

***The Ranch Academy and Life Skills Center, Inc.***

***Financial Statements***

***August 31, 2013***

***For the year then ended***

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**CERTIFICATE OF BOARD**

*The Ranch Academy and Life Skills Center, Inc.  
County-District Number: 234-801*

*We, the undersigned, certify that the attached annual financial reports of the above named charter holder were reviewed and:*

  ✓   approved \_\_\_\_\_ disapproved

*for the year ended August 31, 2013, at a meeting of the board of trustees of such charter holder on the 25<sup>th</sup> day of January 2014.*

  
\_\_\_\_\_  
Signature of Board President

  
\_\_\_\_\_  
Signature of Board Secretary

*If the board of trustees/directors disapproved of the auditors' report, the reason(s) for disapproving it (is/are):*



*To the Board of Directors  
The Ranch Academy and Life Skills Center, Inc.*

*We have audited the accompanying financial statements of The Ranch Academy and Life Skills Center, Inc. (the "Center"), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.*

***Management's Responsibility for the Financial Statements***

*The Center's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.*

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.*

*We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.*

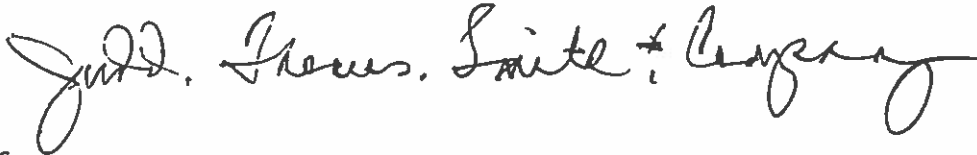
***Opinion***

*In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Ranch Academy and Life Skills Center, Inc. as of August 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.*

**Other Matters**

*In accordance with the requirements established by the Financial Accountability System Resource Guide – Special Supplement – Charter Schools issued by the Texas Education Agency, the required financial statements for The Ranch Academy and Life Skills Center, Inc. have been presented individually as supplemental financial information to the basic financial statements. This information has been subjected to the auditing procedures applied to the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.*

*In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2014, on our consideration The Ranch Academy and Life Skills Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 and should be considered in assessing the results of our audit.*

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

*Dallas, Texas  
January 17, 2014*

THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.

Statement of Financial Position

As of August 31, 2013

Assets

<i>Current assets</i>	
Cash	\$ 156,233
Due from grantor agencies	127,039
Total current assets	<u>283,272</u>
<i>Other assets</i>	
Organizational costs	75,373
Buildings and improvements	512,388
Less accumulated depreciation	<u>(118,955)</u>
Total other assets	<u>468,806</u>
Total assets	\$ <u><u>752,078</u></u>

Liabilities and Net Assets

<i>Current liabilities</i>	
Accounts payable	\$ 30,674
Payroll liabilities	630
Due to related party	2,354
Note payable	<u>49,159</u>
Total current liabilities	<u>82,817</u>
<i>Net assets</i>	
Unrestricted	669,261
Temporarily restricted	-
Total net assets	<u>669,261</u>
Total liabilities and net assets	\$ <u><u>752,078</u></u>

The accompanying notes are an integral part of these financial statements.

THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.

Statement of Activities

For the Year Ended August 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues</b>			
<b>Local support:</b>			
Local revenues resulting from services rendered to other school districts	\$ 10,064	\$ -	\$ 10,064
Other revenues from local sources	11	-	11
Gifts and bequests	209	-	209
Total local support	<u>10,284</u>	<u>-</u>	<u>10,284</u>
<b>State program revenues:</b>			
Foundation school program revenues	-	1,271,849	1,271,849
Available school fund grant	-	46,060	46,060
State program revenues distributed by the TEA	-	402	402
Total state program revenues	<u>-</u>	<u>1,318,311</u>	<u>1,318,311</u>
<b>Federal program revenues:</b>			
Title 1, Part A - improving basic programs	-	273,657	273,657
Title II, Part A - teacher and principal training and recruiting	-	5,364	5,364
IDEA - B formula	-	33,173	33,173
Small rural school achievement grant (REAP)	-	14,254	14,254
Total federal program revenues	<u>-</u>	<u>326,448</u>	<u>326,448</u>
Net assets released from restrictions	<u>1,807,825</u>	<u>(1,807,825)</u>	<u>-</u>
Total revenues	<u>1,818,109</u>	<u>(163,066)</u>	<u>1,655,043</u>
<b>Expenses</b>			
<b>Program services:</b>			
11 Instruction	1,111,898	-	1,111,898
13 Curriculum development and instructional staff development	103,667	-	103,667
21 Instructional leadership	17,154	-	17,154
23 School leadership	227,532	-	227,532
<b>Support services:</b>			
31 Guidance, counseling and evaluation services	74,050	-	74,050
32 Social work services	5,271	-	5,271
33 Health services	3,245	-	3,245
35 Food services	898	-	898
41 General administration	46,014	-	46,014
51 Plant maintenance and operations	202,366	-	202,366
52 Security and monitoring services	4,884	-	4,884
53 Data processing services	31,011	-	31,011
Total expenses	<u>1,827,990</u>	<u>-</u>	<u>1,827,990</u>
Change in net assets	(9,881)	(163,066)	(172,947)
Net assets, beginning of year	<u>679,142</u>	<u>163,066</u>	<u>842,208</u>
Net assets, end of year	<u>\$ 669,261</u>	<u>\$ -</u>	<u>\$ 669,261</u>

The accompanying notes are an integral part of these financial statements.

THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.

Statement of Cash Flows

For the Year Ended August 31, 2013

<i>Cash flows from operating activities</i>	
<i>Change in net assets</i>	\$ (172,947)
<i>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities</i>	
<i>Depreciation</i>	16,396
<i>Increase in due from grantor agencies</i>	(108,941)
<i>Increase in accounts payable</i>	22,470
<i>Increase in payroll taxes payable</i>	630
	<u>                    </u>
<i>Net cash used in operating activities</i>	<u>(242,392)</u>
<i>Net cash used in investing activities</i>	<u>-</u>
<i>Cash flows from financing activities</i>	
<i>Repayment of debt</i>	<u>(7,688)</u>
<i>Net cash used in financing activities</i>	<u>(7,688)</u>
<i>Net decrease in cash and cash equivalents</i>	(250,080)
<i>Cash and cash equivalents at beginning of year</i>	<u>406,313</u>
<i>Cash and cash equivalents at end of year</i>	\$ <u><u>156,233</u></u>
<i>Supplemental disclosures of cash flow information:</i>	
<i>Cash paid during the year for:</i>	
<i>Interest</i>	\$ <u><u>-</u></u>
<i>Income taxes</i>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.



**THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.**

**Notes to Financial Statements**

**1. Summary of Significant Accounting Policies**

Nature of activities

*The Ranch Academy and Life Skills Center, Inc. ("the Center") is an open enrollment charter school serving at-risk students at two campus locations. The Center is supported primarily through state foundation school program entitlements, donor contributions, and Federal grants. Approximately 80 percent of the Center's support for the year ended August 31, 2013 came from state entitlements. The school does not conduct any other charter or non-charter activities.*

Basis of presentation

*The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:*

*Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or net assets subject to donor-imposed restrictions that have been met by the Center within the same year received. State and Federal revenues are reported as unrestricted net assets because all state and Federal restrictions were met in the same reporting period and this accounting treatment has been applied consistently from period to period.*

*Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be or will be met, either by actions of the Center and/or the passage of time. When a restriction is met in the year following receipt, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.*

Contributions

*Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in the next year, are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.*

Cash equivalents

*Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.*

Functional allocation of expenses

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

THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Estimates

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

Compensated absences

Compensated absences cannot be reasonably estimated and are therefore recorded at cost when paid.

Depreciable assets

Depreciable assets are stated at cost or at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Center capitalized all expenditures over \$500 to depreciable assets before August 31, 2004. The threshold was increased to \$2,500 during the fiscal year ended August 31, 2005. Depreciation is provided using the straight-line method over the estimated useful life of the assets. Depreciation expense amounted to \$16,396 in 2013.

Income taxes

The Center is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3) and therefore has made no provision for Federal income taxes in the accompanying financial statements. In addition, the Center has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to September 1, 2009.

Date of Management's Review

Subsequent events were evaluated through January 17, 2014, which is the date the financial statements were available to be issued.

2. Leases

The Center leases space in Canton, Texas from a related party under a lease that expires August 31, 2015.

Minimum annual rental commitments at August 31, 2013, are as follows:

2014	\$ 8,500
2015	<u>8,500</u>
Total minimum lease commitments under non-cancellable operating leases	<u>\$ 17,000</u>
Total rent expense during 2013	<u>\$ 7,598</u>

**THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.**

**Notes to Financial Statements**

**2. Leases (continued)**

The Center leases space in Tyler, Texas from Colonial Oaks, LLC. The lease agreement was renewed in August 2013 with a lease term of August 1, 2013 through July 31, 2014. The minimum payments are based on the student census as submitted on the six week census reports as follows:

Census of 45 students and above	\$ 4,150/mo
Census of 39-44 students	\$ 3,500/mo
Census of 38 students and under	\$ 2,950/mo

Total rent expense for this facility for the year ended August 31, 2013 was \$35,400.

**3. Concentration of Credit Risk**

The Center occasionally maintains cash and cash equivalents at financial institutions in excess of federally insured limits.

**4. Retirement Benefits**

*Plan Description* - The Center contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the Center, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the General Accounting Department, Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698.

*Funding Policy* - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.4% of the Center's covered payroll.

The Center's employees' contributions to the System for the year ending August 31, 2013 were \$68,974, which is equal to the required contributions for the year.

Beginning September 1, 2003 employees may contribute .65% of their salary and the Center must contribute 0.55% of the salary of each active employee to TRS-Care (the TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$7,005, which is equal to the employee's contribution and the Center's required contributions for the year.

THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.

Notes to Financial Statements

5. *Contingent Liabilities*

The Center participates in numerous programs that are subject to audit by the Texas Education Agency and various Federal audit agencies. These programs have complex compliance requirements, and should State or Federal auditors find areas of substantial noncompliance, those Center funds may be subject to refund if so determined by administrative audit review.

6. *Note payable*

The note payable represents a demand note from a related party. The note bears no interest and has no collateral. The note is repaid under terms based on mutual agreement of both parties. The balance at year end is \$49,159.

7. *Maintenance of Effort*

The amount paid by the Center for employees for health care premiums was as follows:

A. Total annual premiums paid for health care 2012-2013	\$ 69,136
B. Subtract any non-medical expenditures	<u>(19,097)</u>
C. 2012-2013 Maintenance of Effort	\$ <u>50,039</u>

8. *Due from Grantor Agencies*

As of August 31, 2013, the Center had earned the following revenues which were not received until after the end of the fiscal year:

State grants	\$ 22,209
Federal grants	<u>104,830</u>
Total	\$ <u>127,039</u>

9. *State Foundation Program Revenue*

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the TEA and the attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. During the period ended August 31, 2013, the Center was paid \$1,263,767 of State foundation program funds. The Center recorded a receivable totaling \$21,807 as of August 31, 2013 for foundation allotment adjustments recorded after the period end. The receivable at the beginning of the year was \$13,725. Therefore, the Center has recognized \$1,271,849 in revenue from the State foundation program for the period ending August 31, 2013.

**THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.**

**Notes to Financial Statements**

**10. Budget Variance**

*Prior to the beginning of each school year, the Center prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the program, the budget must be amended on a regular basis. This has resulted in significant variances between the original adopted budget and final amended budget presented on the Budgetary Comparison Schedule.*

**THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.**

**Schedule of Functional Expenses**

**For the Year Ended August 31, 2013**

<i>Expenses</i>		
6100	Payroll costs	\$ 1,346,426
6200	Professional and contracted services	260,802
6300	Supplies and materials	176,698
6400	Other operating costs	<u>44,064</u>
<b>Total expenses</b>		<b>\$ <u>1,827,990</u></b>

**THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.**

**Schedule of Capital Assets**

**For the Year Ended August 31, 2013**

	<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Private</u>	<u>Total</u>
1520 Buildings and improvements	\$ <u>112,227</u>	\$ <u>49,430</u>	\$ <u>297,570</u>	\$ <u>53,161</u>	\$ <u>512,388</u>
Total property and equipment	\$ <u>112,227</u>	\$ <u>49,430</u>	\$ <u>297,570</u>	\$ <u>53,161</u>	\$ <u>512,388</u>

THE RANCH ACADEMY AND LIFE SKILLS CENTER, INC.

Budgetary Comparison Schedule

For the Year Ended August 31, 2013

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
<b>Local support:</b>				
5729 Local revenues resulting from services rendered to other school districts	\$ 8,700	\$ 10,000	\$ 10,064	\$ 64
5740 Other revenues from local sources	-	10	11	1
5744 Gifts and bequests	600	200	209	9
<b>Total local support</b>	<b>9,300</b>	<b>10,210</b>	<b>10,284</b>	<b>74</b>
<b>State program revenues:</b>				
5811 Available school fund grant	43,000	38,000	46,060	8,060
5812 Foundation school program revenues	1,380,000	1,256,000	1,271,849	15,849
5829 State program revenues distributed by TEA	-	400	402	2
<b>Total state program revenues</b>	<b>1,423,000</b>	<b>1,294,400</b>	<b>1,318,311</b>	<b>23,911</b>
<b>Federal program revenues:</b>				
5929 Federal revenues distributed by the TEA	327,000	325,000	326,448	1,448
<b>Total Federal program revenues</b>	<b>327,000</b>	<b>325,000</b>	<b>326,448</b>	<b>1,448</b>
<b>Total revenues</b>	<b>1,759,300</b>	<b>1,629,610</b>	<b>1,655,043</b>	<b>25,433</b>
<b>Expenses</b>				
11 Instruction	1,035,000	1,096,303	1,111,898	(15,595)
13 Curriculum development and instructional staff development	65,000	100,975	103,667	(2,692)
21 Instructional leadership	69,000	16,860	17,154	(294)
23 School leadership	305,500	226,850	227,532	(682)
31 Guidance, counseling and evaluation services	92,000	72,000	74,050	(2,050)
32 Social work services	-	5,000	5,271	(271)
33 Health services	3,000	2,750	3,245	(495)
35 Food services	1,000	900	898	2
41 General administration	30,000	45,200	46,014	(814)
51 Plant maintenance and operations	125,000	199,950	202,366	(2,416)
52 Security and monitoring services	10,000	4,800	4,884	(84)
53 Data processing services	32,000	32,000	31,011	989
<b>Total expenses</b>	<b>1,767,500</b>	<b>1,803,588</b>	<b>1,827,990</b>	<b>(24,402)</b>
<b>Change in net assets</b>	<b>(8,200)</b>	<b>(173,978)</b>	<b>(172,947)</b>	<b>1,031</b>
<b>Net assets, beginning of year</b>	<b>842,208</b>	<b>842,208</b>	<b>842,208</b>	<b>-</b>
<b>Net assets, end of year</b>	<b>\$ 834,008</b>	<b>\$ 668,230</b>	<b>\$ 669,261</b>	<b>\$ 1,031</b>



*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*

*Board of Directors  
The Ranch Academy and Life Skills Center, Inc.*

*We have audited the statement of financial position, the related statements of activities, functional expenses, and cash flows of The Ranch Academy and Life Skills Center, Inc. (the "Center"), as of and for the year ended August 31, 2013, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 17, 2014. 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.*

***Internal Control Over Financial Reporting***

*In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Center's internal control over financial reporting.*

*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 combination of deficiencies, in internal control such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.*

*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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.*

***Compliance and Other Matters***

*As part of obtaining reasonable assurance about whether the Center'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**

*The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.*

*John J. Jones, Smith & Company*

Dallas, Texas  
January 17, 2014