

El Paso Leadership Academy

Financial Statements and Independent Auditors' Report
for the Years Ended August 31, 2016 and 2015

El Paso Leadership Academy

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El Paso Leadership Academy

Federal Employer Identification Number: 45-5571815

County: El Paso

Co.-District: 071810

Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of the above-named charter holder was reviewed and (check one) approved disapproved for the year ended August 31, 2016, at a meeting of the Board of Directors of such charter holder on the 21st day of December, 2016.


Signature of Board Secretary


Signature of Board President

If the Board of Directors disapproved the auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

Independent Auditors' Report

Board of Directors
El Paso Leadership Academy
El Paso, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of El Paso Leadership Academy (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years 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.

Auditors' 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of El Paso Leadership Academy as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Specific Purpose Financial Statements and Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules:

- a) Specific Purpose Financial Statements – Statement of Financial Position and Statement of Activities.
- b) Supplementary Information – Schedule of Expenses, Schedule of Capital Assets, and Budgetary Comparison Schedule.

The above schedules are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

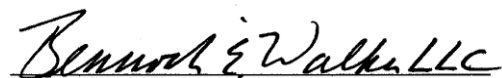
Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued out report dated December 2, 2016 on our consideration of El Paso Leadership Academy'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 El Paso Leadership Academy's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 14 to the financial statements, accrued payroll liabilities were overstated and net assets were understated for the year ended August 31, 2015 and a prior period adjustment was recorded. Our opinion is not modified with respect to that matter.



Bennoch & Walker LLC
Certified Public Accountants
Houston, Texas

December 2, 2016

EL PASO LEADERSHIP ACADEMY
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2016 AND 2015

	2016	2015
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 148,562	\$ 62,368
Accounts receivable	150,152	78,748
Other assets, net	37,799	24,716
<i>Total Current Assets</i>	336,513	165,832
 <i>Other Assets</i>		
Property and equipment		
Building and improvements	1,601,096	1,408,555
Furniture and equipment	355,298	355,298
Library books and media	43,980	43,980
Accumulated depreciation	(187,045)	(63,289)
Total property and equipment, net	1,813,329	1,744,544
 TOTAL ASSETS	 \$ 2,149,842	 \$ 1,910,376
 LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
<i>Current Liabilities</i>		
Accounts payable	\$ 93,723	\$ 74,734
Accrued payroll liabilities	89,587	75,731
Current portion of notes payable	33,606	26,388
<i>Total Current Liabilities</i>	216,916	176,853
 <i>Long-term Liabilities</i>		
Notes payable, net of current portion	1,363,053	1,236,512
Total Liabilities	1,579,969	1,413,365
 <i>Net Assets</i>		
Unrestricted	569,873	497,011
Temporarily restricted	-	-
Total Net Assets	569,873	497,011
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,149,842	 \$ 1,910,376

The accompanying notes are an integral part of these financial statements.

EL PASO LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

REVENUES AND OTHER SUPPORT	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Local Support:			
5740 Other revenues from local sources	\$ 1,595	\$ -	\$ 1,595
5750 Food service, cocurricular & enterprising	<u>12,069</u>	<u>-</u>	<u>12,069</u>
Total Local Support	<u>13,664</u>	<u>-</u>	<u>13,664</u>
State Program Revenues:			
5810 Foundation School Program	<u>1,538,992</u>	<u>-</u>	<u>1,538,992</u>
Total State Program Revenues	<u>1,538,992</u>	<u>-</u>	<u>1,538,992</u>
Federal Program Revenues:			
5920 Federal revenues distributed by the Texas Education Agency	<u>159,015</u>	<u>-</u>	<u>159,015</u>
Total Federal Program Revenues	<u>159,015</u>	<u>-</u>	<u>159,015</u>
Total Revenues and Other Support	<u>1,711,671</u>	<u>-</u>	<u>1,711,671</u>
Net Assets Released from Temporary Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support and Net Assets Released from Restrictions	<u>1,711,671</u>	<u>-</u>	<u>1,711,671</u>
EXPENSES			
Program Services:			
10 Instruction and instructional related services	905,068	-	905,068
20 Instructional school leadership	<u>134,980</u>	<u>-</u>	<u>134,980</u>
Total Program Services	<u>1,040,048</u>	<u>-</u>	<u>1,040,048</u>
Supporting Services:			
30 Support services-student	173,949	-	173,949
40 Administrative support services	156,324	-	156,324
50 Support services-non student	181,136	-	181,136
70 Debt service	<u>87,352</u>	<u>-</u>	<u>87,352</u>
Total Supporting Services	<u>598,761</u>	<u>-</u>	<u>598,761</u>
Total Expenses	<u>1,638,809</u>	<u>-</u>	<u>1,638,809</u>
Change in net assets	<u>72,862</u>	<u>-</u>	<u>72,862</u>
Net assets, beginning of year, as restated	<u>497,011</u>	<u>-</u>	<u>497,011</u>
Net assets, end of year	<u>\$ 569,873</u>	<u>\$ -</u>	<u>\$ 569,873</u>

The accompanying notes are an integral part of these financial statements.

EL PASO LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

REVENUES AND OTHER SUPPORT	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Local Support:			
5740 Other revenues from local sources	\$ 132,467	\$ -	\$ 132,467
5750 Food service, cocurricular & enterprising	<u>6,979</u>	<u>-</u>	<u>6,979</u>
Total Local Support	<u>139,446</u>	<u>-</u>	<u>139,446</u>
State Program Revenues:			
5810 Foundation School Program	<u>736,611</u>	<u>-</u>	<u>736,611</u>
Total State Program Revenues	<u>736,611</u>	<u>-</u>	<u>736,611</u>
Federal Program Revenues:			
5920 Federal revenues distributed by the Texas Education Agency	<u>629,799</u>	<u>-</u>	<u>629,799</u>
Total Federal Program Revenues	<u>629,799</u>	<u>-</u>	<u>629,799</u>
Total Revenues and Other Support	<u>1,505,856</u>	<u>-</u>	<u>1,505,856</u>
Net Assets Released from Temporary Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support and Net Assets Released from Restrictions	<u>1,505,856</u>	<u>-</u>	<u>1,505,856</u>
EXPENSES			
Program Services:			
10 Instruction and instructional related services	613,646	-	613,646
20 Instructional school leadership	<u>126,609</u>	<u>-</u>	<u>126,609</u>
Total Program Services	<u>740,255</u>	<u>-</u>	<u>740,255</u>
Supporting Services:			
30 Support services-student	73,449	-	73,449
40 Administrative support services	98,419	-	98,419
50 Support services-non student	129,722	-	129,722
70 Debt service	<u>96,472</u>	<u>-</u>	<u>96,472</u>
Total Supporting Services	<u>398,062</u>	<u>-</u>	<u>398,062</u>
Total Expenses	<u>1,138,317</u>	<u>-</u>	<u>1,138,317</u>
Change in net assets	367,539	-	367,539
Net assets, beginning of year	<u>129,472</u>	<u>-</u>	<u>129,472</u>
Net assets, end of year, as restated	<u>\$ 497,011</u>	<u>\$ -</u>	<u>\$ 497,011</u>

The accompanying notes are an integral part of these financial statements.

EL PASO LEADERSHIP ACADEMY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in net assets	<u>\$ 72,862</u>	<u>\$ 367,539</u>
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	123,756	63,289
Amortization	4,063	3,724
Change in operating assets and liabilities		
Accounts receivable	(71,404)	58,703
Other assets	(17,146)	(27,990)
Accounts payable	18,989	(10,787)
Accrued payroll expenses	<u>13,856</u>	<u>20,270</u>
Net Cash From Operating Activities	<u>144,976</u>	<u>474,748</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(192,541)</u>	<u>(651,616)</u>
Net Change from Investing Activities	<u>(192,541)</u>	<u>(651,616)</u>
Cash Flows from Financing Activities		
Proceeds from long term debt	157,400	237,900
Payments on long term debt	<u>(23,641)</u>	<u>-</u>
Net Change from Financing Activities	<u>133,759</u>	<u>237,900</u>
Net Change in Cash and Cash Equivalents	86,194	61,032
Cash and Cash Equivalents, Beginning of Year	<u>62,368</u>	<u>1,336</u>
Cash and Cash Equivalents, End of Year	<u>\$ 148,562</u>	<u>\$ 62,368</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 83,289</u>	<u>\$ 73,582</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of El Paso Leadership Academy (the Academy) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity – The Academy is a not-for-profit organization incorporated in the State of Texas in September 2011 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. A Board of Directors comprised of five members governs the Academy. The Board of Directors is selected pursuant to the bylaws of the Academy and has the authority to make decisions, appoint the chief executive officer of the Academy, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Academy.

Since the Academy receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations – In May 2014, the State Board of Education of the State of Texas granted the Academy an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, the Academy was opened for the academic year 2014-2015. It was organized to provide educational services to students in 6th grade in its first year and additional grade levels in subsequent years. The Academy's board of directors governs its programs, services, activities and functions.

Basis of Accounting – The Academy presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation – The Academy's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205-45-4, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205-45-4, the Academy is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Academy and/or the passage of time. The Academy had no temporarily restricted net assets at August 31, 2016 and 2015.
- Permanently Restricted Net Assets – Net assets that consist of donor-restricted contributions which are required to be held in perpetuity and income from the assets held is available for specific purposes, in accordance with donor stipulations. The Academy had no permanently restricted net assets at August 31, 2016 and 2015.

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Contributions – In accordance with FASB ASC 958-605-45-3, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized as an increase to unrestricted net assets when the donor makes a promise to give to the Academy, that is, in substance, unconditional. Support that is restricted by the donor is reported as an increase in unrestricted assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as either temporarily restricted support or permanently restricted support, depending on the nature of the donor restriction when received. Temporarily restricted support is reclassified to unrestricted net assets upon expiration of the restriction.

Unconditional promises to give are recorded when received. Unconditional promises to give that are expected to be collected within one (1) year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their net realizable value. The discount on those amounts is computed using the Academy's effective yield on investments. Amortization of the discounts is included in contribution revenue.

Conditional promises to give, which depend on the occurrence of specified future and uncertain events to bind the promise, are recognized when the conditions on which they depend are substantially met.

Expiration of Donor-Imposed Restrictions – The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires, and at that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents – The Academy considers all highly liquid investments with a maturity of three (3) months or less when purchased to be cash equivalents.

Donated Materials and Services – Donated materials or equipment, when received, are reflected as contributions in the accompanying financial statements at their estimated fair market values at date of receipt. Certain other contributed services that require specialized skills, when provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenues and expenses as established by FASB ASC 958-605-25-26. For the years ended August 31, 2015 and 2014, there were no such amounts included in the accompanying statements of activities and changes in net assets.

Property and Equipment – Property and equipment, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Property and equipment are defined by the Academy as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Personal Leave – Employees are not granted personal leave or vacation time; therefore, no liability is accrued on the financial statements for unused time applicable to vacation or personal leave.

Advertising – Advertising costs are charged to expense when incurred because no costs are associated with direct response advertising. Advertising expense amounted to \$3,573 and \$2,150 for the fiscal years ended August 31, 2016 and 2015, respectively.

Use of Estimates – The Academy uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Government Grants and Program Revenues – Revenues from the State of Texas available school fund are earned based on reported attendance. Government grant contracts that are entered into by the Academy are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

Federal Income Tax – The Academy is a not-for-profit organization that is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code pursuant to the group exemption letter received from the Internal Revenue Service. Accordingly, no provision for income taxes has been made. However, should The Organization engage in activities unrelated to the purpose for which it was created, taxable income could result.

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 740, *Accounting for Income Taxes*, prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized. For the fiscal years ended August 31, 2016 and 2015, the Academy did not record any liabilities for uncertain tax positions or income taxes. The Academy does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next twelve (12) months.

Fair Value – The financial statements are prepared in accordance with FASB ASC 820 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

information on an ongoing basis. Level 1 assets include cash and cash equivalents with a fair value at August 31, 2016 and 2015 of \$148,562 and \$62,368, respectively.

Level 2 – Inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that are supported by little or no market activity.

The Organization’s financial instruments include cash and cash equivalents. The following methods and assumptions were used by the Academy in estimating the fair value of its financial instruments:

Cash and cash equivalents – the carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

Loan Fees – Loan closing costs of \$28,440 are being amortized on the straight-line method over the life of the loan of seven years. Accumulated amortization at August 31, 2016 and 2015 related to loan closing costs was \$7,787 and \$3,724, respectively.

Amortization expense charged to operations for the years ended August 31, 2016 and 2015 was \$4,063 and \$3,724, respectively. The estimated amortization expense for each of the next five years is as follows:

<u>Year ending December 31,</u>	
2017	\$ 4,063
2018	4,063
2019	4,063
2020	4,063
2021	4,401
Thereafter	<u>-</u>
Total	<u>\$ 20,653</u>

NOTE 2 – DUE FROM STATE

At August 31, 2016 and 2015, the Academy had earned the following revenues which were not received until after September 1, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Due from Texas Education Agency	<u>\$ 150,152</u>	<u>\$ 78,748</u>
Total	<u>\$ 150,152</u>	<u>\$ 78,748</u>

All amounts receivable from the State are due in less than one year and are deemed by management to be fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 1,601,096	\$ 1,408,555
Furniture and equipment	355,298	355,298
Library books and media	<u>43,980</u>	<u>43,980</u>
	2,000,374	1,807,833
Accumulated depreciation	<u>(187,045)</u>	<u>(63,289)</u>
Total	<u>\$ 1,813,329</u>	<u>\$ 1,744,544</u>

Depreciation expense for the years ended August 31, 2016 and 2015 was \$123,756 and \$63,289, respectively. Property and equipment acquired with public funds received by the Academy for the operation of El Paso Leadership Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

NOTE 4 – PENSION PLAN OBLIGATIONS

Plan Description

The Academy contributes to the Teacher Retirement System of Texas (“TRS”), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the Academy, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan.

That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223-8778, or by downloading the report form the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district (“ISD”) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. State law provides for a member contribution rate of 6.7% for the 2016 fiscal period. The state's contribution rate as a non-employer contributing entity was 6.8% in 2016. The Academy's employees' contributions to the system for the years ended August 31, 2016 and 2015 were \$64,704 and \$29,175, respectively, equal to the required contributions for the year.

The Academy's participation in the TRS plan for the years ended August 31, 2016 is outlined in the table below (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2016	ABO 2016	Percent Funded	Surcharge Imposed
TRS	\$134,008,637,473	\$171,797,150,487	78.00%	Yes

NOTE 5 – NOTES PAYABLE

The Academy's notes payable consist of the following:

	<u>2016</u>	<u>2015</u>
Note payable to Raza Development Fund, secured by real property and improvements, payable in 12 consecutive monthly interest-only installments at an interest rate of 6.5% beginning November 1, 2014, followed by 72 consecutive monthly installments of approximately \$9,400, including interest of 6.5%. Final payment of remaining principal and interest due October 2021.	<u>\$ 1,396,659</u>	<u>\$ 1,262,900</u>
Total Debt	1,396,659	1,262,900
Less current portion	<u>(33,606)</u>	<u>(26,388)</u>
Total Long Term Debt	<u>\$ 1,363,053</u>	<u>\$ 1,236,512</u>

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

The notes payable are expected to mature as follows:

<u>Year ending December 31,</u>	
2017	\$ 33,606
2018	35,857
2019	38,258
2020	40,821
2021	43,554
Thereafter	<u>1,204,563</u>
Total	<u>\$ 1,396,659</u>

NOTE 6 – HEALTH CARE COVERAGE

During the years ended August 31, 2016 and 2015, employees of the Academy were covered by health insurance plans through Blue Cross Blue Shield of Texas for medical coverage and Guardian for dental/vision coverage. The Academy contributes up to \$350 per month per eligible employee towards health insurance premiums for the employees and their dependents. The Academy contributed \$54,413 and \$23,376 towards the employee's health insurance coverage for the years ended August 31, 2016 and 2015, respectively. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 7 – ACCRUED SALARIES

During August 2016 and 2015, the Academy's teachers worked several days for which they were not paid until after September 1, 2016 and 2015, respectively. Based on the daily rate of pay and the number of days worked, the Academy has accrued \$83,132 and \$70,864 to be paid after September 1, 2016 and 2015, respectively.

NOTE 8 – WORKERS COMPENSATION INSURANCE

During the 2015-2016 and 2014-2015 school years, the Academy did not carry workers compensation insurance.

NOTE 9 – CHARTER HOLDER OPERATIONS

The Charter Holder is El Paso Leadership Academy. The Charter Holder operates only a single Charter School named El Paso Leadership Academy and did not conduct any other charter or non-charter activities.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Academy 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 Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Academy have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

NOTE 11 – STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and, at the close of the year, actual attendance is calculated by the Texas Education Agency and the amount of State Foundation Program earnings is calculated. The enrollment and attendance reports are subject to audit by the Texas Education Agency and final State Foundation Program earnings may be adjusted as a result of any such audit. During the years ended August 31, 2016 and 2015, the Academy was paid \$1,538,992 and \$736,611, respectively, of State Foundation Program funds (before any possible TEA enrollment and attendance audit).

The Academy had several days of instruction in August 2016 and 2015. Based on the estimated State Foundation Program revenue for the 2016-2017 and 2015-2016 school years as provided by the Texas Education Agency, the Academy earned \$74,451 and \$60,375, respectively, of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2016 and 2015 and will be received after September 1, 2016 and 2015, respectively.

NOTE 12 – DEPOSITS AND CUSTODIAL CREDIT RISK

All of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category. The Academy maintains its cash balances at two financial institutions located in Texas. At August 31, 2016 and 2015, the Organization's cash balances were fully insured by the FDIC.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended August 31, 2016, the Academy noted an error in the previous year's accrued payroll liabilities and payroll expense. The accrued payroll liabilities and payroll expense were overstated by \$25,000. The Academy recorded a prior period adjustment to retroactively restate the account balances by decreasing accrued payroll liabilities and decreasing payroll expense in the amount of \$25,000. The adjustment had no effect on the current years change in net assets.

EL PASO LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets - beginning of year, as previously stated	\$ 472,011	\$ -	\$ 472,011
Prior period adjustment - correction of an error	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Net assets - beginning of year, as adjusted	497,011	-	497,011
Change in net assets	<u>72,862</u>	<u>-</u>	<u>72,862</u>
Net assets - end of year	<u>\$ 569,873</u>	<u>\$ -</u>	<u>\$ 569,873</u>

NOTE 14 – SUBSEQUENT EVENTS

In preparing these financial statements, the Academy has evaluated events and transactions for potential recognition or disclosure through December 2, 2016, the date the financial statements were available to be issued. The Academy has determined there are no subsequent events requiring disclosure.

**SPECIFIC PURPOSE
FINANCIAL STATEMENTS**

EL PASO LEADERSHIP ACADEMY
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 148,562	\$ 62,368
Accounts receivable	150,152	78,748
Other assets, net	<u>37,799</u>	<u>24,716</u>
<i>Total Current Assets</i>	<u>336,513</u>	<u>165,832</u>
 <i>Other Assets</i>		
Property and equipment		
Building and improvements	1,601,096	1,408,555
Furniture and equipment	355,298	355,298
Library books and media	43,980	43,980
Accumulated depreciation	<u>(187,045)</u>	<u>(63,289)</u>
Total property and equipment, net	<u>1,813,329</u>	<u>1,744,544</u>
 TOTAL ASSETS	 <u>\$ 2,149,842</u>	 <u>\$ 1,910,376</u>
 LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
<i>Current Liabilities</i>		
Accounts payable	\$ 93,723	\$ 74,734
Accrued payroll liabilities	89,587	75,731
Current portion of notes payable	<u>33,606</u>	<u>26,388</u>
<i>Total Current Liabilities</i>	<u>216,916</u>	<u>176,853</u>
 <i>Long-term Liabilities</i>		
Notes payable, net of current portion	<u>1,363,053</u>	<u>1,236,512</u>
 Total Liabilities	 <u>1,579,969</u>	 <u>1,413,365</u>
 <i>Net Assets</i>		
Unrestricted	240,064	226,400
Temporarily restricted	<u>329,809</u>	<u>270,611</u>
 Total Net Assets	 <u>569,873</u>	 <u>497,011</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,149,842</u>	 <u>\$ 1,910,376</u>

See accompanying notes to specific purpose financial statements.

EL PASO LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Revenues and Other Support	Unrestricted	Temporarily Restricted	Total
Local Support:			
5740 Other revenues from local sources	\$ 1,595	\$ -	\$ 1,595
5750 Food service, cocurricular & enterprising	12,069	-	12,069
Total Local Support	<u>13,664</u>	<u>-</u>	<u>13,664</u>
State Program Revenue:			
5810 Foundation School Program	-	1,538,992	1,538,992
Total State Program Revenues	<u>-</u>	<u>1,538,992</u>	<u>1,538,992</u>
Federal Program Revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	159,015	159,015
Total Federal Program Revenues	<u>-</u>	<u>159,015</u>	<u>159,015</u>
Total Revenues and Other Support	<u>13,664</u>	<u>1,698,007</u>	<u>1,711,671</u>
Net Assets Released from Temporary Restrictions	<u>1,638,809</u>	<u>(1,638,809)</u>	<u>-</u>
Total Revenues and Other Support and Net Assets Released from Restrictions	<u>1,652,473</u>	<u>59,198</u>	<u>1,711,671</u>
Expenses			
11 Instruction	863,423	-	863,423
12 Library and media	14,657	-	14,657
13 Curriculum and staff development	26,988	-	26,988
23 School leadership	134,980	-	134,980
31 Guidance, counseling, evaluation services	14,642	-	14,642
33 Health services	31,650	-	31,650
34 Student transportation	1,050	-	1,050
35 Food services	126,607	-	126,607
41 General administration	156,324	-	156,324
51 Plant maintenance	120,979	-	120,979
52 Security and monitoring services	18,303	-	18,303
53 Data processing	41,854	-	41,854
71 Debt service	87,352	-	87,352
Total Expenses	<u>1,638,809</u>	<u>-</u>	<u>1,638,809</u>
Change in Net Assets	13,664	59,198	72,862
Net Assets, Beginning of Year, as restated	<u>226,400</u>	<u>270,611</u>	<u>497,011</u>
Net Assets, End of Year	<u>\$ 240,064</u>	<u>\$ 329,809</u>	<u>\$ 569,873</u>

See accompanying notes to specific purpose financial statements.

EL PASO LEADERSHIP ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Local Support:			
5740 Other revenues from local sources	\$ 132,467	\$ -	\$ 132,467
5750 Food service, cocurricular & enterprising	6,979	-	6,979
Total Local Support	<u>139,446</u>	<u>-</u>	<u>139,446</u>
State Program Revenues:			
5810 Foundation School Program	-	736,611	736,611
Total State Program Revenues	<u>-</u>	<u>736,611</u>	<u>736,611</u>
Federal Program Revenues:			
5920 Federal revenues distributed by the Texas Education Agency	-	629,799	629,799
Total Federal Program Revenues	<u>-</u>	<u>629,799</u>	<u>629,799</u>
Total Revenues and Other Support	<u>139,446</u>	<u>1,366,410</u>	<u>1,505,856</u>
Net Assets Released from Temporary Restrictions	<u>1,152,832</u>	<u>(1,152,832)</u>	<u>-</u>
Total Revenues and Other Support and Net Assets Released from Restrictions	<u>1,292,278</u>	<u>213,578</u>	<u>1,505,856</u>
Expenses			
Program Services:			
11 Instruction	599,418	-	599,418
12 Instructional resources and media services	13,648	-	13,648
13 Curriculum and staff development	580	-	580
21 Instructional leadership	80,764	-	80,764
23 School leadership	45,845	-	45,845
31 Guidance, counseling and evaluation services	10,738	-	10,738
33 Health services	3,879	-	3,879
34 Student transportation	60	-	60
35 Food services	58,772	-	58,772
41 General administration	98,419	-	98,419
51 Plant maintenance	75,626	-	75,626
52 Security and monitoring services	153	-	153
53 Data processing	53,943	-	53,943
71 Debt service	96,472	-	96,472
Total Expenses	<u>1,138,317</u>	<u>-</u>	<u>1,138,317</u>
Change in Net Assets	153,961	213,578	367,539
Net Assets, Beginning of Year	<u>72,439</u>	<u>57,033</u>	<u>129,472</u>
Net Assets, End of Year, as restated	<u>\$ 226,400</u>	<u>\$ 270,611</u>	<u>\$ 497,011</u>

See accompanying notes to specific purpose financial statements.

EL PASO LEADERSHIP ACADEMY
NOTES TO SPECIFIC PURPOSE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

NOTE 1 – SPECIFIC PURPOSE FINANCIAL STATEMENT PRESENTATION

The specific purpose financial statements comprise the statement of financial position and the statement of activities and are prepared in accordance with the requirements of the Texas Education Special Supplement to the Financial Accountability System Resource Guide for Charter Schools and the Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts that requires federal and state program revenue to be classified as temporarily restricted net assets until expended pursuant to applicable statutes, regulations, and grant requirements.

**SUPPLEMENTARY
INFORMATION**

EL PASO LEADERSHIP ACADEMY
SCHEDULE OF EXPENSES
FOR THE FISCAL YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Expenses		
6100 Payroll	\$ 1,059,109	\$ 577,498
6200 Professional and contracted services	207,820	140,091
6300 Supplies and materials	128,087	227,099
6400 Other operating costs	156,441	97,157
6400 Debt service	<u>87,352</u>	<u>96,472</u>
Total Expenses	<u>\$ 1,638,809</u>	<u>\$ 1,138,317</u>

EL PASO LEADERSHIP ACADEMY
SCHEDULE OF CAPITAL ASSETS
FOR THE FISCAL YEARS ENDED AUGUST 31, 2016 AND 2015

	2016		
	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 148,562	\$ -
1520 Building improvements	-	1,601,096	-
1539 Furniture and equipment >\$5K	-	170,871	-
1549 Furniture and equipment <\$5K	-	184,427	-
1569 Library books and media	-	43,980	-
Total Capital Assets	<u>\$ -</u>	<u>\$ 2,148,936</u>	<u>\$ -</u>

	2015		
	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 62,368	\$ -
1520 Building improvements	-	1,408,555	-
1539 Furniture and equipment >\$5K	-	170,872	-
1549 Furniture and equipment <\$5K	-	184,426	-
1569 Library books and media	-	43,980	-
Total Capital Assets	<u>\$ -</u>	<u>\$ 1,870,201</u>	<u>\$ -</u>

EL PASO LEADERSHIP ACADEMY
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final		
Revenues and Other Support				
Local Support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,595	\$ 1,595
5750 Food service, cocurricular & enterprising	-	12,000	12,069	69
Total Local Support	-	12,000	13,664	1,664
State Program Revenues:				
5810 Foundation School Program	1,745,905	1,505,516	1,538,992	33,476
Total State Program Revenues	1,745,905	1,505,516	1,538,992	33,476
Federal Program Revenues:				
5920 Federal revenues distributed by the Texas Education Agency	139,710	203,819	159,015	(44,804)
Total Federal Program Revenues	139,710	203,819	159,015	(44,804)
Total Revenues and Other Support	1,885,615	1,721,335	1,711,671	(9,664)
Expenses				
Program Services:				
11 Instruction	834,299	868,854	863,423	(5,431)
12 Library and media	-	-	14,657	14,657
13 Curriculum and staff development	-	27,200	26,988	(212)
23 School leadership	213,423	134,000	134,980	980
31 Guidance, counseling, evaluation services	-	14,223	14,642	419
33 Health services	29,740	34,290	31,650	(2,640)
34 Student transportation	-	1,000	1,050	50
35 Food services	139,710	140,010	126,607	(13,403)
41 General administration	152,816	145,140	156,324	11,184
51 Plant maintenance	159,106	89,000	120,979	31,979 (A)
52 Security and monitoring services	20,441	20,000	18,303	(1,697)
53 Data processing	17,000	40,720	41,854	1,134
71 Debt service	127,225	91,000	87,352	(3,648)
Total Expenses	1,693,760	1,605,437	1,638,809	33,372
Change in Net Assets	191,855	115,898	72,862	(43,036)
Net Assets, Beginning of Year	-	-	497,011	497,011
Net Assets, End of Year	\$ 191,855	\$ 115,898	\$ 569,873	\$ 453,975

(A) Variance due to inadvertently miscalculating projected year-end expense thus over adjusting the final budget amendment for this function.

EL PASO LEADERSHIP ACADEMY
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED AUGUST 31, 2015

	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final		
Revenues and Other Support				
Local Support:				
5740 Other revenues from local sources	\$ 5,000	\$ 5,000	\$ 132,467	\$ 127,467
5750 Food service, cocurricular & enterprising	-	-	6,979	6,979
Total Local Support	<u>5,000</u>	<u>5,000</u>	<u>139,446</u>	<u>134,446</u>
State Program Revenues:				
5810 Foundation School Program	<u>645,450</u>	<u>645,450</u>	<u>736,611</u>	<u>91,161</u>
Total State Program Revenues	<u>645,450</u>	<u>645,450</u>	<u>736,611</u>	<u>91,161</u>
Federal Program Revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>581,769</u>	<u>581,769</u>	<u>629,799</u>	<u>48,030</u>
Total Federal Program Revenues	<u>581,769</u>	<u>581,769</u>	<u>629,799</u>	<u>48,030</u>
Total Revenues and Other Support	<u>1,232,219</u>	<u>1,232,219</u>	<u>1,505,856</u>	<u>273,637</u>
Expenses				
Program Services:				
11 Instruction	621,072	849,956	599,418	(250,538)
12 Library and media	11,716	13,650	13,648	(2)
13 Curriculum and staff development	120	730	580	(150)
21 Instructional leadership	78,757	2	80,764	80,762 (A)
23 School leadership	32,290	124,835	45,845	(78,990)
31 Guidance, counseling, evaluation services	-	10,739	10,738	(1)
33 Health services	2,047	3,880	3,879	(1)
34 Student transportation	-	60	60	-
35 Food services	59,739	55,250	58,772	3,522
41 General administration	187,715	18,761	98,419	79,658 (A)
51 Plant maintenance	60,768	98,473	75,626	(22,847)
52 Security and monitoring services	-	154	153	(1)
53 Data processing	50,448	55,832	53,943	(1,889)
71 Debt service	-	6,250	96,472	90,222 (A)
Total Expenses	<u>1,104,672</u>	<u>1,238,572</u>	<u>1,138,317</u>	<u>(100,255)</u>
Change in Net Assets	127,547	(6,353)	367,539	373,892
Net Assets, Beginning of Year	<u>129,472</u>	<u>129,472</u>	<u>129,472</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 257,019</u>	<u>\$ 123,119</u>	<u>\$ 497,011</u>	<u>\$ 373,892</u>

(A) Variance is due to this being a new charter with no history and the expenses were greater than anticipated.

**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**

To the Board of Directors of
El Paso Leadership Academy
El Paso, Texas

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 El Paso Leadership Academy (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Paso Leadership Academy'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of El Paso Leadership Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of El Paso Leadership Academy'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.

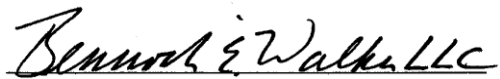
Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Paso Leadership Academy'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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bennoch & Walker LLC
Certified Public Accountants
Houston, Texas

December 2, 2016

EL PASO LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Auditors' Results

Type of auditors' report issued: Unmodified

Internal Control over financial reporting:

One or more material weakness(es) identified? None

One or more significant deficiencies identified that are not considered to be material weaknesses? None

Noncompliance material to financial statements noted: None

B. Financial Statement Findings None

C. Prior Year Findings - Financial Statement Audit None