



Lone Star Language Academy, Inc.

Financial Statements and  
Independent Auditors' Report

August 31, 2018

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CERTIFICATE OF BOARD

Lone Star Language Academy, Inc.  
Federal Employer Identification Number 46-1510729

We, the undersigned, certify that the attached annual financial and compliance reports of the above-named charter holder was reviewed and (check one)  <sup>accepted</sup> approved  disapproved for the period from inception through August 31, 2018, at a meeting of the Board of Trustees of the charter holder on the 23 day of January, 2019.

  
Signature of Board Secretary

  
Signature of Board president



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Lone Star Language Academy, Inc.  
Plano, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lone Star Language Academy, Inc. (the "School"), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and changes in net assets and cash flows for the period from inception through August 31, 2018, 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 controls 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 Lone Star Language Academy, Inc., as of August 31, 2018, and the changes in its net assets and its cash flows for the period from inception through August 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

During the period from inception through August 31, 2018, the school received 63% of its operating revenues in the form of contributions and recoverable grants from related parties and a third party charitable institution (see Notes 11 & 12).

***Other Matter***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 18-21 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 Standard***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019, on our consideration of the School'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 the School's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida

January 23, 2019

Licensed by the Texas State Board of Public Accountancy

ID No. P05554

Lone Star Language Academy, Inc.  
Statement of Financial Position  
August 31, 2018

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Assets

Current assets:

Cash and cash equivalents	\$	21,238
Other receivables		22,551
Prepaid expenses and other assets		<u>53,588</u>

Total current assets 97,377

Property and equipment, net 246,587

Total assets \$ 343,964

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses \$ 251,622

Total current liabilities 251,622

Long-term debt 300,000

Total liabilities 551,622

Net assets - Temporarily restricted (207,658)

Total liabilities and net assets \$ 343,964

The accompanying notes are an integral part  
of this financial statement.

Lone Star Language Academy, Inc.  
Statement of Activities and Change in Net Assets  
For the period from inception through August 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Local support:			
Contributions	\$ -	\$ 353,597	\$ 353,597
Food Service	-	20,700	20,700
Other Revenues	-	1,048,961	1,048,961
Total local support	<u>-</u>	<u>1,423,258</u>	<u>1,423,258</u>
State program revenue:			
Foundation school program	-	731,418	731,418
State textbook program	-	28,965	28,965
Total state program revenues	<u>-</u>	<u>760,383</u>	<u>760,383</u>
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>2,391,299</u>	<u>(2,391,299)</u>	<u>-</u>
Total Revenues	<u>2,391,299</u>	<u>(207,658)</u>	<u>2,183,641</u>
Expenses			
11 Instruction	\$ 1,399,432	\$ -	\$ 1,399,432
13 Curriculum and instructional staff development	7,630	-	7,630
23 School leadership	403,571	-	403,571
31 Guidance, counseling and evaluation services	2,500	-	2,500
35 Food services	25,785	-	25,785
41 General administration	266,900	-	266,900
51 Facilities maintenance and operations	237,817	-	237,817
52 Security and monitoring services	4,900	-	4,900
53 Data processing services	25,699	-	25,699
71 Debt service	17,065	-	17,065
Total expenses	<u>2,391,299</u>	<u>-</u>	<u>2,391,299</u>
Change in net assets	<u>-</u>	<u>(207,658)</u>	<u>(207,658)</u>
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ (207,658)</u>	<u>\$ (207,658)</u>

The accompanying notes are an integral part  
of this financial statement.



Lone Star Language Academy, Inc.  
Statement of Cash Flows  
For the period from inception through August 31, 2018

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Cash Flows From Operating Activities	
Change in net assets	\$ (207,658)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Leasehold improvements	(159,474)
Depreciation	34,403
Change in assets and liabilities:	
Other receivables	(22,551)
Prepaid expenses and other assets	(53,588)
Accounts payable	251,622
	<u>50,412</u>
Net Cash Used in Operating Activities	<u>(157,246)</u>
Cash Flows From Investing Activities	
Acquisition of property and equipment	<u>(121,516)</u>
Net Cash Used in Investing Activities	<u>(121,516)</u>
Cash Flows From Financing Activities	
Proceeds from long term debt	<u>300,000</u>
Net Cash Provided by Financing Activities	<u>300,000</u>
Net increase in cash and equivalents	<u>21,238</u>
Cash and cash equivalents, at beginning of year	<u>-</u>
Cash and cash equivalents, at end of year	<u>\$ 21,238</u>
<u>Supplemental Disclosure of Cash Flow Information</u>	
Non cash investment & financing activities:	
Leasehold improvements	<u>\$ 159,474</u>

The accompanying notes are an integral part of this financial statement.

## **Note 1 – Organization and Operations**

Lone Star Language Academy, Inc. (the “Charter Holder” and the “School”), is a not-for-profit 501(c)(3) corporation established in the state of Texas. The Charter Holder is governed by a Board of Directors (the “Board”) comprised of no less than 3 and no more than 9 members (5 at August 31, 2018). The Board is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer, and significantly influence the operations of the Charter Holder, as well as the School. The majority of members of the Texas School Board must be qualified voters in the state of Texas.

In 2015, the State Board of Education (“SBOE”) of the state of Texas granted the Charter Holder an open-enrollment charter pursuant to chapter 12 of the Texas Education Code (“TEC”) to open for the 2016-2017 school year. The opening was subsequently deferred to the 2017-2018 school year. Since the School’s charter was approved in 2015 and approved to open for the 2016-2017 School year, the accompanying financial statements are for the period from inception through August 31, 2018. The open-enrollment charter shall be in effect from the date of execution through July 31, 2021 unless renewed or terminated. Pursuant to the program described in the charter application approved by the SBOE of the state of Texas and the terms of the applicable contract for charter, the Charter Holder opened its first campus in August 2017, which serves grades kindergarten through five. The Charter Holder currently operates one campus.

The School receives substantially all its funding from TEA based on the School’s average daily attendance. Since the School receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

## **Note 2 – Summary of Significant Accounting Policies**

### Basis of Accounting and Presentation

The accompanying financial statements for the School have been prepared on the accrual basis of accounting for the School’s fiscal period from inception through August 31, 2018 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.

Revenues and other support are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. The School’s policy is to report restricted support that is satisfied in the year of receipt as restricted and then fully released in the same year.

The net assets categories as reflected in the accompanying financial statements are as follows:

Unrestricted Net Assets

Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. There were no unrestricted net assets at August 31, 2018.

Temporarily Restricted Net Assets

Net assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the School pursuant to those stipulations. The School had \$(207,658) in temporarily restricted net assets at August 31, 2018.

Permanently Restricted Net Assets

Net assets whose use by the School is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the School. There were no permanently restricted net assets at August 31, 2018.

Fair Value of Financial Instruments

Cash and cash equivalents, receivables, and prepaid expenses, as well as account payable and accrued expenses as reflected in the statement of financial position at approximate fair value because of their generally short-term maturities.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Interest-bearing accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to a maximum of \$250,000. In addition, the School has an agreement with its bank institution where the bank provides pledged collateral in the School’s name in the event deposits exceed FDIC limits. The School has not experienced any losses in such accounts. In addition, the School has an agreement with its bank institution where the bank provides pledged collateral in the School’s name in the event deposits exceed FDIC limits. The School has not experienced any losses in such accounts.

Revenue Recognition

Capitation received, including base capitation, entitlements and special services, is recognized in the period services are provided. Revenues from TEA are earned based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Property and Equipment

The School's plant and equipment with useful lives of more than one year are stated at historical cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The School generally capitalizes assets with cost of \$500 or more. Building improvements, additions and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method.

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Leasehold improvements	11 Years
Furniture and equipment	5 Years

Impairment of Long-Lived Assets

The School reviews the carrying value of property and equipment for impairment whenever events and circumstances indicated the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to the amount by which the carrying value exceeds the fair value of the assets. The factors considered by management include current operating results, trends and prospects and other economic factors. The School did not recognize an impairment loss during the period from inception through August 31, 2018.

Compensated Absences

The School grants a specific number of personal days. Full time instructional employees are eligible to 0.66 days per month or up to eight days during the twelve-month contract period. In the event that available time is not used by the end of the benefit year, employees may "rollover" a total of five days per year. There is an opportunity to "cash out" unused days at the end of one year prior to the winter break of the following year or at termination of employment, whichever occurs first, at a rate of \$200 per day.

Income Taxes

Lone Star Language Academy, Inc. (the charter holder) qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from income tax. Accordingly, no tax provision has been recorded in the accompanying financial statements.

Contributions

The School accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restriction.

Support that is restricted by the donor is reported as an increase in temporarily restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Operating Leases

In accordance with ASC 840, "*Leases*," the Organization is recognizing rental expense on its operating lease agreements on a straight-line basis.

Subsequent Events

The School has evaluated subsequent events and transactions for potential recognition or disclosure through January 23, 2019, which is the date the financial statements were available to be issued.

**Note 3 – Property and equipment**

The following schedule provides a summary of property and equipment at August 31, 2018:

Furniture, fixtures and equipment	\$ 121,516
Leasehold improvements	<u>159,474</u>
	280,990
Less accumulated depreciation	<u>(34,403)</u>
Net property and equipment	<u><u>\$ 246,587</u></u>

Depreciation expense for the period from inception through August 31, 2018 totaled \$34,403. Capital assets acquired with public funds received by the School 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 – Long term Debt**

On October 31, 2017, the School entered into a promissory note agreement with TT Green Oaks North, LLC (“Green Oaks”), in the amount of \$300,000, for working capital purposes. The note bears interest at a rate of 6.0% per annum. Accrued interest is payable monthly beginning on the first day of each month until the maturity date. The outstanding balance of the note, including all principal and any accrued but unpaid interest shall be due and payable in full on October 31, 2022. Green Oaks is a Texas limited liability company whose owner is a member of the School’s board of directors.

Long-term debt at August 31, 2018 consisted of the following:

Promissory note	\$ 300,000
Total	<u>\$ 300,000</u>

Future maturities of long-term debt are as follows:

Fiscal year ending:		
	2019	\$ -
	2020	-
	2021	-
	2022	300,000
Total		<u>\$ 300,000</u>

#### **Note 5 –Operating Leases**

On August 1, 2016, the School entered into a non-cancellable operating leases, as amended, with TLC Schools, Ltd (“Landlord”) for its campus located in Plano, Texas for a term of eleven years with an option to extend for an additional period of five years. Rental expense for the period from inception through August 31, 2018 totaled approximately \$633,200, which was forgiven by the Landlord in the form of a recoverable grant and contributions (see Note 12). The Landlord of the leased property is a member of the School’s board of directors.

Future minimum payments under the lease is as follows:

Fiscal year ending:			
	2019	\$	263,600
	2020		277,000
	2021		291,000
	2022		305,000
	2023		315,000
	2024-2028		1,344,500
Total		\$	<u>2,796,100</u>

#### Concentrations and Contingencies

The School received substantially all of its revenues from state and federal governmental agencies that are governed by various statutes and regulations. As such, the School operates in a heavily regulated environment. 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 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 receives a portion of its funding from federal and state programs that are governed by rules and regulations of the grantors. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

#### **Note 6- Risk Management**

The School is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions and natural disasters for which the School carries commercial insurance. Settlement amounts have not exceeded insurance coverage for the past years. In addition, there were no reductions in insurance coverage from those in the prior year.

## **Note 7 – Defined Benefit Pension Plan**

The School participates in the Teacher Retirement System of Texas (the System), a public employee retirement system. It is cost-sharing, multiple-employer defined benefit pension plan with the exception that all risks and costs are not shared by the School, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas. Under provisions in State law, plan members are required to contribute 7.7% of their monthly salary and the State of Texas contributes an amount equal to 6.8% of the School's covered payroll.

### Plan Description

The School participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teachers Retirement System ("TRS"). The TRS defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's board of trustees does not have the authority to establish or amend benefit terms. The TRS plan does not include a collective-bargaining agreement.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS.

The TRS plan differs from single-employer plan in the following ways:

1. Charters are legally separate entities from the state and each other.
2. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another charter or ISD.
3. The unfunded obligations get passed along to other charters or ISDs.
4. There is not a withdrawal penalty for leaving the TRS system.

### Pension Plan Fiduciary Net Position

At August 31, 2017, TRS' total plan assets were \$163,379,341,964; accumulated benefit obligation was \$179,336,534,819; and the plan was 82.17% unfunded.



Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

### Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution, which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS during the fiscal year. Texas Government Code, Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, of the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code, Section 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code, Section 825.402 for member contributions and established employee contribution rates for fiscal year 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance ("OASDI") on certain employees effective for fiscal year 2015, as discussed in Note 1 of the TRS 2014 CAFR. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act ("GAA") established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

Contributors to the plan include members, the School, and the state of Texas as the only nonemployer contributing entity ("NECE"). The state is the employer for senior colleges, medical schools, and state agencies, including TRS. In each respective role, the state contributes to the plan in accordance with state statutes and the GAA.

As the NECE for public education and junior colleges, the state of Texas contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the School. The School is required to pay the employer contribution rate in the following instances:

- On the portion of the members' salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the TEC.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from noneducational and general, or local funds.

- When the employing district is a public junior college or junior college district, the district shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the School employer contributions listed-below, when employing a retiree of TRS, the School shall pay both the member contribution and the state contribution as an employment after retirement surcharge. The School’s contribution to TRS does not represent more than 5% of the total contributions to the TRS plan. There have been no changes that would affect the comparison of employer contributions from year to year.

	<u>Contribution Rates</u>	<u>2018</u>
Member		7.7%
NECE		6.8%
Employers		6.8%
Employer contributions	\$	7,446
Member contributions	\$	26,601
Non-OASDI contributions	\$	4,681
Health plan contributions	\$	80,340

**Note 8 – Health Care Coverage**

During the period from inception through August 31, 2018, employees of the School were covered by a health insurance plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers. For the period from inception through August 31, 2018, the School contributed approximately \$80,340 to the health plan on behalf of the employees.

**Note 9 – Temporarily Restricted Net Assets**

Temporarily restricted net assets at August 31, 2018 consisted of assets that are subject to grantor or donor imposed stipulations that require the passage of time or the occurrence of a specified event. The majority of the assets are pass-through from TEA as follows:

Foundation School Program	\$	(212,919)
Food Services		6,529
Instructional Materials Allotment		(1,268)
	\$	<u>(207,658)</u>

Net Assets for the period from inception through August 31, 2018 were released from donor restriction by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Foundation School Program	\$ 2,348,440
Instructional materials allotment	30,233
Food services	11,312
Other Local	1,314
	<u>\$ 2,391,299</u>

#### **Note 10 – Services Agreement**

The Charter Holder has a services agreement with Academica SoutWest, LLC (“ASW”) to provide administrative services specifically to the School including but not limited to facility design, staffing recommendations, human resource coordination, regulatory compliance, legal and corporate upkeep, maintenance of the accounting books and records, bookkeeping, budgeting and financial reporting. The fee is \$650 per student full-time equivalent of the School per annum and is adjusted annually for the consumer price index. During the period from inception through August 31, 2018, the fee recorded by the School totaled approximately \$63,100.

#### **Note 11 –Recoverable Grants**

During the period from inception through August 31, 2018 the School also received \$395,000 in recoverable grants from the ACE Foundation, a Florida no-for-profit corporation for the purpose of funding operating expenses of the School. These revenues were recorded as contributions in the statement of activities. Under the terms of the agreement, the grant shall become repayable from the School if and only if the School operates with a surplus from its operating budget in any fiscal year as evidenced by the annual financial and compliance report filed with the Texas Education Agency. The maximum the School may be required to pay in the future should the School meet the requirements for repayment is \$395,000.

#### **Note 12 –Related Party Transactions**

During the period from inception through August 31, 2018 ASW contributed approximately \$79,000 to the School to cover operating expenses for the months of August and September, 2017.

The Landlord of School’s leased facility (see Note 5) paid on behalf of the School approximately \$909,200 in leasehold improvements, rental costs and utilities and maintenance costs during the period from inception through August 31, 2018. The landlord is treating approximately \$637,000 of those costs as a recoverable grant whereby the School would be required to repay those funds if and only if the School operates with a surplus from its operating budget in any fiscal year as evidenced by the annual financial and compliance report. The maximum the School may be required to pay in the future would the School meet the requirements for repayment is \$637,337.

SUPPLEMENTAL INFORMATION

Lone Star Language Academy, Inc.  
Schedule of Expenses  
For the year ended August 31, 2018

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Expenses:

6100 Payroll costs	\$ 841,209
6200 Professional and contracted services	1,176,772
6300 Supplies and materials	187,824
6400 Other operating costs	168,429
6500 Debt service	<u>17,065</u>
Total Expenses	<u>\$ 2,391,299</u>

Lone Star Language Academy, Inc.  
 Schedule of Capital Assets  
 August 31, 2018

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Object Code	Asset Classification	Ownership Interest			Total
		Local Funds	State Funds	Federal Funds	
1520	Buildings and Improvements	\$ 159,474	\$ -	\$ -	\$ 159,474
1539	Furniture and equipment over \$5,000	-	110,126	-	110,126
1549	Furniture and equipment under \$5,000	-	11,390	-	11,390
Total Capital Assets		<u>\$ 159,474</u>	<u>\$ 121,516</u>	<u>\$ -</u>	<u>\$ 280,990</u>

Lone Star Language Academy, Inc.  
 Budgetary Comparison Schedule  
 For the period from inception through August 31, 2018

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
5700 Local support	\$ 100,000	\$ 479,400	\$ 1,423,258	\$ 943,858
5800 State program revenue	1,397,840	760,681	760,383	(298)
5900 Federal program revenues	-	161,508	-	(161,508)
Total revenues and other support	<u>\$ 1,497,840</u>	<u>\$ 1,401,589</u>	<u>\$ 2,183,641</u>	<u>\$ 782,052</u>
<b>Expenses</b>				
11 Instruction	1,134,076	1,058,883	1,399,432	340,549
13 Curriculum and instructional staff development	-	37,000	7,630	(29,370)
23 School leadership	214,900	152,506	403,571	251,065
31 Guidance, counseling and evaluation services	-	49,438	2,500	(46,938)
35 Food services	-	25,250	25,785	535
41 General administration	36,500	220,498	266,900	46,402
51 Facilities maintenance and operations	99,100	88,002	237,817	149,815
52 Security and monitoring services	-	2,500	4,900	2,400
53 Data processing services	53,700	23,000	25,699	2,699
71 Debt service	27,000	18,000	17,065	(935)
Total expenses	<u>1,565,276</u>	<u>1,675,077</u>	<u>2,391,299</u>	<u>716,222</u>
Change in net assets	<u>(67,436)</u>	<u>(273,488)</u>	<u>(207,658)</u>	<u>65,830</u>
Net assets at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ (67,436)</u>	<u>\$ (273,488)</u>	<u>\$ (207,658)</u>	<u>\$ 65,830</u>

### **Note 1 – Budgetary Matters**

In accordance with the TEA Special Supplement to the Financial Accountability System Resource Guide Charter Schools, if the budgetary comparison schedule discloses variances between the final budgeted amounts and the actual amounts that exceed 10% of the final budgeted amounts, a written statement discussing the causes of the variances is required.

### **Note 2 – Budgetary Variances**

The actual amounts varied by more than 10% from the final amended budget as follows:

#### Revenue

- Local support and intermediate sources were over by \$943,806 as a result of increased unrestricted contributions.
- Federal program sources decreased by \$161,508 as a result of grant period end 2019.

#### Expenses

- Function 11- \$340,549 for increased personnel costs and supplies.
- Function 13- \$(29,370) for decreased personnel costs.
- Function 23- \$251,065 for increased contracted services.
- Function 31- \$(46,938) for decreased personnel costs and contracted services.
- Function 41- \$46,402 for increased utilities and maintenance costs.
- Function 51- \$149,815 for increased utilities and maintenance costs.
- Function 52- \$2,400 for increased contracted services.
- Function 53- \$2,699 for increased contracted services.



## COMPLIANCE SECTION



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  
Lone Star Language Academy, Inc.  
Plano, 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 position of Lone Star Language Academy, Inc. (the "School"), as of and for the period from inception through August 31, 2018, and the related statements of activities and changes in net assets, and cash flows for the period then ended, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 the School’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*.

We noted certain matters that we reported to management of the School in a separate management letter dated January 23, 2019.

***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 School’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Coral Gables, Florida  
January 23, 2019  
Licensed by the Texas State Board of Public Accountancy  
ID No. P05554