UNIVERSITY OF HOUSTON

CHARTER SCHOOL

(a Department within an Agency of the State of Texas)

Annual Financial Report

August 31, 2013

(With Independent Auditors' Report Thereon)
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INTRODUCTORY SECTION
CERTIFICATE OF BOARD

University of Houston System
(Federal Employer Identification Number: 74-6001399)
Charter Holder for
University of Houston Charter School
(County – District Number: 101-807)

We, the undersigned, certify that the attached Annual Financial Report and Compliance Report of
the University of Houston Charter School were reviewed and (check one) ☑ approved
☐ disapproved for the year ended August 31, 2013 at a special called meeting of the
Executive and Compensation Committee of the University of Houston System Board of Regents,
who has authority to exercise the powers of the University of Houston System Board of Regents,
the governing body of the charter holder, on the 18th day of December, 2013.

Signature of Board Secretary

Signature of Board President

Note: If the governing body of the charter holder does not approve the independent auditors’ report, it must
forward a written statement discussing the reason(s) for not approving the report.
UNIVERSITY OF HOUSTON CHARTER SCHOOL

University of Houston System Board of Regents – Board Members
Fiscal Year Ended August 31, 2013

Chairman: Nelda Luce Blair
Vice Chairman: Jarvis V. Hollingsworth
Secretary: Tilman J. Fertitta
Spencer D. Armour, III
Nandita V. Berry
Mica Mosbacher
Jacob M. Monty
Roger F. Welder
Welcome W. Wilson, Jr.
Benjamin P. Wells

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
• Michelle “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, 2014
• Benjamin P. Wells (Student Regent)
UNIVERSITY OF HOUSTON CHARTER SCHOOL
Administrative Organization

University of Houston Charter School 2012-2013 as of August 31, 2013
FINANCIAL SECTION
INDEPENDENT AUDITORS’ REPORT

To the Board of Regents of
The University of Houston System:

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Houston Charter School (the “Charter School”) (a department of the University of Houston which is an agency of the State of Texas) as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Charter School’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.
**Basis for Adverse Opinion**

As discussed in Note 1, the financial statements of the Charter School are intended to present the financial position and the changes in financial position of only that portion of the activities of the University of Houston and the State of Texas that is attributable to the Charter School. They do not report to, and do not present fairly the financial position of the University of Houston or the State of Texas as of August 31, 2013 or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion” paragraph, the financial statements referred to above do not present fairly the financial position of the University of Houston and the State of Texas as of August 31, 2013, or the changes in financial position or cash flows thereof for the year then ended.

**Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the Charter School as of August 31, 2013, and the changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on the table of contents, 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.

**Other Information**

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 introductory section, budgetary comparison for child nutrition and schedules of expenses are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The budgetary comparison for child nutrition and schedule of expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 basic 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 for child nutrition
and schedule of expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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 it.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Charter School’s internal control over financial reporting and compliance.

*Belt Harris Pechacek, LLP*

Belt Harris Pechacek, LLP
*Certified Public Accountants*
Houston, Texas
December 9, 2013
UNIVERSITY OF HOUSTON CHARTER SCHOOL
Management’s Discussion and Analysis
Year ended August 31, 2013

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, 2013 and 2012. 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. It should be read in conjunction with the Charter School’s financial statements.

Overview of the Financial Statements
The Charter School herewith presents its basic financial statements for fiscal year 2013. 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 position and the statement of activities. The fund financial statements presented are the balance sheet and the statements of revenues, expenditures and changes in fund balances. 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 University of Houston System’s Annual Financial Report.

Statement of Net Position
The statement of net position 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 position is equal to assets minus liabilities. Unrestricted net position is available to the Charter School for any lawful purpose. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party-imposed restrictions.
<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statement of net position information:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$249,229</td>
<td>$142,351</td>
<td>$106,878</td>
</tr>
<tr>
<td>Total assets</td>
<td>$249,229</td>
<td>$142,351</td>
<td>$106,878</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$103,341</td>
<td>$92,231</td>
<td>$11,110</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$103,341</td>
<td>$92,231</td>
<td>$11,110</td>
</tr>
<tr>
<td><strong>Net position:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted for various programs</td>
<td>37,928</td>
<td>39,596</td>
<td>(1,668)</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>107,960</td>
<td>10,524</td>
<td>97,436</td>
</tr>
<tr>
<td>Total net position</td>
<td>145,888</td>
<td>50,120</td>
<td>95,768</td>
</tr>
<tr>
<td>Total liabilities and net position</td>
<td>$249,229</td>
<td>$142,351</td>
<td>$106,878</td>
</tr>
</tbody>
</table>
Fiscal Year 2013 Compared to 2012

Cash represents almost 99% of the current assets held by the Charter School. Current assets increased by $106,878 or 75% and current liabilities increased by $11,110 or 12%. The ending net position for restricted state and federal programs was decreased by $1,668. Unrestricted net position increased by $97,436.
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.

<table>
<thead>
<tr>
<th>Statements of activities information:</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for services</td>
<td>$115,028</td>
<td>135,175</td>
<td>(20,147)</td>
</tr>
<tr>
<td>Operating grants and contributions</td>
<td>70,274</td>
<td>73,857</td>
<td>(3,583)</td>
</tr>
<tr>
<td>General revenue</td>
<td>1,111,392</td>
<td>1,119,294</td>
<td>(7,902)</td>
</tr>
<tr>
<td>Total revenues</td>
<td>1,296,694</td>
<td>1,328,326</td>
<td>(31,632)</td>
</tr>
<tr>
<td>Program expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>691,082</td>
<td>776,873</td>
<td>(85,791)</td>
</tr>
<tr>
<td>Instructional resources and media</td>
<td></td>
<td>33</td>
<td>(33)</td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curriculum/instructional staff</td>
<td>23,802</td>
<td>9,070</td>
<td>14,732</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School leadership</td>
<td>133,732</td>
<td>146,956</td>
<td>(13,224)</td>
</tr>
<tr>
<td>Guidance/counseling and evaluation</td>
<td>1,250</td>
<td>6,104</td>
<td>(4,854)</td>
</tr>
<tr>
<td>Food services</td>
<td>51,794</td>
<td>44,024</td>
<td>7,770</td>
</tr>
<tr>
<td>General administration</td>
<td>187,559</td>
<td>193,725</td>
<td>(6,166)</td>
</tr>
<tr>
<td>Plant maintenance and operations</td>
<td>8,922</td>
<td>3,886</td>
<td>5,036</td>
</tr>
<tr>
<td>Community services</td>
<td>102,785</td>
<td>130,451</td>
<td>(27,666)</td>
</tr>
<tr>
<td>Fundraising</td>
<td>—</td>
<td>3,339</td>
<td>(3,339)</td>
</tr>
<tr>
<td>Total program expenses</td>
<td>1,200,926</td>
<td>1,314,461</td>
<td>(113,535)</td>
</tr>
<tr>
<td>Change in net position</td>
<td>95,768</td>
<td>13,865</td>
<td>81,903</td>
</tr>
<tr>
<td>Net position, beginning of year</td>
<td>50,120</td>
<td>36,255</td>
<td>13,865</td>
</tr>
<tr>
<td>Net position, end of year</td>
<td>$145,888</td>
<td>50,120</td>
<td>95,768</td>
</tr>
</tbody>
</table>
Program Revenues Fiscal Year 2013 Compared to 2012

The fiscal year 2013 revenues include sources that are primarily used to provide services to the Charter School’s students and are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for services</td>
<td>$115,028</td>
<td>135,175</td>
<td>(20,147)</td>
</tr>
<tr>
<td>Operating grants and contributions</td>
<td>70,274</td>
<td>73,857</td>
<td>(3,583)</td>
</tr>
<tr>
<td>Total program revenues</td>
<td>185,302</td>
<td>209,032</td>
<td>(23,730)</td>
</tr>
<tr>
<td>General revenues</td>
<td>1,111,392</td>
<td>1,119,294</td>
<td>(7,902)</td>
</tr>
<tr>
<td>Total general revenues</td>
<td>1,111,392</td>
<td>1,119,294</td>
<td>(7,902)</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$1,296,694</td>
<td>1,328,326</td>
<td>(31,632)</td>
</tr>
</tbody>
</table>

Charges for services revenue for fiscal year 2013 decreased by $20,147 and is attributed to the decrease in revenue of $19,306 received from summer camp construct fund in 2013 as compared to 2012 since the Charter School did not have a summer camp construct program in 2013. There was also a decrease of $841 in revenue received in the local child nutrition program in 2013 as compared to 2012. In 2013, state program revenues, included in the general revenues of $1,111,392, were $995,516 as compared to 2012 state program revenues were $986,311. This reflects an increase in revenue of $9,205 from 2012 to 2013.
Operating Revenues Fiscal Year 2013 – 2012
Program Expenses Fiscal Year 2013 Compared to 2012

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:

<table>
<thead>
<tr>
<th>Program expenses:</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$ 691,082</td>
<td>776,873</td>
<td>(85,791)</td>
</tr>
<tr>
<td>General administration</td>
<td>187,559</td>
<td>193,725</td>
<td>(6,166)</td>
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<td>102,785</td>
<td>130,451</td>
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<td>5,036</td>
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<tr>
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<td></td>
<td></td>
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<tr>
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<td>1,250</td>
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<td>(4,854)</td>
</tr>
<tr>
<td>Fundraising</td>
<td></td>
<td>3,339</td>
<td>(3,339)</td>
</tr>
<tr>
<td>Instructional resources and media services</td>
<td></td>
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<td>1,314,461</td>
<td>(113,535)</td>
</tr>
</tbody>
</table>

The decrease in expenses in instruction is directly related to a reduction in staff in fiscal year 2013. This reduction in staff had a direct impact on instructional salary and fringe benefits. The Charter School employed five full-time assistant teachers and one half-time special education teacher in fiscal year 2013 as compared to 2012 when there were six full-time assistant teachers and one full time special education teacher.

The decrease in community services is attributed to the Charter School not offering summer camp construct program during fiscal year 2013. The Charter School offered summer camp construct in fiscal year 2012.

The decrease in school leadership can be attributed to the coding assigned to the software purchased by the Charter School for state report purposes as being coded in 2012 to leadership ($9,966) and coded to general administration in 2013 ($9,465). Additionally, salary expenses were $3,205 less in 2013 as compared to 2012.

The increase in expenses in food service can be attributed to the salary assigned to food service in fiscal year 2013 as compared to 2012 when no salary was assigned to food services. The salary assigned in 2013 was $6,244.

The increases in plant maintenance and operations can be attributed to the cost of leasing the Xerox copy machine and monthly overage charges, as well as the painting of the classrooms which took place in the summer of 2013.

The increase in expenses in curriculum and instruction is related to the cost to attend the Texas Charter School Association Conference in Austin, Texas in fiscal year 2013 as compared to the same conference which was held locally in Galveston, Texas in 2012. Due to the location in 2012, the only cost was for registration for three attendees compared to travel lodging and meal expenses for three attendees in 2013. The Charter School also had
UNIVERSITY OF HOUSTON CHARTER SCHOOL
Management’s Discussion and Analysis (Continued)
Year ended August 31, 2013

expenses for software purchases ($4,724), art materials ($1,498) and speech and hearing services ($5,843) in 2013 which it did not have in 2012.

The decrease in guidance and counseling expenses can be attributed to a decrease in salary costs. In fiscal year 2012, the Charter School employed two curriculum coaches; one coach focused on literacy development with the staff and the other focused on mathematics instruction. In 2013, the Charter School only employed the literacy coach.

The decrease in fundraising can be attributed to adjusting the Charter School cost centers and opening cost centers for the 4th grade and 5th grade field trips that in the past have been assigned to fundraising. The new cost center expenses were assigned to curriculum and instruction rather than fundraising.

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

Statement of Activities Fiscal Year 2013 – Expenses
UNIVERSITY OF HOUSTON CHARTER SCHOOL
Management’s Discussion and Analysis (Continued)
Year ended August 31, 2013

Statement of Activities Fiscal Year 2012 - 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.

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 position 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 $985,855 and $986,021 for the years ended August 31, 2013 and 2012, respectively.
UNIVERSITY OF HOUSTON CHARTER SCHOOL
Management’s Discussion and Analysis (Continued)
Year ended August 31, 2013

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, 2013 and 2012.

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.

The general fund has a budget that is approved by the University of Houston System Board of Regents. The actual general fund revenue was less than budgeted by $5,961 and actual expenditures were less than budgeted by $72,163.

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

Capital Assets
As of the end of the fiscal year 2013, 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.

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.

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.

**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 2011, the Charter School started pursuing state recognition as a certified child care provider. This certificate can make the Charter School become eligible for additional funding grant opportunities and Texas Education Agency support. Another measure that the Charter School is considering is the evaluation of its current pricing structure. These two measures will ensure to counteract the increase of the payroll expenses that 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 2013 – 2014 fiscal year. Although it is not possible to predict ultimate results, management believes the Charter School’s financial condition and position is strong.

**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

Statement of Net Position
August 31, 2013

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Assets:</th>
<th>Liabilities:</th>
<th>Net position:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1110</td>
<td>Cash</td>
<td>$ 29,288</td>
<td>$ 33,947</td>
</tr>
<tr>
<td>1290</td>
<td>Other receivables</td>
<td>688</td>
<td>40,106</td>
</tr>
<tr>
<td>1000</td>
<td>Total assets</td>
<td>$ 249,229</td>
<td>$ 103,341</td>
</tr>
<tr>
<td>2150</td>
<td>Payroll deductions and withholdings</td>
<td>$ 29,288</td>
<td></td>
</tr>
<tr>
<td>2160</td>
<td>Accrued wages payable</td>
<td>40,106</td>
<td></td>
</tr>
<tr>
<td>2210</td>
<td>Employees' compensable leave (other accrued expenses)</td>
<td>33,947</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>Total liabilities</td>
<td>$ 103,341</td>
<td></td>
</tr>
<tr>
<td>3800</td>
<td>Restricted for various programs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3890</td>
<td>Summer camp/camp construct programs</td>
<td>$ 8,351</td>
<td></td>
</tr>
<tr>
<td>3820</td>
<td>Other nonmajor funds</td>
<td>29,577</td>
<td></td>
</tr>
<tr>
<td>3900</td>
<td>Unrestricted</td>
<td>107,960</td>
<td></td>
</tr>
<tr>
<td>3000</td>
<td>Total net position</td>
<td>$ 145,888</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
UNIVERSITY OF HOUSTON CHARTER SCHOOL
Statement of Activities
Year ended August 31, 2013

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Functions/programs</th>
<th>Expenses</th>
<th>Program revenues</th>
<th>Net revenue (expense) and changes in net position</th>
<th>Governmental activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Operating grants and contributions</td>
<td>Charges for services</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Instruction</td>
<td>$ 691,082</td>
<td>36,064</td>
<td>---</td>
<td>655,018</td>
</tr>
<tr>
<td>13</td>
<td>Curriculum and instructional staff development</td>
<td>23,802</td>
<td>---</td>
<td>---</td>
<td>23,802</td>
</tr>
<tr>
<td>23</td>
<td>School leadership</td>
<td>133,732</td>
<td>---</td>
<td>---</td>
<td>133,732</td>
</tr>
<tr>
<td>31</td>
<td>Guidance counseling, and evaluation services</td>
<td>1,250</td>
<td>3,429</td>
<td>---</td>
<td>(2,179)</td>
</tr>
<tr>
<td>35</td>
<td>Food services</td>
<td>51,794</td>
<td>30,781</td>
<td>18,288</td>
<td>2,725</td>
</tr>
<tr>
<td>41</td>
<td>General administration</td>
<td>187,559</td>
<td>---</td>
<td>---</td>
<td>187,559</td>
</tr>
<tr>
<td>51</td>
<td>Plant maintenance and operations</td>
<td>8,922</td>
<td>---</td>
<td>---</td>
<td>8,922</td>
</tr>
<tr>
<td>61</td>
<td>Community services</td>
<td>102,785</td>
<td>---</td>
<td>96,740</td>
<td>6,045</td>
</tr>
<tr>
<td></td>
<td>Total governmental activities</td>
<td>$1,200,926</td>
<td>70,274</td>
<td>115,028</td>
<td>1,015,624</td>
</tr>
<tr>
<td></td>
<td>General revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grants and contribution not restricted to specific function</td>
<td></td>
<td></td>
<td></td>
<td>1,111,392</td>
</tr>
<tr>
<td></td>
<td>Change in net position</td>
<td></td>
<td></td>
<td></td>
<td>95,768</td>
</tr>
<tr>
<td></td>
<td>Net position, beginning of year</td>
<td></td>
<td></td>
<td></td>
<td>50,120</td>
</tr>
<tr>
<td></td>
<td>Net position, end of year</td>
<td></td>
<td></td>
<td></td>
<td>$ 145,888</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Balance Sheet – Governmental Funds

August 31, 2013

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Assets:</th>
<th>Liabilities:</th>
<th>Fund balances:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current period</td>
<td>Current period</td>
<td>33,947</td>
<td>145,888</td>
</tr>
<tr>
<td></td>
<td>1110 Cash</td>
<td>139,719</td>
<td>65,855</td>
<td>42,967</td>
</tr>
<tr>
<td></td>
<td>1290 Other receivable</td>
<td>688</td>
<td>688</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1000 Total assets</td>
<td>$139,719</td>
<td>$65,855</td>
<td>$43,955</td>
</tr>
<tr>
<td></td>
<td>2150 Payroll deductions and withholdings</td>
<td>27,934</td>
<td>—</td>
<td>1,354</td>
</tr>
<tr>
<td></td>
<td>2160 Accrued wages payable</td>
<td>37,564</td>
<td>—</td>
<td>2,542</td>
</tr>
<tr>
<td></td>
<td>2000 Total liabilities</td>
<td>65,498</td>
<td>—</td>
<td>3,896</td>
</tr>
<tr>
<td></td>
<td>3450 Restricted for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3490 Child nutrition</td>
<td>—</td>
<td>—</td>
<td>5,184</td>
</tr>
<tr>
<td></td>
<td>3490 Summer camp/camp construct</td>
<td>—</td>
<td>—</td>
<td>8,351</td>
</tr>
<tr>
<td></td>
<td>3490 Restricted for various programs</td>
<td>—</td>
<td>—</td>
<td>24,393</td>
</tr>
<tr>
<td></td>
<td>3590 Assigned</td>
<td>65,855</td>
<td>1,831</td>
<td>67,686</td>
</tr>
<tr>
<td></td>
<td>3600 Unassigned</td>
<td>74,221</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3000 Total fund balances</td>
<td>$74,221</td>
<td>$65,855</td>
<td>$39,759</td>
</tr>
<tr>
<td></td>
<td>4000 Total liabilities and fund balance</td>
<td>$139,719</td>
<td>$65,855</td>
<td>$43,655</td>
</tr>
</tbody>
</table>

Employee compensable leave is not due and payable in the current period and, therefore, not reported in the funds.

Net position of Charter School $145,888

2210 Employees’ compensable leave (other accrued expenses) $33,947

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, 2013

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Major funds</th>
<th>General fund</th>
<th>UH allocation</th>
<th>Nonmajor funds</th>
<th>Total Governmental funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5700</td>
<td>Local and intermediate sources</td>
<td>$ -</td>
<td>-</td>
<td>106,153</td>
<td>134,413</td>
</tr>
<tr>
<td>5800</td>
<td>State program revenues</td>
<td>985,855</td>
<td>-</td>
<td>9,661</td>
<td>995,516</td>
</tr>
<tr>
<td>5900</td>
<td>Federal program revenues</td>
<td>-</td>
<td>-</td>
<td>60,612</td>
<td>60,612</td>
</tr>
<tr>
<td>5000</td>
<td>Total revenues</td>
<td>985,855</td>
<td>106,153</td>
<td>204,686</td>
<td>1,296,694</td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0011</td>
<td>Instruction</td>
<td>639,579</td>
<td>-</td>
<td>51,503</td>
<td>691,082</td>
</tr>
<tr>
<td>0013</td>
<td>Curriculum and instructional staff development</td>
<td>23,802</td>
<td>-</td>
<td>-</td>
<td>23,802</td>
</tr>
<tr>
<td>0023</td>
<td>School leadership</td>
<td>133,732</td>
<td>-</td>
<td>-</td>
<td>133,732</td>
</tr>
<tr>
<td>0031</td>
<td>Guidance, counseling, and evaluation services</td>
<td>-</td>
<td>-</td>
<td>1,250</td>
<td>1,250</td>
</tr>
<tr>
<td>0035</td>
<td>Food services</td>
<td>-</td>
<td>-</td>
<td>51,794</td>
<td>51,794</td>
</tr>
<tr>
<td>0041</td>
<td>General administration</td>
<td>118,559</td>
<td>58,499</td>
<td>-</td>
<td>177,058</td>
</tr>
<tr>
<td>0051</td>
<td>Plant maintenance and operation</td>
<td>-</td>
<td>8,922</td>
<td>-</td>
<td>8,922</td>
</tr>
<tr>
<td>0061</td>
<td>Community services</td>
<td>-</td>
<td>-</td>
<td>102,785</td>
<td>102,785</td>
</tr>
<tr>
<td>6000</td>
<td>Total expenditures</td>
<td>915,672</td>
<td>67,421</td>
<td>207,332</td>
<td>1,190,425</td>
</tr>
<tr>
<td>Excess (deficiency) of revenues over (under) expenditures</td>
<td>70,183</td>
<td>38,732</td>
<td>(2,646)</td>
<td>106,269</td>
<td></td>
</tr>
<tr>
<td>Fund balances, beginning of year</td>
<td>4,038</td>
<td>27,123</td>
<td>42,405</td>
<td>73,566</td>
<td></td>
</tr>
<tr>
<td>3000</td>
<td>Fund balances, end of year</td>
<td>$ 74,221</td>
<td>65,855</td>
<td>39,759</td>
<td>179,835</td>
</tr>
</tbody>
</table>

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 position, per statement of activities

$106,269

See accompanying notes to basic financial statements.
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UNIVERSITY OF HOUSTON CHARTER SCHOOL

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(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”) which is an agency of the State of Texas.

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, or State of Texas.

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.

(b) Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government.

(c) Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

(d) Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Charter School’s funds. Separate statements for each fund category – governmental– are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.
The Charter School reports the following governmental funds:

**General Fund**

The general fund 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 is considered a major fund for reporting purposes.

**Special Revenue Funds**

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund. The UH Central Allocation is considered a major fund for reporting purposes. The source of this revenue is an allocation from the University of Houston System Administration General Fund to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs.

During the course of operations, the Charter School has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.
(e) Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

(f) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

The Charter School’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

2. 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 on 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

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Charter School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and are depreciated on a straight-line basis over the estimated life of the assets. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The Charter School did not have any capitalized assets as of August 31, 2013. The University provides the Charter School with building facilities, furniture, playground, and parking facilities. Title to these capital assets resides with the University.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Charter Charter School has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Charter School has no items that qualify for reporting in this category.

6. 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
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 $33,947 as of August 31,
2013 have been recorded in the accompanying financial statements.

The activities of unpaid compensable absences during 2013 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ compensable leave, beginning</td>
<td>$23,446</td>
</tr>
<tr>
<td>Leave accrual expense</td>
<td>10,501</td>
</tr>
<tr>
<td>Employees’ compensable leave, ending</td>
<td>$33,947</td>
</tr>
</tbody>
</table>

7. **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.

8. **Net Position Flow Assumption**

Sometimes the Charter School will fund outlays for a particular purpose from both restricted
(e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to
report as restricted-net position and unrestricted-net position in the government-wide financial
statements, a flow assumption must be made about the order in which the resources are
considered to be applied. It is the Charter School’s policy to consider restricted-net position to
have been depleted before unrestricted-net position is applied.

9. **Fund Balance Flow Assumptions**

Sometimes the Charter School will fund outlays for a particular purpose from both restricted
and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In
order to calculate the amounts to report as restricted, committed, assigned, and unassigned
fund balance in the governmental fund financial statements, a flow assumption must be made
about the order in which the resources are considered to be applied. It is the Charter School’s
policy to consider restricted fund balance to have been depleted before using any of the
components of unrestricted fund balance. Further, when the components of unrestricted fund
balance can be used for the same purpose, committed fund balance is depleted first, followed
by assigned fund balance. Unassigned fund balance is applied last.

10. **Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of
any limitations requiring the use of resources for specific purposes. The Charter School itself
can establish limitations on the use of resources through either a commitment (committed fund
balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or
contractually required to be maintained intact are classified as nonspendable fund balance.
Amounts that are externally imposed by creditors, grantors, contributors or laws or regulations
of other governments; or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Charter School’s highest level of decision-making authority. The Charter School’s Board of Regents (the “Board”) is the highest level of decision-making authority for the Charter School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The Charter School did not have any commitments at yearend.

Amounts in the assigned fund balance classification are intended to be used by the Charter School for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. 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.

13. Income Taxes

The Charter School is a department of the University, which is a local government exempt from income taxes under Section 115(1) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

(g) Revenues and Expenditures/Expenses

(1) Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.
(2) Stewardship, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the Charter School prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year.

In accordance with State law, the Charter School prepares an annual budget for the general fund and the national school lunch and breakfast program special revenue fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

A. Expenditures in Excess of Appropriations

The general fund had expenditures in excess of appropriations of $19,002 for function 13, curriculum and instructional staff development, as of August 31, 2013.

(3) Other Information

(a) Risk Management

1. General

Approximately 77% of the Charter School’s revenues for fiscal year 2013 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 2013, 2012, and 2011 were $105,599, $112,004, and $100,068, 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.

(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, the 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

Teacher Retirement System

Plan Description

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 the 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.

Funding Policy

The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for fiscal years 2013 and 2012 were 6.4% for TRS members. The State contribution rate was 6.0% for fiscal year 2012. For fiscal year 2013, the State contribution rate is 6.4% for TRS. 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, 2013, 2012, and 2011 was $50,106, $50,736, and $53,544, respectively. These contributions represent 100% of the required contribution.

(d) Related-Party Transactions

For the fiscal year ended August 31, 2013, the University provided the Charter School with direct funding in the amount of $106,153. The amount has been included in the revenues reported in the financial statements for the year.

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 $92,702 for fiscal year 2013. The University provided the Charter School with indirect support for operation and maintenance estimated at $50,379.
REQUIRED SUPPLEMENTARY INFORMATION

Unaudited
### UNIVERSITY OF HOUSTON CHARTER SCHOOL  
Budgetary Comparison Schedule – General Fund  
Year ended August 31, 2013  

Unaudited  

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Revenues:</th>
<th></th>
<th>Variance with final budget positive (negative)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5800</td>
<td>State program revenues</td>
<td>$991,816</td>
<td>$991,816</td>
<td>$985,855</td>
</tr>
<tr>
<td>5000</td>
<td>Total revenues</td>
<td>$991,816</td>
<td>$991,816</td>
<td>$985,855</td>
</tr>
</tbody>
</table>

#### Expenditures:  
Current:  

- **Instruction and instruction related services:**  
  - Instruction:  
    - Instructional resources and media services:  
    - Curriculum and instructional staff development:  
  - Total instruction and instruction related services:  
  - Total instruction and school leadership:  
  - Support services:  
    - Guidance, counseling, and evaluation services:  
  - Total support services student:  
  - Administrative support services:  
    - General administration:  
    - Total administrative support services:  
  - Total expenditures:  
  - Excess (deficiency) of revenues over (under) expenditures:  
    - Net change in fund balance:  
    - Fund balances, beginning of year:  
    - Fund balances, end of year:  

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Revenues:</th>
<th></th>
<th>Variance with final budget positive (negative)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6000</td>
<td>Total expenditures</td>
<td>$987,835</td>
<td>$987,835</td>
<td>$915,672</td>
</tr>
</tbody>
</table>
| 0031               | Guidance, counseling, and evaluation services:  
  - Total support services student:  
  - Administrative support services:  
    - General administration:  
    - Total administrative support services:  
  - Excess (deficiency) of revenues over (under) expenditures:  
    - Net change in fund balance:  
    - Fund balances, beginning of year:  
    - Fund balances, end of year:  

#### Notes for Required Supplementary Information:  
1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).  
2. *Expenditures exceeded appropriations at the legal level of control.
**UNIVERSITY OF HOUSTON CHARTER SCHOOL**

Child Nutrition

Budgetary Comparison Schedule

Year ended August 31, 2013

Unaudited

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Budgeted amounts</th>
<th>Variance with final budget positive (negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5700 Local and intermediate sources</td>
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<td>28,594</td>
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<tr>
<td>5800 State program revenues</td>
<td>350</td>
<td>350</td>
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<tr>
<td>5900 Federal program revenues</td>
<td>26,571</td>
<td>26,571</td>
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<tr>
<td>5000 Total revenues</td>
<td>55,515</td>
<td>55,515</td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6000 Total expenditures</td>
<td>55,515</td>
<td>55,515</td>
</tr>
<tr>
<td>Current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0035 Food services</td>
<td>55,515</td>
<td>55,515</td>
</tr>
<tr>
<td>3000 Fund balances, end of year</td>
<td>$7,909</td>
<td>7,909</td>
</tr>
<tr>
<td>Fund balances, beginning of year</td>
<td>7,909</td>
<td>7,909</td>
</tr>
</tbody>
</table>

Notes for Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
**UNIVERSITY OF HOUSTON CHARTER SCHOOL**

Schedule of Expenses

Year ended August 31, 2013

<table>
<thead>
<tr>
<th>Data control codes</th>
<th>Expenses:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100</td>
<td>Payroll costs</td>
<td>$ 1,027,740</td>
</tr>
<tr>
<td>6200</td>
<td>Professional and contractual services</td>
<td>45,602</td>
</tr>
<tr>
<td>6300</td>
<td>Supplies and materials</td>
<td>92,534</td>
</tr>
<tr>
<td>6400</td>
<td>Other operating costs</td>
<td>35,050</td>
</tr>
<tr>
<td></td>
<td><strong>Total expenses</strong></td>
<td><strong>$ 1,200,926</strong></td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 9, 2013

To the Board of Regents of
The University of Houston System:

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 the governmental activities, each major fund, and the aggregate remaining fund information of The University of Houston Charter School (the “Charter School”) (a department of the University of Houston, which is an agency of the State of Texas) as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Charter School’s basic financial statements and have issued our report thereon dated December 9, 2013.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Charter School’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any
deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Charter School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas