



ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
AUGUST 31, 2012

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

Members of the Board:

We have audited the accompanying statement of financial position of Westlake Academy Foundation (the "Foundation") as of August 31, 2012, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Westlake Academy Foundation, as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

December 19, 2012

FINANCIAL STATEMENTS

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 359,242	\$ 32,711	\$ 371,978	\$ 763,931
Investments	-	-	599,100	599,100
Prepays	2,887	-	-	2,887
Other receivables	<u>196</u>	<u>-</u>	<u>-</u>	<u>196</u>
Total assets	<u>\$ 362,325</u>	<u>\$ 32,711</u>	<u>\$ 971,078</u>	<u>\$ 1,366,114</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accrued expenses and other payables	\$ 31,578	\$ -	\$ -	\$ 31,578
Deferred revenue	<u>73,020</u>	<u>-</u>	<u>-</u>	<u>73,020</u>
Total liabilities	104,598	-	-	104,598
Net assets	<u>257,727</u>	<u>32,711</u>	<u>971,078</u>	<u>1,261,516</u>
Total liabilities and net assets	<u>\$ 362,325</u>	<u>\$ 32,711</u>	<u>\$ 971,078</u>	<u>\$ 1,366,114</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions:				
Gallery Night	\$ 231,624	\$ -	\$ -	\$ 231,624
Blacksmith	661,749	-	-	661,749
Capital campaign	-	400	-	400
Westlake Baja	-	172,186	20,300	192,486
Endowment	-	-	400,000	400,000
Miscellaneous	70	-	-	70
Investment Income	522	9,743	-	10,265
Net unrealized gains (loss) on investments	-	(6,050)	-	(6,050)
Net realized gains (loss) on investments	35	23,008	-	23,043
Released from restrictions	<u>263,747</u>	<u>(263,747)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>1,157,747</u>	<u>(64,460)</u>	<u>420,300</u>	<u>1,513,587</u>
FUNCTIONAL EXPENSES				
Program services	840,757	-	-	840,757
Support services	<u>414,654</u>	<u>-</u>	<u>-</u>	<u>414,654</u>
Total allocations and functional expenses	<u>1,255,411</u>	<u>-</u>	<u>-</u>	<u>1,255,411</u>
INCREASE IN NET ASSETS	(97,664)	(64,460)	420,300	258,176
NET ASSETS, BEGINNING	<u>355,391</u>	<u>97,171</u>	<u>550,778</u>	<u>1,003,340</u>
NET ASSETS, ENDING	<u>\$ 257,727</u>	<u>\$ 32,711</u>	<u>\$ 971,078</u>	<u>\$ 1,261,516</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2012

	Blacksmith Annual Program	Fund 100	Total Program Services	Fund Raising Capital Campaign	Fund Raising Gallery Night
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -
Employee benefits	-	-	-	-	-
Professional expense	-	-	-	-	-
Contracted expenses	-	-	-	-	7,055
Advertising	-	-	-	-	2,001
Special events	-	-	-	-	-
Office supplies	-	-	-	-	240
Dues and subscriptions	-	-	-	-	-
Postage and shipping	-	-	-	-	290
Printing and copying	-	-	-	-	4,603
Training and meetings	-	-	-	-	-
Credit card services and bank fees	-	-	-	338	6,046
Venue expenses	-	-	-	-	35,766
Bad debt	-	-	-	43,634	-
Miscellaneous expense	-	-	-	-	1,923
Blacksmith contributions	674,604	-	674,604	-	-
Contribution to Westlake Academy	-	166,153	166,153	-	-
Contribution to Town of Westlake	-	-	-	24,423	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,423</u>	<u>-</u>
Total functional expenses	<u>\$ 674,604</u>	<u>\$ 166,153</u>	<u>\$ 840,757</u>	<u>\$ 68,395</u>	<u>\$ 57,924</u>

See accompanying notes to financial statements.

<u>Fund Raising General</u>	<u>Westlake Baja</u>	<u>Fund-an-Item</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>Total Functional Expenses</u>
\$ 34,645	\$ -	\$ -	\$ -	\$ 34,645	\$ 34,645
839	-	-	-	839	839
-	-	-	3,500	3,500	3,500
-	43,044	-	-	50,099	50,099
5,137	2,023	-	-	9,161	9,161
1,047	-	-	-	1,047	1,047
-	-	-	790	1,030	1,030
-	-	-	272	272	272
-	-	-	1,040	1,330	1,330
-	-	-	2,237	6,840	6,840
-	-	-	1,270	1,270	1,270
-	2,382	-	12,998	21,764	21,764
-	-	-	-	35,766	35,766
-	-	-	-	43,634	43,634
-	-	-	95	2,018	2,018
-	-	-	-	-	674,604
-	-	72,741	104,275	177,016	343,169
-	-	-	-	24,423	24,423
<u>\$ 41,668</u>	<u>\$ 47,449</u>	<u>\$ 72,741</u>	<u>\$ 126,477</u>	<u>\$ 414,654</u>	<u>\$ 1,255,411</u>

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2012

	<u>Unrestricted</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 258,176
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase in prepaids	(2,887)
Decrease in unconditional promises to give	44,085
Decrease in other receivables	12,562
Increase in accounts payable and accrued expenses	22,787
Increase in deferred revenue	<u>73,020</u>
Net cash provided by operating activities	<u>407,743</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net proceeds (purchases) from sale of investments	<u>(599,100)</u>
Net Cash Provided (Used) by Investing Activities	<u>(599,100)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(191,357)
CASH, BEGINNING	<u>955,288</u>
CASH, ENDING	<u>\$ 763,931</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

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 2011-2012, 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." 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.

(continued)

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:

- Capital campaign contributions for the construction of the Sam and Margaret Lee Arts and Sciences center.
- 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:

- Fund 100 - a permanently restricted fund with only interest being considered for spending.
- Endowment Fund – The Town gifted \$400,000 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.

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II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, bookkeeping services, 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 are 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, 2012	
	Cost Basis	Market Value
Invested cash	\$ 404,689	\$ 404,689
Equity securities	<u>605,150</u>	<u>599,100</u>
Total Investments	<u>\$ 1,009,839</u>	<u>\$ 1,003,789</u>

(continued)

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.

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VI. FAIR VALUE OF INVESTMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of August 31, 2012.

	Assets at Fair Value as of August 31, 2012			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and invested cash	\$ 404,689	\$ -	\$ -	\$ 404,689
Corporate and fixed income securities	<u>599,100</u>	<u>-</u>	<u>-</u>	<u>599,100</u>
	<u>\$ 1,003,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,003,789</u>

VII. CONTRIBUTIONS BETWEEN PROGRAMS

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

- Administration contributed \$1,694 to Alumni Relations to reduce negative cash.
- Gallery Night contributed \$122,108 to Administration reflecting the portion of proceeds that can be used for grant opportunities.
- Gallery Night contributed \$60,966 to Fund-an-Item for the monies received from the auction for the Library Package.
- Westlake Baja contributed \$127,249 to Fund 100 which reflected a portion of proceeds that can be used for grant opportunities.
- Westlake Baja contributed \$20,300 to Endowment based on a percentage of proceeds per Board action.
- Endowment contributed \$2 to Administration to clear the remaining interest in First Financial Bank.

VIII. RECLASSIFICATION

Some items in prior year financial statements have been reclassified to conform to the current year presentation.

SUPPLEMENTARY INFORMATION



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

**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**

Board of Directors
Westlake Academy Foundation

Members of the Board:

We have audited 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, 2012, which collectively comprise the Foundation's basic financial statements and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of management, the Foundation's Board of Directors, and others within the entity and is not intended to be used and should not be used by anyone other than these specified parties.

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

December 19, 2012