

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
(A component unit of the District
School Board of Duval County, Florida)

FINANCIAL STATEMENTS
(Audited)

For the year ended June 30, 2018

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Balance Sheet – Governmental Funds	9
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Governmental Funds Statement of Revenues Expenditures, and Changes in Fund Balances to the Statement of Activities	12
Notes to Financial Statements	13-21
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual – General Fund	22
Federal Grants Fund Annual Budgetary Comparison Schedule	23
Other 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 <i>Government Auditing Standards</i>	24-25
Management Letter	26

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lone Star MYcroSchool, Inc.
d/b/a Lone Star High School

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Lone Star MYcroSchool, Inc. d/b/a Lone Star High School (the "School"), a component unit of the District School Board of Duval County, Florida, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lone Star High School, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 and budgetary comparison information on pages 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Employee Retirement Plan

As discussed in Note 4 of the financial statements, the School was awarded entrance into the Florida Retirement System during the year ended June 30, 2018. The School's net pension liability was not available from the Florida Retirement System.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 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 the effectiveness of the School'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 the School's internal control over financial reporting and compliance.



Orlando, FL
October 29, 2018

MANAGEMENT'S DISCUSSION
AND ANALYSIS
(MD&A)

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

As management of Lone Star MYcroSchool, Inc. d/b/a Lone Star High School (the "School"), a component unit of the School District of Duval County, Florida, we offer readers of the School's basic financial statements, this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2018.

Management's discussion and analysis is included at the beginning of the School's basic financial statements to provide, in layman's terms, the past and current position of the School's financial condition. This summary does not replace the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations.

- During the year the School applied for and was awarded a five-year extension on its charter.
- The School changed its legal name from Florida High School for Accelerated Learning – Jacksonville Campus, Inc. to Lone Stare MYcroSchool, Inc. It continues to do business as Lone Star High School.
- As of June 30, 2018, the net position at the School of \$194,494 consists of cash, a receivable due from the District School Board of Duval County, Florida, prepaid expenses, deposits, capital assets and deferred outflows of resources in excess of accounts payable, amounts due for payroll deductions, amounts due the management company and other agencies, and accrued liabilities.
- The School's total revenues were \$1,171,021 principally from state FEFP funding. The School's expenses for the year ended June 30, 2018 were \$1,296,454.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of three components: 1) government-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Basic Financial Statements

The government-wide basic financial statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private sector business.

The statement of net position presents information on all of the School's assets, deferred outflows of resources, and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The government-wide basic financial statements include all governmental activities principally supported by grants and entitlements from the state for full-time equivalent funding. The School has no business-type activities. The governmental activities of the School primarily include instruction and instructional support services.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Basic Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the basic government-wide financial statements. However, unlike the government-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide basic financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide basic financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. The reconciliation of the governmental funds balance sheet to the statement of net position (page 10) and the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities (page 12) facilitate the comparison between governmental funds and governmental activities.

The School maintains three governmental funds, the General Fund, Federal Grants Fund, and Capital Outlay Fund. Information is presented in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the three funds.

The governmental funds financial statements can be found on pages 9 and 11 of this report.

The School adopts an annual budget for the General and Federal Grants Funds. Budgetary comparison statements are provided on pages 22 and 23 for the General and Federal Grants Funds to demonstrate compliance with the budget.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund basic financial statements. The notes to basic financial statements can be found on pages 13 through 21 of this report.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table shows a comparison of the net position for the current and previous year:

	June 30,	
	2017	2018
Current assets	\$ 153,931	\$ 124,603
Capital assets, net	258,064	164,211
Noncurrent assets	<u>2,471</u>	<u>2,471</u>
Total assets	414,466	291,285
Deferred outflows of resources	<u>-</u>	<u>19,020</u>
Total assets and deferred outflows	414,466	310,305
Current liabilities	(57,701)	(54,998)
Noncurrent liabilities	<u>(36,858)</u>	<u>(60,833)</u>
Net position	<u>\$ 319,907</u>	<u>\$ 194,474</u>

The results of the operations for the School as a whole are reported in the statement of activities on page 8. The table below provides a condensed comparison of the School's revenues and expenses for the years ended June 30, 2017 and 2018.

	Year Ended June 30,	
	2017	2018
Revenues:		
General revenues:		
State	\$ 1,232,589	\$ 1,093,808
Other	114	1,836
Management company contributions	367,940	-
Program revenues	<u>54,566</u>	<u>75,377</u>
	<u>1,655,209</u>	<u>1,171,021</u>
Expenses:		
Instruction	455,522	450,023
Pupil personnel services	166,768	132,836
School board	17,479	15,716
School administration	481,562	460,404
Fiscal services	31,781	33,289
Transportation services	29,574	12,012
Plant operations and maintenance	214,214	98,515
Depreciation	<u>120,156</u>	<u>93,659</u>
	<u>1,517,056</u>	<u>1,296,454</u>
Change in net position	<u>\$ 138,153</u>	<u>\$ (125,433)</u>

BASIC FINANCIAL STATEMENTS

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

GOVERNMENTAL FUND EXPENDITURES

The following table presents the cost of the largest functions/programs as a percentage of total governmental expenditures:

Governmental Expenditures	2017		2018	
	Expenditures	%	Expenditures	%
Instructional	\$ 434,260	31.9%	\$ 446,754	37.3%
Pupil personnel services	166,768	12.3%	126,284	10.5%
School board	17,479	1.3%	15,716	1.3%
School administration	465,965	22.2%	465,892	38.9%
Plant operations and maintenance	214,215	15.8%	98,379	8.2%
Other expenditures	61,355	4.5%	44,622	3.8%
	<u>\$ 1,360,042</u>	<u>100.0%</u>	<u>\$ 1,197,647</u>	<u>100.0%</u>

Reductions in plant operating expenditures resulted in an improved financial condition.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School neither acquired nor disposed of any capital assets.

Debt Administration

In the year ended June 30, 2018, the School had no formal long-term debt obligations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were unfavorable to the budget by \$4,328, principally due to over budgeted local revenue.

Total expenditures were unfavorable to the budget by \$2,059. School administrative expenses exceeded budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

FEFP funding per student will increase by \$69.31 or .95% in FY 2019 as compared to FY 2018.

All these factors were considered in preparing the FY 2019 budget.

REQUESTS FOR INFORMATION

If you have any questions about this report or need additional information, please write to NEWCorp at 2611 Temple Heights Drive, Suite A, Oceanside, CA 92056.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
STATEMENT OF NET POSITION
June 30, 2018

Assets	
Cash	\$ 91,671.28
Due from sponsoring School District	16,388.55
Prepaid expenses	16,542.89
Capital assets, net	164,211.38
Deposits	<u>2,471.00</u>
Total assets	291,285.10
 Deferred outflows of resources	
Total assets and deferred outflows of resources	<u>19,020.00</u> <u>\$ 310,305.10</u>
 Liabilities	
Payroll deductions and withholdings	1,996.92
Accounts payable	4,091.06
Due to other agencies	7,183.63
Due to management company	80,013.20
Accrued sick leave	<u>22,546.66</u>
Total liabilities	<u>115,831.47</u>
 Net Position	
Net investment in capital assets	164,211.38
Restricted for capital projects	5,805.00
Unrestricted	<u>24,457.25</u>
	<u>194,473.63</u>
 Total liabilities and net position	 <u>\$ 310,305.10</u>

See accompanying notes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
STATEMENT OF ACTIVITIES
for the year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 450,022.74	\$ -	\$ -	\$ -	\$ (450,022.74)
Pupil personnel services	5,217.04	-	-	-	(5,217.04)
Instructional media services	2,608.52	-	-	-	(2,608.52)
Instruction and curriculum development services	32,606.52	-	-	-	(32,606.52)
Instructional staff training	35,016.76	-	-	-	(35,016.76)
Instructional technology	57,387.49	-	-	-	(57,387.49)
School Board	15,715.82	-	-	-	(15,715.82)
General administration	70,878.86	-	-	-	(70,878.86)
School administration	225,603.20	-	-	-	(225,603.20)
Facilities acquisition and construction	132,874.25	-	-	75,377.00	(57,497.25)
Fiscal services	33,289.19	-	-	-	(33,289.19)
Central services	29,724.72	-	-	-	(29,724.72)
Transportation services	12,012.26	-	-	-	(12,012.26)
Operation of plant	89,264.77	-	-	-	(89,264.77)
Maintenance of plant	9,249.91	-	-	-	(9,249.91)
Administrative technology	1,323.43	-	-	-	(1,323.43)
Depreciation	93,658.85	-	-	-	(93,658.85)
Total governmental activities	<u>\$ 1,296,454.33</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,377.00</u>	<u>(1,221,077.33)</u>
General Revenues					
Federal and state revenues					1,093,808.11
Miscellaneous					1,836.32
					<u>1,095,644.43</u>
Change in net position					(125,432.90)
Net position, beginning of year					<u>319,906.53</u>
Net position, end of year					<u>\$ 194,473.63</u>

See accompanying notes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	Governmental Funds			Total Funds
	General Fund	Federal Grants Fund	Capital Outlay Fund	
Assets				
Cash	\$ 87,056.50	\$ 4,614.78	\$ -	\$ 91,671.28
Due from other agencies	-	10,583.55	5,805.00	16,388.55
Deposits	2,471.00	-	-	2,471.00
Due from other funds	15,000.00	-	-	15,000.00
Prepaid items	16,542.89	-	-	16,542.89
Total assets	<u>\$ 121,070.39</u>	<u>\$ 15,198.33</u>	<u>\$ 5,805.00</u>	<u>\$ 142,073.72</u>
Liabilities				
Payroll deductions and withholdings	\$ 1,798.59	\$ 198.33	\$ -	\$ 1,996.92
Accounts payable	4,091.06	-	-	4,091.06
Due to other agencies	7,183.63	-	-	7,183.63
Due to other funds	-	15,000.00	-	15,000.00
Due to management company	41,726.77	-	-	41,726.77
Total liabilities	<u>54,800.05</u>	<u>15,198.33</u>	<u>-</u>	<u>69,998.38</u>
Fund Balances				
Nonspendable	47,256.45	-	-	47,256.45
Restricted	-	-	5,805.00	5,805.00
Unassigned	19,013.89	-	-	19,013.89
	<u>66,270.34</u>	<u>-</u>	<u>5,805.00</u>	<u>72,075.34</u>
Total liabilities and fund balances	<u>\$ 121,070.39</u>	<u>\$ 15,198.33</u>	<u>\$ 5,805.00</u>	<u>\$ 142,073.72</u>

See accompanying notes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balance - Governmental Funds		\$ 72,075.34
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Cost of capital assets	\$ 940,463.43	
Accumulated depreciation	<u>(776,252.05)</u>	164,211.38
<p>Deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources		19,020.00
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of</p>		
Accrued management fee		(38,286.43)
Accrued sick leave		<u>(22,546.66)</u>
Total Net Position - Governmental Activities		<u>\$ 194,473.63</u>

See accompanying notes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
for the year ended June 30, 2018

	Governmental Funds			Total
	General Fund	Federal Grants Fund	Capital Outlay Fund	
Revenues				
Federal through state	\$ -	\$ 18,946.21	\$ -	\$ 18,946.21
State	1,074,861.90	-	34,832.00	1,109,693.90
Local	1,836.32	-	40,545.00	42,381.32
Total revenues	<u>1,076,698.22</u>	<u>18,946.21</u>	<u>75,377.00</u>	<u>1,171,021.43</u>
Expenditures				
Instruction	429,967.45	16,786.44	-	446,753.89
Pupil personnel services	4,954.40	-	-	4,954.40
Instructional media services	2,477.20	-	-	2,477.20
Instruction and curriculum development services	30,962.25	-	-	30,962.25
Instructional staff training	31,224.60	2,159.77	-	33,384.37
Instructional technology	54,505.33	-	-	54,505.33
School Board	15,715.82	-	-	15,715.82
General administration	69,962.14	-	-	69,962.14
School administration	234,818.81	-	-	234,818.81
Facilities acquisition and construction	59,151.25	-	73,723.00	132,874.25
Fiscal services	32,609.42	-	-	32,609.42
Central services	26,981.77	-	-	26,981.77
Transportation services	12,012.26	-	-	12,012.26
Operation of plant	89,196.92	-	-	89,196.92
Maintenance of plant	9,182.06	-	-	9,182.06
Administrative technology	1,255.58	-	-	1,255.58
Total expenditures	<u>1,104,977.26</u>	<u>18,946.21</u>	<u>73,723.00</u>	<u>1,197,646.47</u>
Excess (deficiency) of revenues over expenditures	(28,279.04)	-	1,654.00	(26,625.04)
Fund balance, beginning of year	<u>94,549.38</u>	<u>-</u>	<u>4,151.00</u>	<u>98,700.38</u>
Fund balances, end of year	<u>\$ 66,270.34</u>	<u>\$ -</u>	<u>\$ 5,805.00</u>	<u>\$ 72,075.34</u>

See accompanying notes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
for the year ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds \$ (26,625.04)

Amounts reported in governmental activities in the
Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in
governmental funds as expenditures, However, for governmental
activities, the cost of those assets is allocated over their useful lives
as depreciation expense.

This is the amount by which depreciation and loss on disposition of
capital assets exceeds capital outlays

Capital outlays	\$ -	
Depreciation expense	<u>(93,658.85)</u>	(93,658.85)

Other expenses reported in governmental activities, not as
governmental expenditures

Deferred outflows of resources		19,020.00
Reversal of prior year pension contribution accrual		23,924.07
Accrued management fee		(38,286.43)
Accrued sick leave		<u>(9,806.65)</u>

Change in Net Position of Governmental Activities **\$ (125,432.90)**

See accompanying notes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Background and Organization – Lone Star MYcroSchool, Inc. (formerly known as Florida High School for Accelerated Learning – Jacksonville Campus, Inc.) d/b/a Lone Star High School (the “School”), (a component unit of the District School Board of Duval County, Florida) is part of the Florida system of public education under the general direction of the Florida Department of Education (Department). The School was incorporated as a Florida not-for-profit corporation in July 2009, and commenced operations as a charter school in August 2010. The School was granted a charter to operate a high school, including grades nine to twelve, by the District School Board of Duval County, Florida (the “District”) in April 2010. In March 2018, the School changed its legal name to Lone Star MYcroSchool, Inc.

The School is primarily funded through state-wide Florida Education Finance Program (FEFP) funding received by the District and passed through to the School.

The School has developed a philosophy of recognizing and rewarding each student as an individual. Therefore the educational program, goals and objectives, and methods of accountability toward the objectives, must be set according to the situation of each individual student.

The School has selected a self-paced, mastery based, accelerated learning program as the model to implement this philosophy. The goal of the School is to provide a school program and educational opportunities to students who might not be suited for traditional schools. These students include, but are not limited to, drop-outs or those in danger of dropping out, students needing more remedial support or individual instruction that cannot be obtained in a traditional high school and students with family or other situations that prevent attendance at regularly scheduled programs in traditional high schools.

A Board of Directors (the “Board”) governs the School, and the School has retained a management company to operate the School.

Reporting Entity - The School operates under a charter granted by the District. Its charter was renewed for an additional 3 years effective until June 30, 2021, and may be renewed in increments of five years by mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the School in writing at least ninety days prior to the expiration of the charter. The District may also terminate the charter immediately if good cause is shown or if the District believes that the health, safety or welfare of the students is threatened. In the event the School is dissolved or terminated, any public unencumbered funds and all school property purchased with public funds automatically revert to the District. The School is considered a component unit of the District School Board of Duval County, Florida because it is fiscally dependent on and financially accountable to the District. The School had no component units itself because it has no subsidiary or fiscally dependent organizations.

Basis of Presentation Type of Entity Presented - Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Not-for-Profit Organizations* and provisions of Florida Statutes, the School is presented as a governmental organization for financial statement reporting purposes and not as a not-for-profit organization.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

The School is required by contract with the District to use the governmental reporting model and follow the fund and account structure provided in the “Financial and Program Cost Accounting and Reporting for Florida Schools – The Red Book” issued by the Florida Department of Education.

Financial Statements Presented - The School’s basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School’s major funds). All of the School’s activities are classified as governmental activities.

Basis of Presentation - Government-wide Financial Statements - The statement of net position and the statement of activities display information about the School as a whole. In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis, if applicable, and is reported on a full accrual economic resource basis, which recognizes all noncurrent assets and receivables as well as all non-current debt and obligations. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements are followed by a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities reports both the gross and net cost of each of the School’s functions. The net costs, by function, are also supported by general revenues (unrestricted contributions, investment earnings, miscellaneous revenue, etc.). The statement of activities reduces gross expenses (including provision for depreciation, if applicable) by related program revenues, operating and capital grants, and contributions. The effect of interfund activities has been removed from these statements. Program revenues must be directly associated with the function. Program revenues include charges for services for goods and services provided to participants on a voluntary basis. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the School.

This government-wide financial statements focus on the School’s ability to sustain itself and the change in its net position resulting from the current year’s activities.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Basis of Presentation – Fund Financial Statements - The accounts of the School are organized on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the fund financial statements in this report, into fund types as follows:

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

Fund Accounting - Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School has three major governmental funds.

General Fund - accounts for all financial activities of the School not required to be accounted for in another fund and for certain revenues from Federal and State sources that are not legally restricted to be expended for specific current operating purposes.

Federal Grants Fund – is a special revenue fund used to account for financial resources associated with federal grants that are restricted to operational uses.

Capital Outlay Fund – is a capital projects fund used to account for financial resources (Public Education Capital Outlay and Local Capital Improvement Revenue) used for acquisition or funding of major capital facilities or equipment.

Measurement Focus - The accounting and reporting treatment applied to the financial statements is determined by its measurement focus.

The government-wide financial statements use the economic resources measurement focus, which means that all assets and liabilities, whether current or non-current, are included.

Governmental funds are accounted for on a “spending” or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. Governmental fund type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental activity in the government-wide financial statements is presented on the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

The governmental funds are accounted for using the modified accrual basis of accounting, under which revenues are recognized when they become both measurable and available as net current assets. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures and the related liabilities are recognized when incurred under this method of accounting.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

Net Position and Fund Balances - Both the government-wide financial statements and the fund financial statements divide the residual equity shown on the financial statements into categories as follows:

Government Wide Financial Statements - Net position is classified into categories as follows:

Net investment in capital assets - represents the difference between the cost of capital assets, less accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Restricted - consists of net position with constraints placed on its use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

Unrestricted - indicates that portion of net position that is available to fund future operations.

Fund Financial Statements – Fund balances are classified into categories as follows:

GASB Statement 54 established fund balance classifications that comprise a hierarchy based primarily on the extent to which an entity is bound to observe constraints imposed on the use of the resources reported in governmental funds. These classifications reflect not only the nature of the funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance classifications are as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Nonspendable fund balances pertain to prepaid items and security deposits.

Restricted – amounts constrained for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – amounts to be used only for specific purposes pursuant to constraints imposed by formal action by the School’s highest level of decision-making authority. The School’s Board of Directors addresses these commitments through formal board action prior to the School’s fiscal year end. The School had no committed fund balance amounts at June 30, 2018.

Assigned – amounts intended to be used for specific purposes and are considered neither restricted nor committed. Assignments can be made by the Board. The School had no assigned fund balance amounts at June 30, 2018.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balances may also include negative fund balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

The School uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless prohibited by legal document or contract. Additionally, the School would first use committed, then assigned, and lastly unassigned amounts.

The School has no formal minimum fund balance policy, nor has it established any stabilization arrangements within fund balances.

Budget and Budgetary Accounting - The School prepares its budget utilizing the modified accrual basis of accounting. The schedule of revenues, expenditures, and change in fund balances - actual compared to budget uses the budget adopted by the School.

Use of Unrestricted versus Restricted Resources - It is the School's policy to use restricted resources before using unrestricted resources when both are available to pay expenses.

Cash and Cash Equivalents - Cash and cash equivalents consist of demand deposit accounts at June 30, 2018. For financial reporting purposes, cash and cash equivalents includes all demand deposit, savings and money market accounts, and certificates of deposits with maturities of less than 90 days from June 30, 2018.

Capital Assets – School-owned assets consist of computers, office furniture, equipment and leasehold improvements. Capital assets purchased in the governmental funds are recorded as expenditures at time of purchase. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are defined as assets with a cost of \$1,000 or more. Donated capital assets are recorded at acquisition value at the date of donation. Depreciation is provided on capital assets as a direct charge using the straight-line method over three to five-year estimated useful lives.

Deferred outflows/inflows of resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and is not currently recognized as an outflow of resources (expense).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and is not currently recognized as an inflow of resources (revenue). The School has no items that qualify for reporting in this category.

Revenue recognition – As noted above, per student funding is provided by the state-wide Florida Education Finance Program (FEFP) through the District. The District may withhold only up to a 5% administrative fee for enrollment up to and including 250 students. For charter schools with a population of 251 or more students, the difference between the total administrative fee calculated on total enrollment and the amount of the administrative fee withheld may be used only for capital outlay purposes. This funding is received on a pro-rata basis over a twelve-month period and is adjusted for changes in full-time equivalent (FTE) student population. During the year ended June 30, 2018, the School's student population was below 250.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies – continued

State Revenue Sources - Revenue from State sources for current operations arise primarily from the FEFP administered by the Florida Department of Education under the provisions of Section 1011.60, Florida Statutes. In accordance with this law, the Board determines and reports the number of FTE students and related data to the Department.

The Department performs certain edit checks on the reported number of FTEs and related data and calculates the allocation of funds to the School. The School is permitted to amend its original reporting for a period of one year after the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based on an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain categories of educational programs. Florida Department of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund.

The State allocates gross receipt taxes, generally known as Public Education Capital Outlay money, to local school boards on an annual basis. The boards are authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

The District remits funds to the School on a monthly basis. Revenue is recognized when the District allocates and remits funds to the School's account.

Compensated absences – The School grants eligible employees sick leave under contractual provisions. Unused sick leave may be used as time off or accrued up to a prescribed maximum allowable rate.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results may differ from those estimates.

Income taxes - The School is a not-for-profit corporation whose revenue is derived primarily from other governmental entities. The School is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes is recorded in the financial statements.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

2. Cash and Cash Equivalents

At June 30, 2018, the carrying amount of demand deposits and cash on hand totaled \$91,671. As State of Florida Statutes and the School's policy require, all cash and cash equivalents are held at financial institutions approved by the State Treasurer to hold public deposits in accordance with the "Florida Security for Public Deposits Act", Chapter 280 Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by an institution, the collateral eligible for pledge, and reporting requirements of the qualified public depository to the State Treasurer is defined by the statute. In the event of a failure of any member in the pool, the Public Deposit Security Trust Fund has a procedure whereby the remaining member institutions would be responsible for covering any resulting losses. Since the School's deposits are held in a qualified public depository, they are covered by the collateral pool as the School had identified itself as a public entity at June 30, 2018.

The School maintains its cash accounts with one financial institution. As of June 30, 2018, the School had no uninsured balances with that financial institution.

3. Capital assets

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets being depreciated				
Furniture, fixtures and equipment	\$ 275,213	\$ -	\$ -	\$ 275,213
Leasehold Improvements	665,251	-	-	665,251
	<u>940,464</u>	<u>-</u>	<u>-</u>	<u>940,464</u>
Less accumulated depreciation for				
Furniture, fixtures and equipment	234,817	30,264	-	265,081
Leasehold Improvements	447,776	63,395	-	511,171
	<u>682,593</u>	<u>93,659</u>	<u>-</u>	<u>776,252</u>
Total capital assets, net	<u>\$ 257,871</u>	<u>\$ (93,659)</u>	<u>\$ -</u>	<u>\$ 164,212</u>

Depreciation was charged to functions as follows:

Unallocated	<u>\$ 93,659</u>
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4. Employee Retirement Plan

The Florida Retirement System (FRS) was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

4. Employee Retirement Plan - continued

Essentially all regular employees of the School are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, 112 (Part IV), and Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site.

The school received its acceptance notification to the Florida Retirement System (FRS) on September 29, 2017. The effective start of the plan was May 1, 2017; however, employee participation will be calculated from a September 1, 2016 start date.

The School only participates in the FRS; it does not participate in the HIS.

At year end, the District's pension expense was calculated using the FRS rates multiplied by the employees' salaries. Penalties and interest increase the School's expense by \$6,834. The School's transitional status in the plan preclude the FRS from obtaining the requisite information to report a pension liability for the School at June 30, 2018. However, FRS reported deferred outflows of resources of \$19,020 at year end, which is incorporated in these financial statements.

5. Commitments, Contingencies and Related Party Transactions

Management Agreement - The School has a vendor relationship with New Education for the Workplace, Inc. (NEWCorp), 2611 Temple Heights Drive, Oceanside, CA 92056. NEWCorp is an organization formed for charitable purposes, including advancing vocational and technical education and training of young men and women, and managing, operating, guiding, directing, and promoting charter schools. The School entered into an agreement effective August 15, 2016, with NEWCorp, succeeding the prior management company, Accelerated Learning Solutions, Inc. Under the agreement, NEWCorp provides the following services: human resources administration, business administration, curriculum licensing, technology services, and general support. For the year ended June 30, 2018, the School paid NEWCorp \$214,434 for services provided under the terms of the agreement. At June 30, 2018, \$41,727 no was billed due and payable to NEWCorp under the terms of the agreement. An additional \$38,286 due to the management company is accrued in the government-wide financial statements. The additional liability is accrued but not invoiced pending a written understanding for extended payment terms.

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
NOTES TO FINANCIAL STATEMENTS

5. Commitments, Contingencies and Related Party Transaction – continued

School Facility Rent – The School entered into a new qualified lease effective June 1, 2017. Future rental commitments for base rent under the School’s facility lease are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 134,640
2020	137,333
2021	140,079
2022	<u>142,881</u>
	<u>\$ 554,933</u>

Lease expense for the year ended June 30, 2018, was \$132,000.

6. Risk Financing

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, illnesses of and injuries to employees. Some of this risk is subject to limitations imposed by sovereign immunity and Florida law applicable to tort settlements.

The School obtains insurance policies from commercial companies for property and general liability, boiler and machinery, flood, general umbrella, workers compensation, bond payment, and certain employee accident and health insurance. There have been no significant reductions in insurance coverage during the year ended June 30, 2018. Settled claims resulting from these risks have not exceeded commercial coverage for the past three years.

It is the School’s policy to report liabilities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At June 30, 2018, no claims meeting this definition are known to exist, nor are any incurred but not reported (IBNR) claims estimated to exist. Accordingly, no liabilities resulting from claims or uncertainties are reported in the financial statements at June 30, 2018.

7. Expenditures over Appropriations

The School experienced an excess of expenditures over appropriations by \$2,059, due to expenditures incurred in instruction, School administration and facilities acquisitions and construction.

8. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through October 29, 2018, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY
INFORMATION
(RSI)

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND (PAGE 22)

FEDERAL GRANTS FUND
ANNUAL BUDGETARY COMPARISON SCHEDULE (PAGE 23)

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
for the year ended June 30, 2018

	<u>Budget</u>		<u>Actual</u>	<u>Variances -</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Positive</u> <u>(Negative)</u> <u>Final to</u> <u>Actual</u>
Revenues				
State	\$ 1,385,976.00	\$ 1,073,946.00	\$ 1,074,861.90	\$ 915.90
Local	7,080.00	7,080.00	1,836.32	(5,243.68)
Total Revenues	<u>1,393,056.00</u>	<u>1,081,026.00</u>	<u>1,076,698.22</u>	<u>(4,327.78)</u>
Expenditures				
Instruction	560,489.00	427,056.00	429,967.45	(2,911.45)
Pupil Personnel Services	6,790.00	5,278.00	4,954.40	323.60
Instructional Media Services	3,395.00	2,639.00	2,477.20	161.80
Instruction and Curriculum				
Development Services	42,432.00	32,984.00	30,962.25	2,021.75
Instructional Staff Training	42,432.00	33,484.00	31,224.60	2,259.40
Instructional Technology	74,680.00	58,051.00	54,505.33	3,545.67
School Board	20,500.00	16,600.00	15,715.82	884.18
General Administration	91,814.00	71,149.00	69,962.14	1,186.86
School Administration	229,322.00	221,318.00	234,818.81	(13,500.81)
Facilities Acquisition and Construction	68,387.00	52,472.00	59,151.25	(6,679.25)
Fiscal Services	41,576.00	33,918.00	32,609.42	1,308.58
Central Services	41,912.00	29,987.00	26,981.77	3,005.23
Transportation Services	27,622.00	13,000.00	12,012.26	987.74
Operation of Plant	123,208.00	93,298.00	89,196.92	4,101.08
Maintenance of Plant	15,232.00	10,342.00	9,182.06	1,159.94
Administrative Technology	1,732.00	1,342.00	1,255.58	86.42
Total Expenditures	<u>1,391,523.00</u>	<u>1,102,918.00</u>	<u>1,104,977.26</u>	<u>(2,059.26)</u>
Excess (Deficiency) of Revenues Over Expenditures	1,533.00	(21,892.00)	(28,279.04)	(6,387.04)
Fund balance, Beginning	<u>94,549.38</u>	<u>94,549.38</u>	<u>94,549.38</u>	<u>-</u>
Fund balance, Ending	<u>\$ 96,082.38</u>	<u>\$ 72,657.38</u>	<u>\$ 66,270.34</u>	<u>\$ (6,387.04)</u>

See notes on page 23

LONE STAR MYCROSCHOOL, INC.
d/b/a Lone Star High School
FEDERAL GRANTS FUND
ANNUAL BUDGETARY COMPARISON SCHEDULE
for the year ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>(GAAP Basis)</u>	<u>Favorable</u>
	<u>and Final</u>	<u>(GAAP Basis)</u>	<u>(Unfavorable)</u>
Revenues			
Federal through State	\$ 29,664.00	\$ 18,946.21	\$ (10,717.79)
Total Revenues	<u>29,664.00</u>	<u>18,946.21</u>	<u>(10,717.79)</u>
Expenditures			
Instruction	19,980.00	16,786.44	3,193.56
Student support services	3,317.00	-	3,317.00
Instruction and curriculum			
development services	3,009.00	-	3,009.00
Instructional Staff Training	<u>3,358.00</u>	<u>2,159.77</u>	<u>1,198.23</u>
Total Expenditures	<u>29,664.00</u>	<u>18,946.21</u>	<u>10,717.79</u>
Net Change in Fund Balances	-	-	-
Fund balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1. Budgets are prepared and adopted annually for certain governmental funds in accordance with procedures and time intervals prescribed by the Board of Directors (Board) of the School. During the fiscal year ended June 30, 2018, the Board adopted an annual budget for the General and Federal Grants Fund. The school is not required to submit its budget to any regulatory agencies.

Note 2. Appropriations are controlled at the fund level and may be amended at any Board meeting prior to the due date of the annual financial report. Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.

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CERTIFIED FRAUD EXAMINERS

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 MYcroSchool, Inc.
d/b/a Lone Star High School

We have audited, 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, the financial statements of the governmental activities and each major fund of Lone Star MYcroSchool, Inc. d/b/a Lone Star High School (the School), a component unit of the District School Board of Duval County, Florida, as of June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 29, 2018.

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 opinion 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 School'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 over financial reporting 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended 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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Holland & Reilly".

Orlando, Florida
October 29, 2018

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DAVID S. HOLLAND, CPA
THOMAS F. REILLY, CPA

To the Board of Directors of
Lone Star MYcroSchool, Inc.
d/b/a Lone Star High School

We have audited the financial statements of Lone Star MYcroSchool, Inc. d/b/a Lone Star High School as of and for the year ended June 30, 2018 and have issued our report thereon dated October 29, 2018.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated October 29, 2018, should be considered in conjunction with this management letter. Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General.

The Rules of the Auditor General (Section 10.854(1)(e)) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal controls:

- 1) Any recommendations to improve financial management.
- 2) Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material which warrant the attention of those charged with governance.
- 3) For matters that do not warrant the attention of those charged with governance, the following may be reported based on professional judgment:
 - a) Noncompliance with provisions of contracts or grant agreements, fraud or abuse,
 - b) Deficiencies in internal control that are not material weaknesses or significant deficiencies.

There were no matters that came to the attention of the auditor, that, in our judgment, are required to be reported.

Based on our audit procedures performed, the School did not meet any of the conditions described in Florida Statutes Section 218.503(1).

The auditors applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

We determined the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

There were no findings in the prior audit report. Thus, no corrective action is necessary.

This management letter is intended solely for the information of Lone Star MYcroSchool, Inc. d/b/a Lone Star High School, its management, others within the entity, the Duval County School Board, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.



Orlando, FL
October 29, 2018

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October 29, 2018

The Board of Directors
Biscayne High School
Lone Star High School
Jacksonville, Florida

We have audited the financial statements of the governmental activities and each major fund of Biscayne MYcroSchool, Inc. d/b/a Biscayne High School and Lone Star MYcroSchool, Inc. d/b/a Lone Star High School (the Schools) as of and for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters to you dated May 25, 2016, as to Lone Star High School High School, and May 31, 2016, as to Biscayne High School. Professional standards also require that we communicate to you the following information related to our audit:

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our aforementioned engagement letters our responsibility, as described by professional standards, is to plan and perform our audits to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement. Because "reasonable assurance" is not "absolute assurance" and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us. As part of our audits, we considered the internal control of the Schools. Such consideration was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audits

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audits will involve judgment about the number of transactions to be examined in the areas to be tested.

Our audits include obtaining an understanding of the Schools and their environments, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from 1) errors, 2) fraudulent financial reporting, 3) misappropriation of assets, or 4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Schools. Our significant findings are communicated at the conclusion of the audits.

The timing and scope of the audits was impacted by various issues – see following *Difficulties Encountered in Performing the Audits*.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schools are described in Note 1 to the financial statements. A new accounting policy for *deferred outflows/inflows of resources* is added to Note 1 of the financial statements resulting from the Schools' entry into the Florida Retirement System (FRS) during the year ended June 30, 2018. We noted no transactions entered into by the Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements as of June 30, 2018 related to depreciation methods and useful lives for the capital assets owned by the Schools and the functional allocation of categorical expenses. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Biscayne and Lone Star financial statements were:

The disclosure in Note 4 (Employee Retirement Plan) that discusses the Schools' admission into the Florida Retirement System and provides background information on the State Retirement Plan. In this transitional year, the Schools' net pension liability was not published by FRS for inclusion in the financial statements. Our report was modified to emphasize the matter and call attention to the related note in the financial statements.

The disclosure in Note 6 (Concentrations and Dependence on Management Company), which alerts the reader to potential business risks and the Schools' response to those risks including insurance coverage.

During the course of the audit of Biscayne High School, we noted a deficiency of \$56,535 in the unassigned fund balance on the Balance Sheet – Government Funds and a deficiency of \$155,383 in the unrestricted net position on the Government-wide Statement of Net Position. This matter is defined and required to be reported as a deteriorating financial condition pursuant to Section 218.39(5), Florida Statutes as noted in the management letter on page 26 and presented on page 27. Management's response follows on page 28.

Difficulties Encountered in Performing the Audits

Retirement Plan - The Schools' entry into the Florida Retirement System created additional work relating to presentation and disclosures required in the financial statements.

Property and Equipment – The Schools inventory their property and equipment, but depreciation schedules were not properly maintained during the year. Consequently, our engagement was augmented to prepare depreciation schedules under the supervision and approval of the management company.

Audit work commencement delayed – At the conclusion of our audit for the year ended 2017, we recommended the Board and management team include us in a planning meeting to iron out accounting and auditing issues and clearly define our roles in the next year-end financial close. The meeting did not

occur. And we were not provided sufficient information to begin our work until early October. As a result, audit completion was delayed.

Related Parties Letters – A key element of our audit procedures is the circularization of related party letters to Board members. These inquiries are a means of assuring there are no matters such as interest conflicts that might affect the audit. Their timely completion and return to us during the audit add to an efficient audit process. We concluded our audit without one of these responses after two mailings and e-mail requests.

Recommendation – We are convinced engagement planning enhances the audit process. Early communication among the Board, management company and the auditor offers a better experience for all participants.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audits.

Management Representations

We have requested certain representations from representatives of the Board of Directors and the management company that is included in the management representation letters dated October 29, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and other auditing standards, with management each year. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. Nonetheless, we choose to bring to your attention the following matter that, while not in and of itself significant, bears your attention:

Website Compliance – Section 1002.33(9)(p), Florida Statutes requires a charter school to maintain certain public information on its website including its annual budget. When we tested the link to Biscayne's annual budget, the school calendar appeared instead. Lone Star's link to its budget operated properly. We encourage a periodic review and test of the Schools' websites to be sure they are compliant.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restrictions on Use

This information is intended solely for the information and use of the School's management and Board of Directors of the Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Holland & Reilly