

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2017

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KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.
(Federal Employer Identification Number 76-0626934)
101-861

CERTIFICATE OF BOARD
August 31, 2017

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Kaleidoscope Youth Development Services, Inc. was reviewed and approved disapproved for the year ended August 31, 2017, at a meeting of the governing body of said charter school on the 26th day of January, 2018.



Signature of Board Secretary



Signature of Board President

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Kaleidoscope Youth Development Services, Inc.
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Kaleidoscope Youth Development Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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 Kaleidoscope Youth Development Services, Inc. as of August 31, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

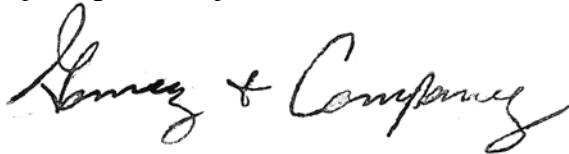
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is 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 reconciling such information directly to the underlying accounting and other records used to 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 our report dated January 22, 2018, on our consideration of Kaleidoscope Youth Development Services, Inc.'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 solely 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 effectiveness of Kaleidoscope Youth Development Services, Inc.'s 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 Kaleidoscope Youth Development Services, Inc.'s internal control over financial reporting and compliance.



Houston, TX
January 22, 2018

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2017

ASSETS

Current Assets:

Cash	\$	599,471
Grants Receivable		832,758
Other Receivables		57,227
Prepaid Expenses		96,105

Total Current Assets 1,585,561

Property, Plant & Equipment:

Land		217,172
Buildings and Improvements		2,102,548
Equipment and Furniture		541,742
Automobiles		326,837
Accumulated Depreciation		(1,270,877)

Total Property, Plant & Equipment 1,917,422

Total Assets \$ 3,502,983

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$	242,872
Other Liabilities		427,650
Current Portion of Notes Payable		184,932

Total Current Liabilities 855,454

Long-term Liabilities:

Notes Payable, less Current Portion		694,611
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Total Liabilities 1,550,065

Net Assets:

Temporarily Restricted		1,952,918
Total Net Assets		1,952,918

Total Liabilities and Net Assets \$ 3,502,983

See accompanying notes to financial statements.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Local Support:			
5740 Other Revenues from Local Sources	\$ 657,011	\$	\$ 657,011
5750 Revenue from Curricular	<u>34,810</u>		<u>34,810</u>
Total Local Support	691,821		691,821
State Program Revenues			
5810 Foundation School Program Act Revenues		9,200,665	9,200,665
5820 State Program Revenues Distributed by			
Texas Education Agency		214,211	214,211
5830 Federal Revenues Distributed by			
Other State of TX Gov Agencies		<u>11,776</u>	<u>11,776</u>
Total State Program Revenues		<u>9,426,652</u>	<u>9,426,652</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by			
Texas Education Agency		950,986	950,986
5930 Federal Revenues Distributed by			
Other State of TX Gov Agencies		<u>17,127</u>	<u>17,127</u>
Total Federal Program Revenues		<u>968,113</u>	<u>968,113</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>10,462,693</u>	<u>(10,462,693)</u>	
Total Revenues	<u>11,154,514</u>	<u>(67,928)</u>	<u>11,086,586</u>
EXPENSES			
11 Instruction	5,885,437		5,885,437
12 Instructional Resources and Media Services	57,558		57,558
13 Curriculum Development and Instructional			
Staff Development	17,032		17,032
21 Instructional Leadership	163,607		163,607
23 School Leadership	650,263		650,263
31 Guidance, Counseling, and Evaluation			
Services	376,857		376,857
33 Health Services	40,642		40,642
34 Student (Pupil) Transportation	744,776		744,776
35 Food Service	473,470		473,470
36 Cocurricular/Extracurricular Activities	11,578		11,578
41 General Administration	675,504		675,504
51 Plant Maintenance and Operations	1,656,943		1,656,943
52 Security and Monitoring Services	32,856		32,856
53 Data Processing Services	271,534		271,534
61 Community Services	12,746		12,746
71 Debt Service	41,995		41,995
81 Fund Raising	<u>41,716</u>		<u>41,716</u>
Total Expenses	<u>11,154,514</u>		<u>11,154,514</u>
Loss on assets, Net of insurance proceeds		<u>(38,492)</u>	<u>(38,492)</u>
Change in Net Assets		<u>(106,420)</u>	<u>(29,436)</u>
Net Assets, Beginning of Year		<u>2,059,338</u>	<u>2,059,338</u>
Net Assets, End of Year	<u>\$</u>	<u>\$ 1,952,918</u>	<u>\$ 1,952,918</u>

See accompanying notes to financial statements.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2017

Cash Flows From Operating Activities	
Change in net assets	\$ (106,420)
Adjustments to reconcile change in net assets to net	
Cash provided (used) by operating activities	
Depreciation	249,739
Realized (gain) loss on assets	64,800
(Increase) decrease in Grants Receivable	(239,650)
(Increase) decrease in Prepaids	471
Increase (decrease) in Accounts Payable	42,685
Increase (decrease) in Other Liabilities	<u>64,800</u>
Total Adjustments	<u>182,845</u>
Net Cash Provided (Used) by Operating Activities	<u>76,425</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(343,201)</u>
Net Cash Provided (Used) by Investing Activities	<u>(343,201)</u>
Cash Flows From Financing Activities	
Proceeds from loans and leases	145,429
Repayment of Long-Term Debt	<u>(153,491)</u>
Net Cash Provided (Used) by Financing Activities	<u>(8,062)</u>
NET INCREASE (DECREASE) IN CASH	(274,838)
CASH AT THE BEGINNING OF YEAR	<u>874,309</u>
CASH AT END OF YEAR	<u>\$ 599,471</u>
<u>Supplemental Disclosures</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 41,995</u>

See accompanying notes to financial statements.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

A. Organization:

Kaleidoscope Youth Development Services, Inc. (Corporation), a nonprofit organization, was incorporated in the State of Texas in 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that the organization was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, the Organization operates as part of the state public school system subject to all federal and state laws and rules governing public schools. The Organization is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

The organization was formed to provide elementary educational services to children and families in the Houston area, with an elementary charter school being the primary method of service provision. The organization currently provides services to 804 children and families. It is managed by a five member Board of Directors that has the exclusive power and duty to direct the supervision, management, and administration of the Organization's activities.

The charter holder, Kaleidoscope Youth Development Services, Inc., only operates a single charter school and does not conduct any other charter or non-charter activities.

B. Summary of Significant Accounting Policies:

BASIS OF PRESENTATION

Kaleidoscope Youth Development Services, Inc. reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities- 205 Presentation of Financial Statements*. Under *FASB ASC 958-205*, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the corporation.

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

B. Summary of Significant Accounting Policies: (continued)

BASIS OF PRESENTATION (continued)

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the Organization.

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities- 605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

PROPERTY AND EQUIPMENT

Property and equipment purchased by Kaleidoscope Youth Development Services, Inc. are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All purchases and donations in excess of \$5,000 are capitalized. Depreciation is provided on the straight-line method based upon estimated useful lives of five years for equipment, furniture, and automobiles, twenty-five years for building and land improvements, and twenty-five years for buildings. Gains or losses on retired or sold property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

PLEDGES AND ACCOUNTS RECEIVABLE

Contributions are recognized when the donor makes a promise to give a contribution to Kaleidoscope Youth Development Services, Inc. that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

B. Summary of Significant Accounting Policies: (continued)

PLEDGES AND ACCOUNTS RECEIVABLE (continued)

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

FUNCTIONAL EXPENSES

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the Organization's multiple function expenditures.

INCOME TAXES

Kaleidoscope Youth Development Services, Inc. qualifies as a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

CASH AND CASH EQUIVALENTS

Kaleidoscope Youth Development Services, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at local banks. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. The bank accounts, at times, exceeded federally insured limits. Kaleidoscope Youth Development Services, Inc. has not experienced any losses on such accounts.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets. The Academy classifies its marketable debt securities as "held to maturity" if it has the positive intent and ability to hold the securities to maturity. All other marketable securities are classified as "available for sale." Realized gains and losses and unrealized gains and losses, determined using the specific identification method, are included in the change in net assets.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires Kaleidoscope Youth Development Services, Inc. management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

C. Pension Plan:

Plan Description

The charter school 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 charter school, but are the liability of the State of Texas. TRS administers the 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. The latest TRS Comprehensive Annual Financial Report available dated August 31, 2017 provided the following information (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2017	ABO 2017	Percent Funded
TRS	\$ 165,379,342,000	\$ 179,336,535,000	82.17%

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 7.7% for fiscal year 2017. The state’s contribution rate as a non-employer contributing entity was 6.8% for fiscal year 2017. The charter school’s employee contributions to the system for the year ended August 31, 2017 were \$507,319 equal to the required contributions for the year.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

C. Pension Plan Obligations: (Continued)

Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum were contributed at a rate of 6.8% totaling \$30,105 for the year ending August 31, 2017. The charter school's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge.

D. Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

E. Health Care Coverage:

During the year ended August 31, 2017, employees of the Corporation were covered by a Health Insurance Plan (the Plan). The Corporation contributed \$300 per month per employee, \$325 per month per employee spouse, \$350 per month per employee child and \$375 per month per employee family to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

F. Note Payable:

The Organization's obligations under notes payable consists of the following:

Note payable to Wells Fargo Bank. The note is dated June 30, 2016, has a 4.75% interest rate and a face amount of \$417,963. Date of maturity Is July 1, 2021.	\$ 396,900
Note payable to Damier Truck Financial secured by vehicles. The note is dated July 29, 2016, has a 5.1% interest rate and a face amount of \$ 185,083	151,790
Note payable Financial Solutions Partner. The note is dated July 29, 2016, payable in 39 installments of \$1,198 with a face amount of \$45,650 and a finance portion of \$1,072	31,822
Note payable Hewlett Packer. The note is dated August 1, 2016. Payable in 36 installments of \$7,236 with a 4.75% interest rate and a face amount of \$240, 410.	\$ 182,943

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

F. Note Payable: (Continued)

Note payable to Damier Truck Financial secured by vehicles. The note is dated September 1, 2016, has a 4.49% interest rate and a face amount of \$92,591	\$ 77,131
Note payable Hewlett Packer. The note is dated October 20, 2016. Payable in 36 installments of \$1,585 with a 5.07% interest rate and a face amount of \$52,838	<u>38,957</u>
Total Notes Payable	879,543
Less: Current portion of Notes Payable	<u>184,932</u>
Notes Payable net of current portion	<u>\$ 694,611</u>

Maturities of notes payable over the next five years are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 184,858	\$ 37,161	\$ 222,019
2019	193,488	28,523	222,011
2020	107,051	20,944	127,995
2021	392,429	15,512	407,941
2022	1,717	6	1,723
Total	<u>\$ 879,543</u>	<u>\$ 102,146</u>	<u>\$ 981,689</u>

G. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2017, are available for the following periods:

<u>Periods after August 31, 2017</u>	
State Funds	<u>\$ 1,952,918</u>
Total restricted funds	<u>\$ 1,952,918</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

State Funds	\$ 9,494,580
Federal Funds	968,113
	<u>\$ 10,462,693</u>

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

H. Special Services Alliance for Texas Charter Cooperative:

The Rhodes School received \$285,000 federal funds to administer The Special Services Alliance for Texas Charter Cooperative (SSATCC). SSATCC named The Rhodes School as the fiscal agent. SSATCC received \$157,798 in IDEA-B Formula funds respectively for the year ended August 31, 2017. SSATCC has a TEA approved Shared Services Arrangement (SSA) with the following member schools/ entities, member revenue and member expense for the year ended August 31, 2017:

<u>Member/ Entity</u>	<u>Revenue</u>	<u>Expense</u>
Wallip Preparatory Academy	24,283	24,283
The Rhodes School	133,515	133,515
Total IDEA-B Preschool Funds	<u>\$ 157,798</u>	<u>\$ 157,798</u>

I. Commitments and Contingencies:

The charter school receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency, and it 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 charter school 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. The school is economically dependent on these charter school funds.

J. Flood Damage:

During the current year, the organization incurred a loss related to its buildings and contents due to flood damage. The organization has several ongoing insurance claims and it expects to recover proceeds to cover all damages. As of August 31, 2017, an adjustment was made to the carrying value of its buildings resulting in a net loss of \$38,492.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

K. Operating Lease Commitment:

Kaleidoscope Youth Development Services, Inc.'s minimum annual lease commitment is as follows:

<u>Twelve months ending August 31,</u>	<u>Amount</u>
2018	\$ 463,209
2019	525,334
2020	358,333
2021	360,000
2022	252,000
Thereafter	263,333
Total	<u>\$ 2,222,209</u>

Operating lease expense amounted to \$429,957 for the twelve months ended August 31, 2017.

L. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through January 22, 2018, the date which the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors of
Kaleidoscope Youth Development Services, Inc.
Houston, Texas

We have audited the financial statements of Kaleidoscope Youth Development Services, Inc. (a nonprofit organization) as of and for the year ended August 31, 2017, and our report thereon dated January 22, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School dated August 31, 2017 and appearing on pages 15 to 17 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 reconciling such information directly to the underlying accounting and other records used to 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.



Houston, TX
January 22, 2018

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2017

Expenses

6100 Payroll Costs	\$ 7,657,497
6200 Professional and Contracted Services	2,188,767
6300 Supplies and Materials	520,459
6400 Other Operating Costs	745,796
6500 Debt	<u>41,995</u>
Total Expenses	<u>\$ 11,154,514</u>

See accompanying notes to financial statements.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2017

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 599,471	\$
1510 Land and Improvements		217,172	
1520 Buildings and Improvements		2,008,715	93,833
1531 Vehicles		326,837	
1539 Furniture and Equipment		490,186	51,556
Total Property and Equipment	<u>\$</u>	<u>\$ 3,642,381</u>	<u>\$ 145,389</u>

See accompanying notes to financial statements.

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 592,134	\$ 619,689	\$ 657,011	\$ 37,322
5750 Food Service Sales	34,129	34,810	34,810	
Total Local Support	626,263	654,499	691,821	37,322
State Program Revenues:				
5810 Foundation School Program Act Revenues	9,201,495	9,236,859	9,200,665	(36,194)
5820 State Program Revenues Distributed by Texas Education Agency	212,709	216,361	214,211	(2,150)
5830 Federal Revenues Distributed by Other State of TX Gov Agencies	11,776	11,776	11,776	
Total State Program Revenues	9,425,980	9,464,996	9,426,652	(38,344)
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	960,305	976,659	950,986	(25,673)
5930 Federal Revenues Distributed by Other State of TX Gov Agencies	18,774	18,774	17,127	(1,647)
Total Federal Program Revenues	979,079	995,433	968,113	(27,320)
Total Revenues	11,031,322	11,114,928	11,086,586	(28,342)
EXPENSES				
11 Instruction	5,872,678	5,885,437	5,885,437	
12 Instructional Resources and Media Services	57,558	57,558	57,558	
13 Curriculum Development and Instructional Staff Development	17,616	17,032	17,032	
21 Instructional Leadership	158,754	163,607	163,607	
23 School Leadership	648,093	650,263	650,263	
31 Guidance, Counseling, and Evaluation Services	366,394	401,141	376,857	24,284
33 Health Services	40,631	40,642	40,642	
34 Student (Pupil) Transportation	756,480	744,776	744,776	
35 Food Service	429,715	473,470	473,470	
36 Cocurricular/Extracurricular Activities	21,718	11,578	11,578	
41 General Administration	670,911	675,504	675,504	
51 Plant Maintenance and Operations	1,618,351	1,682,780	1,656,943	25,837
52 Security and Monitoring Services	33,507	32,856	32,856	
53 Data Processing Services	295,397	290,791	271,534	19,257
61 Community Services	25,125	12,746	12,746	
71 Debt Service	36,179	36,389	41,995	(5,606)
81 Fundraising	48,249	41,716	41,716	
Total Expenses	11,097,356	11,218,286	11,154,514	63,772
Loss on assets, Net of insurance proceeds			(38,492)	(38,492)
Change in Net Assets	(66,034)	(103,358)	(106,420)	(3,062)
Net Assets, Beginning of Year	2,316,074	2,072,000	2,059,338	(12,662)
Net Assets, End of Year	\$ 2,250,040	\$ 1,968,642	\$ 1,952,918	\$ (15,724)

See accompanying notes to financial statements.

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INDEPENDENT AUDITOR'S 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
Kaleidoscope Youth Development Services, Inc.
Houston, 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 Kaleidoscope Youth Development Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, 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 January 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kaleidoscope Youth Development Services, Inc.'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 Kaleidoscope Youth Development Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Kaleidoscope Youth Development Services, Inc.'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.

A handwritten signature in black ink that reads "Hamez & Company". The signature is written in a cursive, flowing style.

Houston, TX
January 22, 2018

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Kaleidoscope Youth Development Services, Inc.
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Kaleidoscope Youth Development Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kaleidoscope Youth Development Services, Inc.'s major federal programs for the year ended August 31, 2017. Kaleidoscope Youth Development Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kaleidoscope Youth Development Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kaleidoscope Youth Development Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Kaleidoscope Youth Development Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Kaleidoscope Youth Development Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

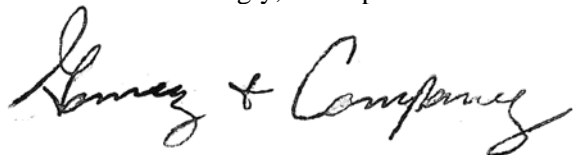
Report on Internal Control Over Compliance

Management of Kaleidoscope Youth Development Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kaleidoscope Youth Development Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kaleidoscope Youth Development Services, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Houston, TX
January 22, 2018

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2017

No audit findings were noted as per governmental auditing standards and
2 CFR section 200.516(a). for the period ended August 31, 2016. \$ -0-

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2017

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
Title I, Part A, School Improvement	84.010A	17610101101861	133,548
Title I, Part A, School Improvement	84.010A	18610101101861	4,212
Idea - B Formula	84.027A	17660001018616000	128,114
Idea - B Formula	84.027A	18660001101616000	5,402
Idea - B Discretionary	84.027A	176600021018616000	285,000
Idea - B Preschool	84.173A	176610011018616000	3,068
Title II, Part A, Teacher/Principal Training & Recruiting	84.367A	15694501101861	22,723
Total U.S. Department of Education			582,067
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
School Breakfast	10.553	71401401	13,041
School Breakfast	10.553	71401501	85,745
National School Lunch	10.555	71301401	28,565
National School Lunch	10.555	71301501	221,299
Passed - Through Texas Department of Agriculture			
USDA Commodity Food Distribution	10.555		20,269
Total U.S. Department of Agriculture			368,919
Total Expenditures of Federal Awards			\$ 950,986

KALEIDOSCOPE YOUTH DEVELOPMENT SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of federal awards (the Schedule) includes the federal grant activity of Kaleidoscope Youth Development Services, Inc. under programs of the federal government for the year ended August 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of Kaleidoscope Youth Development Services, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Kaleidoscope Youth Development Services, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

Kaleidoscope Youth Development Services, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Reconciliation of Federal Revenues and Schedule of Expenditures of Federal Awards (SEFA):

Total expenditure of federal awards per the SEFA	\$	950,986
School Health and Related Services (SHARS)		17,127
Total federal revenues per the Audit Report	\$	<u>968,113</u>