



ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
AUGUST 31, 2010

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

WESTLAKE ACADEMY FOUNDATION

TABLE OF CONTENTS

AUGUST 31, 2010

	<u>Page Number</u>
Independent Auditor's Report.....	1 – 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses	5 – 6
Statement of Cash Flows	7
Notes to the Financial Statements.....	8 – 10
Supplementary Information:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11 – 12

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, 2010, and the related statement of activities and changes in net assets, 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 opinions.

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, 2010, 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 29, 2010, 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.

Patillo, Brown & Hill, L.L.P.

December 29, 2010

FINANCIAL STATEMENTS

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 168,756	\$ 277,188	\$ 250,000	\$ 695,944
Unconditional promises to give less allowance for uncollectible unconditional promises of \$11,043 and present value discount of \$811	-	126,185	-	126,185
Other receivables	<u>18,604</u>	<u>-</u>	<u>-</u>	<u>18,604</u>
Total assets	<u>\$ 187,360</u>	<u>\$ 403,373</u>	<u>\$ 250,000</u>	<u>\$ 840,733</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accrued expenses and other payables	<u>\$ 51,430</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,430</u>
Total liabilities	51,430	-	-	51,430
Net assets	<u>135,930</u>	<u>403,373</u>	<u>250,000</u>	<u>789,303</u>
Total liabilities and net assets	<u>\$ 187,360</u>	<u>\$ 403,373</u>	<u>\$ 250,000</u>	<u>\$ 840,733</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions:				
Gallery Night	\$ 140,637	\$ -	\$ -	\$ 140,637
Blacksmith	427,195	-	-	427,195
Capital campaign	-	16,332	-	16,332
Golf tournament	-	278,730	-	278,730
Capital projects	-	85,430	-	85,430
Endowment	-	-	250,000	250,000
Miscellaneous	6,883	-	-	6,883
Interest and dividend income	76	674	-	750
Released from restrictions	<u>1,421,436</u>	<u>(1,421,436)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>1,996,227</u>	<u>(1,040,270)</u>	<u>250,000</u>	<u>1,205,957</u>
FUNCTIONAL EXPENSES				
Program services	456,699	-	-	456,699
Support services	<u>1,480,139</u>	<u>-</u>	<u>-</u>	<u>1,480,139</u>
Total allocations and functional expenses	<u>1,936,838</u>	<u>-</u>	<u>-</u>	<u>1,936,838</u>
INCREASE IN NET ASSETS	59,389	(1,040,270)	250,000	(730,881)
NET ASSETS, BEGINNING	<u>76,541</u>	<u>1,443,643</u>	<u>-</u>	<u>1,520,184</u>
NET ASSETS, ENDING	<u>\$ 135,930</u>	<u>\$ 403,373</u>	<u>\$ 250,000</u>	<u>\$ 789,303</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2010

	Blacksmith Annual Program	Fund 100	Total Program Services	Fund Raising Capital Campaign	Fund Raising Gallery Night	Fund Raising General
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,346
Employee benefits	-	-	-	-	-	2,193
Professional expense	-	-	-	-	-	-
Contracted expenses	-	-	-	-	895	5,299
Advertising	-	-	-	-	853	1,282
Special events	-	-	-	-	-	574
Office supplies	-	-	-	-	243	-
Dues and subscriptions	-	-	-	-	-	-
Postage and shipping	-	-	-	-	378	-
Printing and copying	-	-	-	-	550	-
Training and meetings	-	-	-	-	-	-
Credit card services and bank fees	-	-	-	610	830	-
Venue expenses	-	-	-	-	18,690	-
Consignment expense	-	-	-	-	3,500	-
Miscellaneous expense	-	-	-	-	540	-
Blacksmith expenses	412,769	-	412,769	-	-	-
Contribution to Westlake Academy	-	43,930	43,930	-	-	-
Contribution to Town of Westlak	-	-	-	1,244,146	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Total functional expense:	 \$ 412,769	 \$ 43,930	 \$ 456,699	 \$ 1,244,756	 \$ 26,479	 \$ 61,694

See accompanying notes to financial statements.

<u>Golf Tournament</u>	<u>Capital Project</u>	<u>Alumni Relations</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>Total Functional Expenses</u>
\$ -	\$ -	\$ -	\$ -	\$ 52,346	\$ 52,346
-	-	-	-	2,193	2,193
-	-	-	3,000	3,000	3,000
39,955	-	-	-	46,149	46,149
1,208	-	1,110	-	4,453	4,453
-	-	-	-	574	574
-	-	-	449	692	692
-	-	-	75	75	75
27	-	-	399	804	804
-	-	-	80	630	630
-	-	-	1,654	1,654	1,654
2,974	336	2	4,869	9,621	9,621
-	-	-	-	18,690	18,690
5,000	-	-	-	8,500	8,500
-	-	-	222	762	762
-	-	-	-	-	412,769
-	-	-	2,600	2,600	46,530
-	83,250	-	-	1,327,396	1,327,396
<u>\$ 49,164</u>	<u>\$ 83,586</u>	<u>\$ 1,112</u>	<u>\$ 13,348</u>	<u>\$ 1,480,139</u>	<u>\$ 1,936,838</u>

WESTLAKE ACADEMY FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2010

	<u>Unrestricted</u>
CAH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$(730,881)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Discount of unconditional promises to give	(2,550)
Changes in operating assets and liabilities:	
Decrease in unconditional promises to give	154,663
Increase in other receivables	(15,104)
Increase in accounts payable and accrued expenses	25,086
Decrease in deferred revenue	<u>(5,901)</u>
Net cash provided by operating activities	<u>(574,687)</u>
NET INCREASE IN CASH	(574,687)
CASH, BEGINNING	<u>1,270,631</u>
CASH, ENDING	<u>\$ 695,944</u>

See accompanying notes to financial statements.

WESTLAKE ACADEMY FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2010

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 2009-2010, the Foundation had four major programs: 1) Blacksmith Annual Fund, 2) Capital Campaign, 3) Westlake Baja and 4) Gallery Night. The Blacksmith Annual Fund raises funds from parents, corporations and other interested parties to support the school's operations. The Capital Campaign raised funds for the construction of the Sam and Margaret Lee Arts & Sciences building for the Academy, which was completed in 2009. 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. The Foundation's most significant estimate is the allowance for uncollectible pledges.

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.
- 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 Foundation received a \$250,000 contribution to the Endowment Fund, which will be used to establish a Fund 100 endowment, a permanently restricted fund with only interest being 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. DEPOSITS AND INVESTMENTS

The funds of the Foundation must be deposited and invested 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. PROMISES TO GIVE

The Foundation has completed the capital campaign for the construction of the Sam and Margaret Lee Arts & Sciences Center. The promises to give as of August 31, 2010, are unconditional and due; \$115,816 in 2011 and \$22,223 in 2012. Promises to give to be received after 2011 are discounted at 3.79%. The unamortized discount on promises to give is \$811 as of August 31, 2010. Allowance for uncollectable promises at August 31, 2010 is \$11,043.

SUPPLEMENTARY INFORMATION

**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 and changes in net assets, functional expenses, and cash flows of Westlake Academy Foundation (the "Foundation") as of and for the year ended August 31, 2010, and have issued our report thereon dated December 29, 2010. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted no matters involving noncompliance 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.

Patullo, Brown & Hill, L.L.P.

December 29, 2010