

**CALVIN NELMS  
CHARTER HIGH SCHOOL, INC.  
DBA  
CALVIN NELMS CHARTER SCHOOL**

**Audit Report**

**August 31, 2016 and 2015**

**TONJA BARNEBEE CPA, PC  
Certified Public Accountant**

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Calvin Nelms Charter High School, Inc.  
DBA Calvin Nelms Charter School  
For the Years Ended August 31, 2016 and 2015

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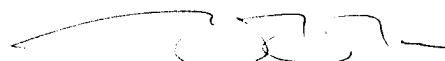
## **FINANCIAL SECTION**

Calvin Nelms Charter High School, Inc.  
DBA: Calvin Nelms Charter School  
Federal Employer Identification Number: 76-0600747  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School was reviewed and (check one)  approved \_\_\_ disapproved for the year ended August 31, 2016, at a meeting of the governing body of the charter holder on the 16<sup>th</sup> day of November 2016.



Signature of Board Secretary



Signature of Board President

NOTE: If the governing body of the Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, does not approve the independent auditor's report, it must forward a written statement discussing the reason(s) for not approving the report.

# TONJA BARNEBEE CPA, PC

## Certified Public Accountant

Ennis 972-875-9900

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### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Calvin Nelms Charter High School, Inc.

DBA: Calvin Nelms Charter School

I have audited the accompanying financial statements of Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Calvin Nelms Charter High School, Inc, DBA: Calvin Nelms Charter School, as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses and schedule of capital assets are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 1, 2016 on my consideration of Calvin Nelms Charter High School, Inc, DBA: Calvin Nelms Charter School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

**Purpose of this Report**

The purpose of that report is to describe the scope of my 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 Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School's internal control over financial reporting and compliance.

Tonja Barnebee CPA, P.C.



Ennis, Texas

November 1, 2016

**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Statements of Financial Position**  
**As of August 31, 2016 and 2015**

<u>Assets</u>	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 341,238	\$ 283,745
Investments	100,501	-
Accounts receivable	56,660	81,519
Current portion of note receivable	17,600	12,000
Inventory	263	863
Total Current Assets	<u>516,262</u>	<u>378,127</u>
Net property and equipment	2,949,384	2,905,935
Note receivable, net	<u>82,200</u>	<u>94,200</u>
Total Assets	<u>\$ 3,547,846</u>	<u>\$ 3,378,262</u>
 <b><u>Liabilities and Net Assets</u></b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 117,182	\$ 119,498
Accrued liabilities	73,498	105,397
Current portion of long-term debt	<u>95,144</u>	<u>90,311</u>
Total current liabilities	<u>285,824</u>	<u>315,206</u>
Long-term Debt, net	<u>847,531</u>	<u>942,285</u>
Total Liabilities	<u>\$ 1,133,355</u>	<u>\$ 1,257,491</u>
<b>Net Assets</b>		
Temporarily restricted	330,473	44
Unrestricted	<u>2,084,018</u>	<u>2,120,727</u>
Total Net Assets	<u>\$ 2,414,491</u>	<u>\$ 2,120,771</u>
Total Liabilities and Net Assets	<u>\$ 3,547,846</u>	<u>\$ 3,378,262</u>

accompanying notes are an integral part of these financial statements

**Calvin Nelms Charter High School, Inc**  
**DBA: Calvin Nelms Charter School**  
**Statements of Activities**  
**For the Years Ended August 31, 2016 and 2015**

Exhibit A-2

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues</b>						
Local Support:						
5700 Other Revenues from Local Sources	\$ 71,359	1,000	72,359	\$ 97,134	\$ -	\$ 97,134
State Program Revenues						
5800 Foundation School Program	-	2,533,805	2,533,805	-	2,521,453	2,521,453
5800 Other State Aid	-	119,399	119,399	-	127,146	127,146
Total State Program Revenues	-	2,653,204	2,653,204	-	2,648,599	2,648,599
Federal Program Revenues:						
5900 IDEA - Part B Formula	-	47,341	47,341	-	45,875	45,875
Total Federal Program Revenues	-	47,341	47,341	-	45,875	45,875
Net Assets Released from Restrictions:						
Restrictions Satisfied by Payments	2,971,116	(2,371,116)	600,000	2,694,430	(2,894,430)	(200,000)
Total Revenues	\$ 2,442,475	330,429	2,772,904	\$ 2,791,564	44	\$ 2,791,808
<b>Expenses</b>						
Program Services:						
11 Instruction and Instructional-Related Services	1,338,801	-	1,338,801	1,541,761	-	1,541,761
13 Curriculum and Staff Development	38,932	-	38,932	36,744	-	36,744
23 Instructional and School Leadership	183,285	-	183,285	170,819	-	170,819
Support Services:						
31 Guidance, Counseling and Evaluation	80,404	-	80,404	141,407	-	141,407
34 Student Transportation	89,679	-	89,679	123,893	-	123,893
35 Food Service	102,136	-	102,136	81,637	-	81,637
36 Co curricular/Extracurricular Activities	21,784	-	21,784	25,123	-	25,123
41 Administrative Support Services	290,261	-	290,261	212,669	-	212,669
51 Facilities Maintenance and Operations	259,349	-	259,349	235,110	-	235,110
52 Security and Monitoring Services	4,229	-	4,229	5,363	-	5,363
53 Data Processing Services	20,883	-	20,883	15,831	-	15,831
71 Interest Expense	54,958	-	54,958	57,736	-	57,736
Total Expenses	\$ 2,484,311	-	2,484,311	\$ 2,648,093	\$ -	\$ 2,648,093
Gain on Sale	5,127	-	5,127	-	-	-
Change in Net Assets	(36,709)	330,429	293,720	143,471	44	143,515
Net Assets, beginning of year	2,120,727	44	2,120,771	1,977,256	-	1,977,256
Net Assets, ending of year	\$ 2,084,018	330,473	2,414,491	\$ 2,120,727	44	\$ 2,120,771

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



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**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Statements of Cash Flows**  
**For the Years Ended August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Foundation School Program Payments	\$ 2,678,063	\$ 2,497,914
Grant Payments	47,341	45,875
Local Sources	72,359	85,134
Payments to Vendors for Goods and Services Rendered	(552,683)	(809,477)
Payment to Charter School Personnel for Services Rendered	(1,751,693)	(1,420,840)
Interest Payments	(54,958)	(57,736)
Net Cash Provided by Operating Activities	<u>438,429</u>	<u>340,870</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sale of Assets	7,500	-
Proceeds from Note Receivable	5,800	12,000
Purchase of Equipment	(203,725)	(341,581)
Purchase of Investments	(100,000)	-
Net Cash (Used) by Investing Activities	<u>(290,625)</u>	<u>(329,581)</u>
<b>Cash Flows from Financing Activities:</b>		
Payments on Long-term Debt	(90,311)	(87,529)
Net Cash (Used) by Financing Activities	<u>(90,311)</u>	<u>(87,529)</u>
Net Increase (Decrease) in Cash	57,493	(76,240)
Cash at Beginning of Year	<u>283,745</u>	<u>359,985</u>
Cash at Ending of Year	<u>\$ 341,238</u>	<u>\$ 283,745</u>
<b>Reconciliation of Change in Net Assets to Net Cash</b>		
Provided by Operating Activities:		
Change in Net Assets	\$ 293,720	\$ 143,515
Adjustments to Reconcile change in net assets to		
Net Cash Provided by Operating Activities:		
Depreciation	157,902	155,535
(Increase) Decrease in Assets:		
Accounts Receivable	20,222	(29,539)
Increase (Decrease) in Liabilities		
Accounts Payable	(1,516)	33,054
Accrued Liabilities	(31,899)	38,305
Net Cash Provided by Operating Activities	<u>\$ 438,429</u>	<u>\$ 340,870</u>

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

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## **NOTES TO THE FINANCIAL STATEMENTS**

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Calvin Nelms Charter High School, Inc.  
DBA: Calvin Nelms Charter School  
Notes to the Financial Statements  
For the Years Ended August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, ("the corporation") is a Texas non-profit corporation. The corporation is governed by a Board of Directors comprised of five members. The Board is selected pursuant to the bylaws of the corporation, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the corporation.

Since the corporation received funding from the local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the corporation's board of directors. The corporation operates a single charter school and did not conduct any other charter or non-charter activities.

Basis of Accounting and Presentation

The accompany financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP) applicable to non-profit organizations.

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted** - net assets that are not subject to donor-imposed stipulations. At August 31, 2016 and 2015 the unrestricted net assets were \$ 2,084,018 and \$ 2,120,771.

**Temporarily restricted** - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At August 31, 2016 and 2015 the temporarily restricted net assets were \$ 330,473 and \$44. The temporarily restricted funds are released as education expenses are incurred.

**Permanently restricted** - net assets required to be maintained in perpetuity with only the income to be used for the corporation's activities due to donor-imposed restrictions.

Use of 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.

### Contributions

The corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

### Cash and Cash Equivalents

For financial statements purposes, the corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents at August 31, 2016 and 2015 was \$ 341,238 and \$ 283,745

### Concentration of credit and market risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist of cash. The Corporation maintains its cash in bank deposit accounts. The amount if any that exceeds federally insured limits, the financial institution does pledge financial instruments in the Corporation's behalf. Management believes it is not exposed to any significant credit risk on cash.

### Investments

Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School uses a value hierarchy established by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of hierarchy the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are:

- |         |   |
|---------|---|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;   |
| Level 2 | Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets or liability; |
| Level 3 | Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity)   |

The School maintains certain investment accounts. The future proceeds from these accounts are intended to support the operations of the School. The School's investment objective is the preservation of capital and moderate growth. Accordingly, these investment are comprised of highly liquid, low-risk certificates of deposits.

Investment at August 31, 2016 were carried at fair market value. The balance at August 31, 2016 were as follows:

	Fair Market Value	Interest Rate	Level
Certificate of Deposit	\$ 50,125	0.40%	1
Certificate of Deposit	50,376	1.00%	1
Total	\$ 100,501		

The School did not have investments at August 31, 2015.

Inventory

Inventory is stated at cost and consist of office supplies, at years ended August 31, 2016 and 2015 the amount of inventory was \$263 and \$863.

Property and Equipment

Capital assets, which include buildings and improvements, furniture and equipment, vehicles and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Federal Income Tax

The Corporation is a not-for profit corporation that is exempt from income taxes under Section 501( c )3 of the Internal Revenue Code. The Corporation is exempt from taxes on income other than unrelated business income, if any. For the years ending August 31, 2016 and 2015 the Corporation did not have any unrelated business income. Accordingly, the Corporation has not recorded any provision for income taxes.

Management is not aware of any violation of its tax status as an exempt organization, nor of any exposure to unrelated business income tax.

The Corporation files form 990 as a tax-exempt organization. Internal Revenue Code Section 6501 (a) provides the general rule that the amount of any tax shall be assessed within three years after the tax return is filed. The Code provides that a return is deemed filed on the due date if it is filed early but is deemed filed on the date filed if it is filed late. As of August 31, 2016, 2014 through 2016 fiscal year tax returns are open for examination by the Internal Revenue Service.

Concentration of Risk

The Corporation is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; error and omissions; and injuries to employees and students. These risk are covered by commercial insurance purchased from independent third parties. There have been no claims that have exceeded commercial insurance coverage for the past three years.



The corporation receives 97% of their revenues through state programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. The programs administered by the corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the corporation funds may be subject to refund if so determined by the Texas Education Agency of the grantor agency.

Advertising Expense

The Corporation expenses all advertising costs as incurred. The Corporation did not report any advertising expenses for August 31, 2016 and 2015.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of account. This includes using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deduction from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2: Property and Equipment

Property and Equipment assets at August 31, 2016 and 2015, being depreciated were as follows:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$3,255,528	\$3,235,546
Vehicles and equipment	638,127	636,495
Total property and equipment	3,893,655	3,872,041
Less accumulated depreciation	(1,261,728)	(1,116,707)
Total of capital assets being depreciated	<u>2,631,927</u>	<u>2,755,334</u>

Property and improvements at August 31, 2016 and 2015, which are not being depreciated were as follows:

Land	150,601	150,601
Construction in Progress	166,856	-
Total of capital assets not being depreciated	<u>317,457</u>	<u>150,601</u>
 Property and Equipment (net)	 <u>\$ 2,949,384</u>	 <u>\$ 2,905,935</u>

Property and Equipment assets acquired with public funds received by the corporation for the operation of Calvin Nelms Charter High School, Inc. DBA Calvin Nelms Charter School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Note 3: Accounts Receivable

Temporarily restricted net assets for the years ending August 31, 2016 and 2015 of accounts receivable consisted of the following:

	<u>2016</u>	<u>2015</u>
Foundation School Program Act Revenues (Due from State)	<u>\$ 56,660</u>	<u>\$ -</u>

Unrestricted net assets for the years ending August 31, 2016 and 2015 of accounts receivable consist of the following:

Foundation School Program Act Revenues (Due from State)	\$ -	\$ 75,519
Other Accounts Receivable (Due from related party)	-	6,000
Other Accounts Receivable (Current portion of note receivable)	17,600	12,000
Total Accounts Receivable	<u>\$ 17,600</u>	<u>\$ 93,519</u>

Note 4: Note Receivable

A note receivable was issued from a non-profit organization to the Corporation for \$119,000 in July 2014, from sale of building. The note is for 10 years at no interest with payments of \$1,000 due monthly. Amount received in 2016 was \$5,600 and \$12,000 in 2015 .

The note receivable is recorded at as follows:

<u>Year ended August 31,</u>	<u>Principal</u>	<u>Total</u>
2017	\$ 17,600	\$ 17,600
2018	12,000	12,000
2019	12,000	12,000
2020	12,000	12,000
2020-2024	46,200	46,200
	<u>99,800</u>	<u>99,800</u>
Less current portion	(17,600)	(12,000)
	<u>\$ 82,200</u>	<u>\$ 87,800</u>

Note 5: Long-Term Debt

Long-term debt at August 31, 2016 and 2015 consists of the following:

Note payable to a bank for the original amount of \$755,000 was made in 2003. In February of 2011 the note payable was converted to a fixed interest rate note , with interest at 5.10%. Principal and interest are due monthly installments varying between \$4,850 and \$5,198, commencing February 2011. Final payment is due October 8, 2019 for remaining balance. The note is secured by a first lien on land and building of the corporation.

	2016	2015
Ending Balance	\$ 181,015	\$ 230,931
Less current portion of long-term debt	(52,939)	(50,306)
Net	<u>\$ 128,076</u>	<u>\$ 180,625</u>

A note payable to a bank for the original amount of \$1,000,000 was issued in 2008. In February of 2011 the note payable to a bank was refinanced to a fixed interest rate note for original amount of \$956,346, with at interest rate of 5.63%. Principal and interest is due in monthly installments of \$7,282 , commencing February 2011. Final payment is due April, 2019 for remaining balance. The note is secured by a first lien on land and building of the corporation.

	2016	2015
Ending Balance	\$ 761,660	\$ 801,665
Less current portion of long-term debt	(42,205)	(40,005)
Net	<u>\$ 719,455</u>	<u>\$ 761,660</u>

Future maturities on long-term debt at August 31, 2016 are as follows:

<u>Year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 95,144	\$ 50,099	\$ 145,243
2018	100,230	44,819	145,049
2019	733,144	27,369	760,513
2020	14,157	35	14,192
	<u>\$ 942,675</u>	<u>\$ 122,322</u>	<u>\$ 1,064,997</u>

Note 6: Lease Commitments

During the year ended August 31, 2016, the Corporation enter into an operating lease for copier. Rental expense under the operating leases for the year ended August 31, 2016, was \$ 3,771.

Future minimum lease payments under the operating leases are as follows:

Year ended	
<u>August 31</u>	
2017	\$ 3,158
2018	3,158
2019	263
	<u>\$ 6,579</u>

Note 7: Defined Benefit Pension Plans

**Plan Description.** Calvin Nelms Charter School, Inc. DBA Calvin Nelms Charter School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

**Pension Plan Fiduciary Net Position.** Detail information about the Teacher Retirement System's fiduciary net position is available ins separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at <http://www.trs.state.ts.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.43%

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

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

<u>Contribution Rates</u>		
	<u>2015</u>	<u>2016</u>
Member	6.70%	7.20%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Corporation's 2016 Member Contributions	\$	105,600
Non-Employer Contributions ( On- Behalf Payments)	\$	99,734

Contributors to the plan include members and the State of Texas as the only non-employer contributing entity. Calvin Nelms' Charter High School, Inc.: DBA Calvin Nelms Charter School does not contribute. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public charter schools are required to pay the employer contribution rate in the following instances:

During a new member's first 90 days of employment

When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local funds.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge

When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees

**Actuarial Assumptions.** The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method of Payroll Open	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actual methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

**Discount Rate**-The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous fiscal year. This projection of cash flows to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was project to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The loan-term rate of return on pension plan investment is 8%. The loan-term expect rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 3, 2015 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
<b>Global Equity</b>			
U.S.	18%	4.60%	1.00%
Non-U.S.	13%	5.10%	0.80%
Emerging Markets	9%	5.90%	0.70%
Directional Hedge	4%	3.20%	0.10%
Private Equity	13%	7.00%	1.10%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.70%	0.10%
Absolute Return	0%	1.80%	0.00%
Stable Value Hedge	4%	3.00%	0.10%
Cash	1%	-0.20%	0.00%
<b>Real Return</b>			
Global Inflation	3%	0.90%	0.00%
Real Assets	16%	5.10%	1.10%
Energy and Natural Resources	3%	6.60%	0.20%
Commodities	0%	1.20%	0.00%
<b>Risk Parity</b>			
Risk Parity	5%	6.70%	0.30%
Alpha			1.00%
<b>Total</b>	<b>100%</b>		<b>8.70%</b>

\* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

The following information was reported for Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School:

Total Pension Expense	\$76,944
Projected and Actual Investment Earnings	\$77,506
Employer and Proportionate Share of Contributions and Changes in Proportion	\$164,411
Net Pension Liability End of Year	\$314,709
Contributions per TRAQS (as adjusted)	\$26,362
Proportionate Share	0.000008903

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Note 8: Health Care Coverage

During the years ended August 31, 2016 and 2015 employees of the corporation were covered by a Health Insurance Plan (the Plan). The corporation contributed \$ 225.00 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers. Health insurance cost for 2016 and 2015 were as follows: \$45,675 and \$45,600.

Note 9: Commitments and Contingencies

The corporation receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, the corporation funds may be subject to refund if so determined by the Texas Education Agency of the grantor agency.

Note 10: Litigation

No reportable litigation was pending against the Corporation at August 31, 2016 and 2015.



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Note 11: Related Party Transactions

The Corporation paid Terry Lopic as an employee, Superintendent for the fiscal 15-16 year, compensation of \$111,796 for the year ended August 31, 2016. Mr. Terry Lopic was also a board member during this time.

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**T.E.A. REQUIRED SCHEDULES  
AND  
SUPPLEMENTARY INFORMATION**

**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Schedule of Expenses**  
**For the Years Ended August 31, 2015 and 2014**

Expenses	Totals	
	2016	2015
6100 Payroll Costs	\$ 1,719,794	\$ 1,856,969
6200 Professional and Contracted Services	279,466	279,151
6300 Supplies and Materials	183,308	207,695
6400 Other Operating Cost	246,784	246,542
6500 Interest	54,958	57,736
Total Expenses	<u>\$ 2,484,310</u>	<u>\$ 2,648,093</u>

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

**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Schedule of Capital Assets**  
**For the Years Ended August 31, 2016 and 2015**

	Ownership Interest 2016			Total	Ownership Interest 2015			Total
	Local	State	Federal		Local	State	Federal	
1110 Cash	\$ 341,238	\$ -	\$ -	\$ 341,238	\$ 283,745	\$ -	\$ -	\$ 283,745
1120 Investments	100,501	-	-	100,501	-	-	-	-
1510 Land and Improvements:	150,601	-	-	150,601	150,601	-	-	150,601
1520 Buildings and Improvements:	3,131,238	-	124,290	3,255,528	3,111,256	124,290	-	3,235,546
1531 Vehicles:	399,404	-	-	399,404	414,655	-	-	414,655
1539 Furniture and Equipment:	156,129	46,309	36,286	238,724	139,245	46,309	36,286	221,840
1580 Construction in Progress	166,856	-	-	166,856	-	-	-	-
<b>Total Property and Equipment</b>	<b>\$ 4,445,967</b>	<b>\$ 46,309</b>	<b>\$ 160,576</b>	<b>\$ 4,652,852</b>	<b>\$ 4,089,502</b>	<b>\$ 46,309</b>	<b>\$ 160,576</b>	<b>\$ 4,306,387</b>

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

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**Calvin Neims Charter High School, Inc.**  
**DBA: Calvin Neims Charter School**  
**Budgetary Comparison Schedule**  
**For the Years Ended August 31, 2016 and 2015**

	2016			2015			Variance from Final Budget
	Budgeted Amounts	Actual Amounts	Variance from Final Budget	Budgeted Amounts	Actual Amounts	Variance from Final Budget	
	Original	Final		Original	Final		
<b>Revenues</b>							
Local support:							
5740 Other Revenues from Local Sources	\$ 25,000	\$ 90,000	\$ (17,641)	\$ 60,725	\$ 97,134	\$ 36,409	
State Program Revenues							
5800 State Program Revenues	2,650,000	2,653,204	3,204	2,257,512	2,648,599	391,087	
Federal program revenues:							
5920 Federal Revenues Distributed by the Texas Education Agency	40,872	47,341	81	39,706	45,875	6,169	
Total Revenues	2,715,872	2,772,904	(14,356)	2,357,943	2,791,608	427,496	
<b>Expenses</b>							
11 Instruction and Instructional-Related Services	1,447,554	1,338,601	161,399	1,307,016	1,541,761	(122,771)	
13 Curriculum and Staff Development	49,411	38,932	(3,932)	19,500	36,744	(6,743)	
23 Instructional and School Leadership	182,493	183,295	6,705	137,657	170,819	16,838	
31 Guidance, Counseling and Evaluation	109,685	115,341	34,937	123,513	141,407	(17,894)	
34 Student Transportation	133,926	100,000	89,679	127,510	123,893	26,617	
35 Food Service	79,575	98,000	(4,136)	94,350	81,637	33,613	
36 Co curricular/Extracurricular Activities	27,435	26,755	4,971	30,435	25,123	5,312	
41 Administrative Support Services	238,396	295,000	4,739	165,565	212,669	(7,104)	
51 Facilities Maintenance and Operations	332,153	440,000	180,651	228,379	235,110	5,269	
52 Security and Monitoring Services	13,550	7,000	2,771	4,945	5,363	2,082	
53 Data Processing Services	17,000	21,000	317	15,500	15,831	(331)	
71 Interest Expense	145,918	80,000	5,042	149,448	57,736	91,712	
Total Expenses	2,777,096	2,888,096	403,785	2,403,818	2,648,093	26,600	
Gain on sale of Asset		5,127	5,127				
Change in Net Assets	(61,224)	(100,636)	394,566	(45,875)	143,515	454,096	
Net Assets, beginning of year	2,120,727	2,120,727		1,977,256	1,977,256		
Net Assets, ending of year	\$ 2,059,503	\$ 2,019,891	\$ 394,566	\$ 1,931,381	\$ 2,120,771	\$ 454,096	

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



# TONJA BARNEBEE CPA, PC

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated November 1, 2016.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's internal control. Accordingly, I do not express an opinion on the effectiveness of Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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.

Tonja Barnebee CPA P.C.

A handwritten signature in black ink that reads "Tonja Barnebee CPA, P.C." The signature is written in a cursive, flowing style.

Ennis, Texas

November 1, 2016