

Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas

Financial Report

June 30, 2021

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Independent Auditor's Report

To the Board of Directors of
Third Future Schools - Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools – Texas (Sam Houston), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements (the program financial statements).

Management's Responsibility for the Program Financial Statements

Management is responsible for the preparation and fair presentation of these program 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 the program 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 program 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 program financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the program financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the program 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 program 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 program 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 program financial statements referred to above present fairly, in all material respects, the financial position of Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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The Board of Directors of
Third Future Schools - Texas

Emphasis of Matter

We draw attention to Note 1 to the program financial statements, which describes that the accompanying program financial statements were prepared for the purpose of presenting only activity related to Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas and are not intended to be a complete presentation of Third Future Schools – Texas’ financial statements. As a result, the program financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021, on our consideration of Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools – Texas’, 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 Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools – Texas’, internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
November 30, 2021

Financial Statements

**Sam Houston Collegiate Preparatory Elementary,
a program of Third Future Schools - Texas**

Statement of Financial Position
June 30, 2021

ASSETS

Cash and cash equivalents	\$ 4,115
Accounts receivable	<u>37,798</u>

TOTAL ASSETS	<u>\$ 41,913</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	<u>28,256</u>
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Total liabilities	28,256
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NET ASSETS

Net assets without donor restrictions	<u>13,657</u>
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Total net assets	<u>13,657</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,913</u>
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**Sam Houston Collegiate Preparatory Elementary,
a program of Third Future Schools - Texas**

Statement of Activities
Year Ended June 30, 2021

REVENUES

Per pupil funding revenue	\$ 2,934,361
Grants	928,449
Contributions	125,000
Other	3,243
	<hr/>
Total revenues	3,991,053

EXPENSES

Program services	
Charter school	3,679,323
Supporting services	
Management and general	298,073
	<hr/>
Total expenses	3,977,396
	<hr/>
Change in net assets	13,657

**NET ASSETS WITHOUT DONOR RESTRICTIONS,
beginning of year**

-

**NET ASSETS WITHOUT DONOR RESTRICTIONS,
end of year**

\$ 13,657

**Sam Houston Collegiate Preparatory Elementary,
a program of Third Future Schools - Texas**

Statement of Functional Expenses
Year Ended June 30, 2021

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Charter School</u>	<u>Management and General</u>	<u>Total Program and Supporting Services</u>
EXPENSES			
Contracted services	\$ 2,748,478	\$ -	\$ 2,748,478
Professional fees	215,063	269,484	484,547
Supplies and repairs	412,002	-	412,002
Travel	8,211	6,056	14,267
Subscriptions, publications and dues	-	4,019	4,019
Equipment	286,396	-	286,396
Insurance	-	13,216	13,216
Miscellaneous expenses	-	5,298	5,298
Utilities, telephone and other operating costs	9,173	-	9,173
TOTAL EXPENSES	<u>\$ 3,679,323</u>	<u>\$ 298,073</u>	<u>\$ 3,977,396</u>

**Sam Houston Collegiate Preparatory Elementary,
a program of Third Future Schools - Texas**

Statement of Cash Flows
June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	13,657
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable		(37,798)
Accounts payable		28,256
		<hr/>
Net cash provided by operating activities		4,115
Net change in cash		4,115
CASH, beginning of year		<hr/> -
CASH, end of year	\$	<hr/><hr/>4,115

Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Sam Houston Collegiate Preparatory Elementary (Sam Houston), a program of Third Future Schools – Texas (Third Future) is a campus charter school operated in the Midland Independent School District (the District). Third Future Schools – Texas is a nonprofit organization established in the state of Texas, governed by a board of directors. Sam Houston receives funds through state and federal programs that are governed by various statutes and regulations.

Basis of Accounting

Sam Houston has prepared these financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Contributions

Unconditional promises to give are recorded as contributions when received and classified as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor stipulations.

Grants

Grant revenue relates to the portion of federal and/or state grants allocated to the campus, and is recorded as grant revenue on the statement of activities. This revenue is recorded as related expenses and/or services are incurred.

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, the charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Per Pupil Funding Revenue

Per Pupil Funding Revenue relates to the operational revenue contractually owed to Sam Houston and Third Future by Midland Independent School District based on enrollment to operate the campus.

Donated Non-Cash Assets

Donated non-cash assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as net assets without donor restrictions unless the donor has specified the donated asset to a specific purpose.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Third Future considers all highly-liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas

Notes to Financial Statements

Net Assets

Sam Houston is required to report information regarding its financial position according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions represent resources that are available for the general operations of Sam Houston.

Net assets with donor restrictions - time and purpose are utilized to record resources received that are expendable only for the purposes or period specified by the donor. Net assets with donor restrictions - held in perpetuity are utilized to record resources whose use by Sam Houston is limited by donor-imposed stipulations that are to be held or invested in perpetuity. As of June 30, 2021, there were no net assets with donor restrictions - time and purpose or held in perpetuity.

Use of Estimates

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

Income Taxes

Third Future, and therefore Sam Houston, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined that Third Future is not a private foundation within the meaning of Section 509(a) of the Code.

Third Future recognizes in its financial statements the financial effect of a tax position if that position is more likely than not to be sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position. Tax positions taken related to Third Future's tax exempt status for federal tax purposes and state filing requirements have been reviewed, and management is of the opinion that material positions taken by Third Future would more likely than not be sustained by examination. Accordingly, Third Future has not recorded an income tax liability for uncertain tax benefits.

Donor Restrictions

Sam Houston reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions - time and purpose or net assets with donor restrictions - held in perpetuity depending on the nature of the restriction. There were no amounts received or included in net assets that were restricted by donors.

Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas

Notes to Financial Statements

Sam Houston reports gifts of land, buildings, and equipment as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Sam Houston reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses

In some cases, expenses are incurred which support the work performed under more than one program. Such expenses are allocated among various programs on the basis which appears most reasonable. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Sam Houston. No expenses were allocated across functions during year ended June 30, 2021.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right of use asset and a lease liability for leases with duration greater than one year. The guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. This standard can be implemented using a modified retrospective approach, under which provisions are applied to all applicable leases as of the beginning of the earliest period presented, or at the date of adoption with the recognition of a cumulative effect adjustment to the opening balance of net assets in the period of adoption. Early adoption is permitted. Sam Houston is currently evaluating the effect that the new standard will have on its financial statements; however, Sam Houston anticipates that upon adoption of the standard it will recognize additional assets and corresponding liabilities related to leases on its statement of financial position.

Subsequent Events

Sam Houston evaluated all events or transactions that occurred after June 30, 2021 through November 30, 2021, the date the financial statements were available to be issued, and noted no items that would need to be recorded as subsequent events.

Note 2. Financial Instruments

Sam Houston maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Sam Houston has not experienced any losses in such accounts. Sam Houston believes it is not exposed to any significant credit risk on cash and cash equivalents. Sam Houston's cash balances were fully insured as of June 30, 2021.

Note 3. Commitments

Sam Houston leases office equipment under an operating lease. Rental expense is included in utilities, telephone and other operating costs on the accompanying statement of functional expenses. There were no lease expenses related to these leases for year ended June 30, 2021.

Sam Houston Collegiate Preparatory Elementary, a program of Third Future Schools - Texas

Notes to Financial Statements

Future minimum lease payments for facilities and equipment are as follows for the years ending June 30:

Year Ending June 30		
2022	\$	4,950
2023		4,950
	\$	9,900

Note 4. Related Party Transactions

Sam Houston is a program of Third Future Schools – Texas. Sam Houston has no employees, and receives professional services from Third Future Schools – Texas and Third Future Schools Network. During year ended June 30, 2021, Sam Houston reimbursed Third Future Schools Network \$ 81,736 for expenses paid on their behalf.

During year ended June 30, 2021, Midland Independent School District incurred \$3,573,603 of expenses on behalf of Sam Houston. These items are incorporated in expenses and revenue in the statement of activities as the costs and revenue were earned in accordance with the operating contract. Revenues are recorded gross along with related expenses incurred by Midland Independent School District on behalf of Sam Houston. These related expenses primarily relate to salaries and wages, including related benefits, of employees of Midland Independent School District who are allocated to the related campus. The salaries and wages, including related benefits, of employees of Midland Independent School District who are allocated to the related campus are shown on the statement of functional expenses as contracted services.

Note 5. Liquidity

As of June 30, 2021, Sam Houston had \$41,913 of financial assets available to meet current obligations within one year of the statement of financial position date. These assets consist of accounts receivable of \$37,798 and cash of \$4,115.

Internal Controls and Compliance Report



**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Program Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Directors
Third Future Schools - 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 program financial statements of Sam Houston Collegiate Preparatory (Sam Houston), a program of Third Future Schools – Texas (Third Future), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the program financial statements, and have issued our report thereon dated November 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the program financial statements, we considered Sam Houston'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 program financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sam Houston's internal control. Accordingly, we do not express an opinion on the effectiveness of Sam Houston'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 program 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 over financial reporting 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 Sam Houston's program 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 program financial statements 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*.

To the Board of Directors
Third Future Schools – Texas

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 Sam Houston’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sam Houston’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
November 30, 2021