



Lone Star Success Academy

**Financial Statements with Compliance Reports
and Supplemental Information
June 30, 2019**

Lone Star Success Academy
Federal Employer Identification No. 47-5480497
County District No. 111-801
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Lone Star Success Academy was reviewed and (check one) approved disapproved for the year ended June 30, 2019, at a meeting of the governing body of the charter holder on the 5th day of November 2019.



Signature of Board Secretary



Signature of Board President

Lone Star Success Academy

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Independent Auditors' Report

To the Board of Directors of
Lone Star Success Academy

Report on the Financial Statements

We have audited the accompanying financial statements of Lone Star Success Academy (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 risk 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 Lone Star Success Academy as of June 30, 2019 and the changes in its net assets (deficit) and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The supplemental 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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 November 5, 2019 on our consideration of Lone Star Success Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Lone Star Success Academy's internal control over financial reporting and compliance.



A Limited Liability Partnership

Arlington, Texas
November 5, 2019

Lone Star Success Academy
Statement of Financial Position
June 30, 2019

Assets	
Current assets:	
Cash	\$ 4,529
Due from Texas Education Agency	<u>192,998</u>
Total assets	<u><u>\$ 197,527</u></u>
Liabilities and Net Deficit	
Current liabilities:	
Accounts payable	\$ 241,458
Accrued payroll liabilities	<u>17,357</u>
Total liabilities	<u>258,815</u>
Net deficit without donor restrictions	<u>(61,288)</u>
Total liabilities and net deficit	<u><u>\$ 197,527</u></u>

See notes to financial statements.

Lone Star Success Academy
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
State program revenues:			
5810 Foundation school program act revenues	\$ -	\$ 838,627	\$ 838,627
Total state program revenue	-	838,627	838,627
Net assets released from restrictions-			
Satisfaction of program restrictions	838,627	(838,627)	-
Total revenue and support	838,627	-	838,627
Expenses:			
11 Instruction	513,802	-	513,802
13 Curriculum development and instructional staff development	478	-	478
23 School leadership	128,275	-	128,275
41 General administration	105,940	-	105,940
51 Facilities maintenance and operations	151,420	-	151,420
Total expenses	899,915	-	899,915
Decrease in net assets	(61,288)	-	(61,288)
Net assets at beginning of year	-	-	-
Net deficit at end of year	<u>\$ (61,288)</u>	<u>\$ -</u>	<u>\$ (61,288)</u>

See notes to financial statements.

Lone Star Success Academy
Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:	
Decrease in net assets	\$ (61,288)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
Due from Texas Education Agency	(192,998)
Accounts payable	241,458
Accrued payroll liabilities	<u>17,357</u>
Net cash provided by operating activities	<u>4,529</u>
Increase in cash	4,529
Cash at beginning of year	<u>-</u>
Cash at end of year	<u><u>\$ 4,529</u></u>

See notes to financial statements.

Lone Star Success Academy

Notes to Financial Statements

1. Organization and Nature of Activities

Lone Star Success Academy (Academy) is a nonprofit organization incorporated in the State of Texas in September 2016 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. A board of directors made up of four members governs the Academy. The board of directors is selected pursuant to the bylaws of the Academy and has the authority to make decisions and significantly influence operations. The board of directors has the primary accountability for the fiscal affairs of the Academy. The Academy's mission is to provide quality academic instruction to at-risk youth and give them opportunities to succeed.

In October 2018, the State Board of Education of the State of Texas granted the Academy an initial five year juvenile detention 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, Lake Granbury Academy was opened for the academic year 2018-2019 and provides educational services to at-risk youth at Lake Granbury Youth Services Juvenile Detention Center.

The Academy is part of the public school system of the State of Texas (State) and is therefore entitled to distribution from the State's Foundation School Program (FSP). The Academy does not have the authority to impose ad valorem taxes or to charge tuition. The Academy operates a single charter school and does not conduct any non-charter activities.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Academy prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor or grantor-imposed stipulations even though their use may be limited in other respects, such as by contract or board designation.

Net assets with donor restrictions - Net assets subject to donor or grantor stipulations that will be met by actions of the Academy and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. There are no net assets with donor restrictions at June 30, 2019.

Lone Star Success Academy

Notes to Financial Statements

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist of cash and accounts receivable. Cash is placed with high credit quality financial institutions to minimize risk. The Academy maintains cash balances at a financial institution located in Texas. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2019, there were no uninsured balances. The Academy has not experienced any losses on such accounts. Accounts receivable are unsecured and are due from the Texas Education Agency. The Academy continually evaluates the collectability of accounts receivable and maintains allowances as necessary. No provision has been made for uncollectible accounts receivable as of the statement of financial position date, given that none have been identified.

For the year ended June 30, 2019, the Academy received 100% of its total revenue and support from the Texas Education Agency (TEA).

Revenue and Support

The Academy receives support from the TEA based on students' daily attendance. Revenues from this support are recognized as revenue in the month it is earned. The Academy records a receivable if all earned support has not been received by year end.

Federal Income Taxes

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) except to the extent it has unrelated business income. The Academy had no unrelated business income for the year ended June 30, 2019. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Academy's tax returns and recognition of a tax liability (or asset) if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Academy, and has concluded that as of June 30, 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Lone Star Success Academy

Notes to Financial Statements

Allocation of Functional Expenses

Expenses are reported by their functional classification as program services or supporting services. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the Academy exists. Supporting services are not directly identifiable with specific program. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefited. Salaries and related costs are charged directly either to program services or supporting services based on actual time worked in each area. Occupancy costs are allocated based on whether the costs are associated with instruction (program services) or with administration.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Academy considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Academy's financial position and changes in net assets.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

Lone Star Success Academy

Notes to Financial Statements

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. For the majority of not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2020.

The Academy is currently assessing the impact that adopting this new guidance will have on the financial statements.

3. Retirement Plan

The Academy provides retirement benefits to its employees through a defined contribution plan covering all full-time employees with one year of eligible service. The Academy makes a dollar-for-dollar matching contribution up to 6% of an eligible employee's compensation to the plan. The Academy's matching contributions to the plan for the year ended June 30, 2019 was \$2,576.

4. Health Care Coverage

During the year ended June 30, 2019, employees of the Academy had an option to be covered by a Cigna insurance plan. The Academy contributes up to \$428 per month for employee only and up to \$919 per month for family plans for the year ended June 30, 2019. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

5. Functional Expenses

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Total
Program Services:					
Instructional and instructional related services	\$ 484,056	\$ 1,696	\$ 28,408	\$ 120	\$ 514,280
Support services - nonstudent based	-	125,164	16,892	9,364	151,420
Total program services	484,056	126,860	45,300	9,484	665,700
Support Services:					
School leadership	128,275	-	-	-	128,275
Administrative support services	-	103,675	2,265	-	105,940
Total support services	128,275	103,675	2,265	-	234,215
Total expenses	<u>\$ 612,331</u>	<u>\$ 230,535</u>	<u>\$ 47,565</u>	<u>\$ 9,484</u>	<u>\$ 899,915</u>

Lone Star Success Academy
Notes to Financial Statements

6. Liquidity and Availability of Resources

The Academy's financial assets available within one year of the statement of financial position date of June 30, 2019 for general expenditure total \$197,527, which consists of cash of \$4,529 and accounts receivable of \$192,998. The Academy relies on state grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Academy considers all expenditures related to its ongoing activities of education, as well as the conduct of services undertaken to support those activities, to be general expenditures. As part of the Academy's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash.

7. Commitments and Contingencies

Management Agreement

In July 2018, the Academy entered into a management agreement with Rite of Passage, Inc. (ROP) to provide educational and managerial services. The agreement is noncancelable and expires in July 2023. As a part of the agreement, the Academy is responsible for management fees equal to 10% of the state and local school funds received. In addition, the Academy is required to reimburse ROP for all expenses paid by ROP on behalf of the Academy including payroll costs incurred each month. For the year ended June 30, 2019, management fees totaled \$83,863 and are included in professional and contracted services expense. At June 30, 2019, the Academy owed ROP \$228,271.

Leases

The Academy entered into a five year noncancelable lease agreement for school premises with a party related to ROP. This Triple Net lease requires monthly lease payments of \$5,440 plus the Academy's pro-rate share (27%) of all costs associated with the maintenance and operation of the building through June 2023.

The following is a schedule of future minimum lease payments under this operating lease agreement for the years ending June 30:

2020	\$	65,280
2021		65,280
2022		65,280
2023		<u>65,280</u>
Total	\$	<u>261,120</u>

Rent expense related to this lease totaled \$65,280 for the year ended June 30, 2019. In addition, property taxes and other costs to maintain the property totaled \$86,140.

Lone Star Success Academy

Notes to Financial Statements

Contingencies

The Academy receives funds through state 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. The programs administered by the Academy have complex compliance requirements, and should state 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.

8. Subsequent Events

The Academy has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.

Compliance Reports

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
Lone Star Success Academy

We have audited, in accordance with U.S. generally accepted auditing standards 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 Lone Star Success Academy (Academy) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 November 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Academy'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 the 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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



A Limited Liability Partnership

Arlington, Texas
November 5, 2019

**Supplemental Information Required by
Texas Education Agency**

**Lone Star Success Academy
Budgetary Comparison Schedule
Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and support:				
State program revenues:				
5820 State program revenues distributed by TEA	1,043,149	1,043,149	838,627	204,522
Total state program revenues	1,043,149	1,043,149	838,627	204,522
Federal program revenues:				
5920 Federal revenues distributed by TEA	140,000	140,000	-	140,000
Total federal program revenues	140,000	140,000	-	140,000
Total revenue and support	1,183,149	1,183,149	838,627	344,522
Expenses:				
11 Instruction	646,898	646,898	513,802	133,096
13 Curriculum development and instructional staff development	16,500	16,500	478	16,022
23 School leadership	168,638	168,638	128,275	40,363
41 General administration	168,821	168,821	105,940	62,881
51 Facilities maintenance and operations	121,899	121,899	151,420	(29,521)
Total expenses	1,122,756	1,122,756	899,915	222,841
Change in net assets (deficit)	60,393	60,393	(61,288)	(121,681)
Net assets at beginning of year	-	-	-	-
Net assets (deficit) at end of year	\$ 60,393	\$ 60,393	\$ (61,288)	\$ (121,681)

Lone Star Success Academy
Schedule of Expenses
Year Ended June 30, 2019

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 612,331
6200	Professional and contracted services	230,535
6300	Supplies and materials	47,565
6400	Other operating costs	9,484
		<u>\$ 899,915</u>