



**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
AUGUST 31, 2013**

PB&H
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

WESTLAKE ACADEMY FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Westlake Academy Foundation
Westlake, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Westlake Academy Foundation (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westlake Academy Foundation, as of August 31, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of Westlake Academy Foundation'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 Westlake Academy Foundation's internal control over financial reporting and compliance.

Pattillo, Brown + Hill, L.L.P.

November 13, 2013

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 130,049	\$ 166,941	\$ -	\$ 296,990
Investments	-	91,124	1,007,428	1,098,552
Prepays	<u>2,245</u>	<u>-</u>	<u>-</u>	<u>2,245</u>
Total assets	<u>\$ 132,294</u>	<u>\$ 258,065</u>	<u>\$ 1,007,428</u>	<u>\$ 1,397,787</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accrued expenses and other payables	\$ 1,828	\$ -	\$ -	\$ 1,828
Deferred revenue	<u>17,500</u>	<u>-</u>	<u>-</u>	<u>17,500</u>
Total liabilities	19,328	-	-	19,328
Net position	<u>112,966</u>	<u>258,065</u>	<u>1,007,428</u>	<u>1,378,459</u>
Total liabilities and net assets	<u>\$ 132,294</u>	<u>\$ 258,065</u>	<u>\$ 1,007,428</u>	<u>\$ 1,397,787</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions:				
Gallery Night	\$ 149,283	\$ -	\$ 16,600	\$ 165,883
Blacksmith	740,543	-	-	740,543
Westlake Baja	-	166,854	18,750	185,604
Endowment	-	-	1,000	1,000
Miscellaneous	2,820	-	-	2,820
Investment Income	598	13,670	-	14,268
Net unrealized gains (loss) on investments	-	46,871	-	46,871
Net realized gains (loss) on investments	-	37,411	-	37,411
Released from restrictions	39,452	(39,452)	-	-
Total revenues, gains and other support	<u>932,696</u>	<u>225,354</u>	<u>36,350</u>	<u>1,194,400</u>
FUNCTIONAL EXPENSES				
Program services	882,220	-	-	882,220
Support services	195,237	-	-	195,237
Total allocations and functional expenses	<u>1,077,457</u>	<u>-</u>	<u>-</u>	<u>1,077,457</u>
INCREASE IN NET POSITION	(144,761)	225,354	36,350	116,943
NET POSITION, BEGINNING	<u>257,727</u>	<u>32,711</u>	<u>971,078</u>	<u>1,261,516</u>
NET POSITION, ENDING	<u>\$ 112,966</u>	<u>\$ 258,065</u>	<u>\$ 1,007,428</u>	<u>\$ 1,378,459</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2013

	Blacksmith Annual Program	Fund 100	Total Program Services	Fund Raising Gallery Night	Fund Raising General
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 41,836
Employee benefits	-	-	-	-	2,364
Professional expense	-	-	-	-	-
Contracted expenses	-	-	-	20,720	-
Advertising	-	-	-	565	6,463
Special events	-	-	-	-	75
Office supplies	-	-	-	-	-
Dues and subscriptions	-	-	-	-	-
Postage and shipping	-	-	-	606	-
Printing and copying	-	-	-	2,925	-
Training and meetings	-	-	-	-	-
Credit card services and bank fees	-	-	-	969	-
Venue expenses	-	-	-	30,371	-
Miscellaneous expense	-	-	-	450	-
Blacksmith contributions	740,612	-	740,612	-	-
Contribution to Westlake Academy	-	141,608	141,608	-	-
	740,612	141,608	882,220	56,606	50,738
Total functional expenses	\$ 740,612	\$ 141,608	\$ 882,220	\$ 56,606	\$ 50,738

See accompanying notes to financial statements.

<u>Westlake Baja</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>Total Functional Expenses</u>
\$ -	\$ -	\$ 41,836	\$ 41,836
-	-	2,364	2,364
-	3,500	3,500	3,500
38,895	2,030	61,645	61,645
5,373	-	12,401	12,401
-	-	75	75
-	2,041	2,041	2,041
-	1,219	1,219	1,219
-	1,173	1,779	1,779
-	1,099	4,024	4,024
-	3,204	3,204	3,204
2,338	19,248	22,555	22,555
-	-	30,371	30,371
2,559	614	3,623	3,623
-	-	-	740,612
-	4,600	4,600	146,208
<u>\$ 49,165</u>	<u>\$ 38,728</u>	<u>\$ 195,237</u>	<u>\$ 1,077,457</u>

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2013

	<u>Unrestricted</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net position	\$ 116,943
Adjustments to reconcile increase in net position to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase in prepaids	642
Decrease in other receivables	196
Increase in accounts payable and accrued expenses	(29,750)
Increase in deferred revenue	(55,520)
Net cash provided by operating activities	<u>32,511</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net sales(purchases) of investments	(499,452)
Net Cash Provided (Used) by Investing Activities	<u>(499,452)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(466,941)
CASH, BEGINNING	<u>763,931</u>
CASH, ENDING	<u>\$ 296,990</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013

I. NATURE OF BUSINESS

Westlake Academy Foundation (the "Foundation") was organized exclusively for charitable and educational purposes, including for such purposes, the making of distributions to organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The purpose of the Foundation is to act on behalf of the Town of Westlake (the "Town") as its duly constituted authority and instrumentality and, in connection therewith, to exercise all powers and authority granted under the Texas Nonprofit Corporation Act and other applicable law. Among other things, the Foundation is to raise funds and take other actions in order to enhance the educational opportunities to be offered by the open-enrollment charter school, Westlake Academy (the "Academy"), operated by the Town.

During the fiscal year 2012-2013, the Foundation had three major programs: 1) Blacksmith Annual Fund, 2) Westlake Baja and 3) Gallery Night. The Blacksmith Annual Fund raises funds from parents, corporations and other interested parties to support the school's operations. The Westlake Baja golf tournament raises dedicated monies for the Fund 100 for Teachers, a restricted fund that provides grants for the recruitment, retention and development of Academy faculty. Gallery Night net proceeds support the operations of the Foundation and other areas as determined by the Foundation's Board of Directors.

The Foundation is included as a discretely presented component unit of the Academy. The determination to include separate governmental entities is based on the criteria of GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34." GASB defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's ruling body must be appointed by the primary government, and either (a) the primary government must be able to impose its will, or (b) the primary government may potentially benefit financially or be financially responsible for the component unit.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Foundation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of 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 expenses during the reporting period. Actual results could differ from those estimates.

Temporarily Restricted Net Assets

The Foundation conducts an annual campaign, Blacksmith Annual Program, for the operation of the Academy. A substantial portion of the campaign's contributions are received in the year that the contributions are transferred to the Academy and are treated as unrestricted in the year of the campaign. Contributions received in the period prior to being transferred to the Academy are classified as temporarily restricted net assets until the period they will be transferred to the Academy.

The contributions received from the following will be treated as temporarily restricted net assets until their restrictions are met, at which time they will be released to unrestricted net assets:

- Fund 100 supports all facets of educational excellence with funding priority for faculty recruitment, retention and development efforts.
- Westlake Baja golf tournament funds being raised to provide grants for recruitment, retention and development of Academy faculty.
- Capital funds donated for various capital needs for the Academy.

Permanently Restricted Net Assets

The Westlake Academy Foundation has the following Permanently Restricted Net Assets:

- Endowment Fund – Individuals gifted \$1,000 during the fiscal year to the Foundation for placement into the general endowment fund benefiting Westlake Academy. In addition, 10% of the gross proceeds from Westlake Baja golf tournament and Gallery Night will be contributed to the Endowment Fund with only interest to be considered for spending.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Donated Services

A substantial number of volunteers have donated significant amounts of their time and services to the activities of the Foundation without compensation. These services include, but are not limited to, marketing, fundraising, and other related services. The value of donated services is not recognized as a contribution since no objective basis is available to measure the value of such services and generally they do not require specialized skills.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Distribution of expenses is based on actual usage or management's estimates of usage applicable to the various programs and supporting services benefited. Campaign expenses are recognized when incurred.

III. FEDERAL INCOME TAXES

The foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

IV. CASH AND CASH EQUIVALENTS

The funds of the Foundation must be deposited under the terms of a contract, contents of which are set out in the Depository Contract Law. The Depository bank places approved pledged securities for safekeeping and trust with the Foundation's agent bank in an amount sufficient to protect Foundation funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

V. INVESTMENTS

Investments in marketable securities are valued at their estimated fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities. All other investments are carried at cost.

Investments at the end of the year consist of the following:

Investment Type	August 31, 2013	
	Cost Basis	Market Value
Invested cash	\$ 31,025	\$ 31,025
Equity securities	<u>1,057,731</u>	<u>1,098,552</u>
Total Investments	<u>\$ 1,088,756</u>	<u>\$ 1,129,577</u>

VI. FAIR VALUE OF INVESTMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

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

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

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Cash and Invested Cash –

The carrying amounts reported in the statement of financial position approximate fair values due to of the short maturities of those instruments.

Corporate and Fixed Income Securities –

Corporate stock and fixed income securities are reported at quoted market prices.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of August 31, 2013.

	Assets at Fair Value as of August 31, 2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and invested cash	\$ 31,025	\$ -	\$ -	\$ 31,025
Corporate and fixed income securities	<u>1,098,552</u>	<u>-</u>	<u>-</u>	<u>1,098,552</u>
	<u>\$ 1,129,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,129,577</u>

VII. CONTRIBUTIONS BETWEEN PROGRAMS

During the year, certain programs raised funds and contributed them to other programs as follows:

- Gallery Night contributed \$90,513 to Administration reflecting the portion of proceeds that can be used for grant opportunities and to cover the operating expenses of the Foundation office.
- Gallery Night contributed \$16,600 to the Endowment fund based on a percentage of proceeds per Board action.
- Fund 100 contributed \$9,713 to Westlake Baja which reflected a portion of proceeds that can be used for grant opportunities.
- Westlake Baja contributed \$18,750 to Endowment based on a percentage of proceeds per Board action.



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

To the Board of Trustees of
Westlake Academy Foundation

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 accompanying statement of financial position and the related statement of activities, functional expenses, and cash flows of Westlake Academy Foundation (the "Foundation") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Westlake Academy Foundation's basic financial statements and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Westlake Academy Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Westlake Academy Foundation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Westlake Academy Foundation'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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

November 13, 2013