2011</u>
Local sources:		
UH allocation, Summer Camp, and ACE Charity	\$ 222,199	238,364
Miscellaneous local sources	<u>46,249</u>	<u>15,494</u>
Total local sources	<u>268,448</u>	<u>253,858</u>
State sources:		
State program revenues	<u>986,311</u>	<u>1,026,654</u>
Total state sources	<u>986,311</u>	<u>1,026,654</u>
Federal sources:		
Federal program revenues	<u>73,567</u>	<u>67,505</u>
Total federal sources	<u>73,567</u>	<u>67,505</u>
Total revenues	\$ <u>1,328,326</u>	<u>1,348,017</u>

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Governmental Funds Expenditures

Last two fiscal years

Unaudited

	<u>2012</u>	<u>2011</u>
Instruction	\$ 776,873	798,260
Instructional resources and media services	33	88
Curriculum/instructional staff development	9,070	11,310
School leadership	146,956	150,772
Guidance/counseling and evaluation	6,104	4,218
Food services	44,024	42,849
General administration	197,689	196,873
Plant maintenance and operations	3,886	38,656
Community services	132,937	190,923
Fund-raising	3,339	5,478
	<u>\$ 1,320,911</u>	<u>1,439,427</u>
Total expenditures		

Indirect Support

Fiscal year ended August 31, 2012

UH – Space occupied	6,618,925	Sq.ft
Charter School – Space occupied	11,369	Sq.ft
Percentage Charter School for operation and maintenance of plant	0.001718	
UH operation and maintenance expenses	\$ 36,727,412	
Amount of indirect support for operation and maintenance	63,085	
UH operating expenses	745,384,155	
Charter School operating expenses	1,320,911	
Percentage Charter School for institutional support	0.0017721	
UH institutional support	59,247,274	
Amount of indirect support for institutional support	104,993	