

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

**Audit Report**

**August 31, 2015 and 2014**

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

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**900 W. Ennis Ave, Ste. 103  
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Calvin Nelms Charter High School, Inc.  
DBA Calvin Nelms Charter School  
For the Years Ended August 31, 2015 and 2014

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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 Schools was reviewed and (check one) \_\_\_ approved \_\_\_ disapproved for the year ended August 31, 2015, at a meeting of the governing body of the charter holder on the \_\_\_ day of \_\_\_\_\_.

\_\_\_\_\_  
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.

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## **FINANCIAL INFORMATION**

# TONJA BARNEBEE CPA, PC

## Certified Public Accountant

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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

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

I have audited the accompanying financial statements of Calvin Nelms Charter High School, Inc., DBA: Calvin Nelms Charter School, (a nonprofit corporation), which comprise the statements of financial position as of August 31, 2015 and 2014, 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 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 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, 2015 and 2014, 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***Other Information*

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses, schedule of capital assets and schedule of findings and questioned cost 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 January 18, 2016 on my consideration of Calvin Nelms Charter High School, Inc.'s, DBA: Calvin Nelms Charter School 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. 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  
January 18, 2016

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**Calvin Nelms Charter High School, Inc.**  
**DBA: Calvin Nelms Charter School**  
**Statements of Financial Position**  
**As of August 31, 2015 and 2014**

<u>Assets</u>	<u>2015</u>	<u>2014</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 283,745	\$ 359,985
Accounts receivable	81,519	51,980
Current portion of note receivable	12,000	12,000
Inventory	863	863
Total Current Assets	378,127	424,828
Net property and equipment	2,905,935	2,719,891
Note receivable, net	94,200	104,000
Total Assets	\$ 3,378,262	\$ 3,248,719
 <b><u>Liabilities and Net Assets</u></b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 119,498	\$ 86,444
Accrued liabilities	105,397	67,419
Current portion of long-term debt	90,311	85,077
Total current liabilities	315,206	238,940
Long-term Debt, net	942,285	1,032,523
Total Liabilities	\$ 1,257,491	\$ 1,271,463
<b>Net Assets</b>		
Temporarily restricted	44	-
Unrestricted	2,120,727	375,317
Total Net Assets	\$ 2,120,771	\$ 1,977,256
Total Liabilities and Net Assets	\$ 3,378,262	\$ 3,248,719

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 Activities**  
**For the Years Ended August 31, 2015 and 2014**

	2015		2014	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>Revenues</b>				
Local Support:				
5700 Other Revenues from Local Sources	\$ 97,134	\$ -	\$ 85,764	\$ -
State Program Revenues				
5800 Foundation School Program	-	2,521,453	-	2,346,962
5800 Other State Aid	-	127,146	-	40,051
Total State Program Revenues	<u>97,134</u>	<u>2,648,599</u>	<u>85,764</u>	<u>2,387,013</u>
Federal Program Revenues:				
5900 IDEA - Part B Formula	-	45,875	-	40,317
Total Federal Program Revenues	-	<u>45,875</u>	-	<u>40,317</u>
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	2,694,430	(2,694,430)	2,427,330	(2,427,330)
Total Revenues	<u>\$ 2,791,564</u>	<u>\$ 44</u>	<u>\$ 2,513,094</u>	<u>\$ -</u>
<b>Expenses</b>				
Program Services:				
11 Instruction and Instructional-Related Services	1,541,761	-	1,129,638	-
13 Curriculum and Staff Development	36,744	-	33,993	-
23 Instructional and School Leadership	170,819	-	162,647	-
Support Services:				
31 Guidance, Counseling and Evaluation	141,407	-	125,900	-
34 Student Transportation	123,893	-	101,024	-
35 Food Service	81,637	-	71,742	-
36 Co curricular/Extracurricular Activities	25,123	-	33,289	-
41 Administrative Support Services	212,669	-	283,495	-
51 Support Services -Non Student Based	235,110	-	375,728	-
52 Security and Monitoring Services	5,363	-	2,400	-
53 Data Processing Services	15,831	-	15,904	-
72 Interest Expense	57,736	-	64,730	-
Total Expenses	<u>\$ 2,648,093</u>	<u>\$ -</u>	<u>\$ 2,400,490</u>	<u>\$ -</u>
Loss on Sale	-	-	(197,398)	-
Change in Net Assets	143,471	44	(84,794)	-
Prior Period Adjustment	-	-	2,973	(2,973)
Net Assets, beginning of year	<u>1,977,256</u>	<u>-</u>	<u>2,059,077</u>	<u>2,973</u>
Net Assets, ending of year	<u>\$ 2,120,727</u>	<u>\$ 44</u>	<u>\$ 1,977,256</u>	<u>\$ -</u>

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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities:</b>		
Foundation School Program Payments	\$ 2,497,914	\$ 2,346,813
Grant Payments	45,875	40,051
Local Sources	85,134	74,264
Payments to Vendors for Goods and Services Rendered	(809,477)	(674,051)
Payment to Charter School Personnel for Services Rendered	(1,420,840)	(1,466,624)
Interest Payments	(57,736)	(64,730)
Net Cash Provided (Used) by Operating Activities	<u>340,870</u>	<u>255,723</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sale of Assets	-	11,500
Proceeds from Note Receivable	12,000	-
Purchase of Equipment	(341,581)	(326,808)
Net Cash (Used) Provided by Investing Activities	<u>(329,581)</u>	<u>(315,308)</u>
<b>Cash Flows from Financing Activities:</b>		
Payments on Long-term Debt	(87,529)	(80,725)
Net Cash (Used) Provided by Financing Activities	<u>(87,529)</u>	<u>(80,725)</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(76,240)</b>	<b>(140,310)</b>
<b>Cash at Beginning of Year</b>	<b><u>359,985</u></b>	<b><u>500,295</u></b>
<b>Cash at Ending of Year</b>	<b>\$ <u><u>283,745</u></u></b>	<b>\$ <u><u>359,985</u></u></b>
<b>Reconciliation of Change in Net Assets to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Change in Net Assets	\$ 143,515	\$ (84,794)
<b>Adjustments to Reconcile change in net assets to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation	155,535	141,670
Loss from sale	-	197,398
<b>(Increase) Decrease in Assets:</b>		
Accounts Receivable	(29,539)	(40,466)
<b>Increase (Decrease) in Liabilities</b>		
Accounts Payable	33,054	13,706
Accrued Liabilities	38,305	28,209
Net Cash Provided by Operating Activities	<u>\$ 340,870</u>	<u>\$ 255,723</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, 2015 and 2014

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.

**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.

**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.

### 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 not pledge financial instruments in the Corporation's behalf. Management believes it is not exposed to any significant credit risk on cash.

At August 31, 2015 the Corporation had \$ 33,745, that was not covered by FDIC insurance.

### Inventory

Inventory is stated at cost and consist of office supplies, at years ended August 31, 2015 and 2014 the amount of inventory was \$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, 2015 and 2014 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, 2013 through 2015 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 95% 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 did not report any advertising expenses for August 31, 2015 and 2014.

Note 2: Property and Equipment

Property and Equipment assets at August 31, 2015 and 2014, being depreciated were as follows:

	2015	2014
Buildings and improvements	\$3,235,546	\$2,953,316
Vehicles and equipment	636,494	556,664
Total property and equipment	3,872,040	3,509,980
Less accumulated depreciation	(1,116,707)	(961,170)
Total of capital assets being depreciated	2,755,333	2,548,810

Property assets at August 31, 2015 and 2014, not being depreciated were as follows:

Land	150,601	150,601
Construction in Progress	-	20,480
Total of capital assets not being depreciated	150,601	171,081
Capital Assets, net	\$ 2,905,934	\$ 2,719,891

Property and Equipment assets acquired with public funds received by the corporation for the operation of Calvin Nelms Charter Schools 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, 2015 and 2014 of accounts receivable consisted of the following:

	<u>2015</u>	<u>2014</u>
Foundation School Program Act Revenues (Due from State)	<u>\$ -</u>	<u>\$ -</u>

Unrestricted net assets for the years ending August 31, 2015 and 2014 of accounts receivable consist of the following:

Foundation School Program Act Revenues (Due from State)	\$ 75,519	\$ 51,980
Other Accounts Receivable (Due from related party)	6,000	-
Other Accounts Receivable (Current portion of note receivable)	12,000	12,000
Total Accounts Receivable	<u>\$ 93,519</u>	<u>\$ 63,980</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 2015 was \$12,000 and \$3,000 in 2014 .

The note receivable is recorded at as follows:

<u>Year ended August 31,</u>	<u>Principal</u>	<u>Total</u>
2016	12,000	12,000
2017	12,000	12,000
2018	12,000	12,000
2019	12,000	12,000
2020-2024	58,200	58,200
	<u>106,200</u>	<u>106,200</u>
Less current portion	(12,000)	(12,000)
	<u>\$ 94,200</u>	<u>\$ 94,200</u>

Note 5: Long-Term Debt

Long-term debt at August 31, 2015 and 2014 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.

	<u>2015</u>	<u>2014</u>
Ending Balance	\$ 230,931	\$ 278,402
Less current portion of long-term debt	<u>(50,306)</u>	<u>(47,208)</u>
Net	<u>\$ 180,625</u>	<u>\$ 231,194</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.

	<u>2015</u>	<u>2014</u>
Ending Balance	\$ 801,665	\$ 839,198
Less current portion of long-term debt	<u>(40,005)</u>	<u>(37,869)</u>
Net	<u>\$ 761,660</u>	<u>\$ 801,329</u>

Future maturities on long-term debt at August 31, 2015 are as follows:

<u>Year ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 90,311	\$ 55,330	\$ 145,641
2017	95,141	50,099	145,240
2018	100,230	45,169	145,399
2019	732,965	24,575	757,540
2020	13,949	-	13,949
	<u>\$ 1,032,596</u>	<u>\$ 175,173</u>	<u>\$ 1,207,769</u>

Note 6: Pension Plan Obligations

**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.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a 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.tx.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. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 159,496,075,886
Less: Plan Fiduciary Net Position	<u>(132,779,243,085)</u>
Net Pension Liability	<u>\$ 26,716,832,801</u>
Net Position as percentage of Total Pension Liability	83.25%

**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 2014 and 2015.

**Contribution Rates**

	<b><u>2014</u></b>	<b><u>2015</u></b>
Member	6.40%	6.70%
Non-Employer Contributing	6.80%	6.80%
Employers	6.80%	6.80%
Charter's 2014 Employer Contributions	\$	4,327
Charter's 2014 Member Contributions	\$	77,337
Charter's 2014 NECE On-Behalf Contributions	\$	80,286

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. 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:

On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

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.

In addition to the employer contributions listed above, 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.

**Actuarial Assumptions.** The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual entry
Amortization Method of Payroll Open	Level Percentage
Remaining Amortization Period	30 years
Asset Valuation Method Value	5 year Market
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.5%
<i>*Includes Inflation of 3%</i>	

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.



**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 year. The projection of cash flows used 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 projected 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 long-term rate of return on pension plan investments is 8%. The long-term expected 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 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	7.00%	1.40%
Non-U.S.	13%	7.30%	1.10%
Emerging Markets	9%	8.10%	0.90%
Directional Hedge	4%	5.40%	0.20%
Private Equity	13%	9.20%	1.40%
<b>Stable Value</b>			
U.S. Treasuries	11%	2.90%	0.30%
Absolute Return	0%	4.00%	0.00%
Stable Value Hedge	4%	5.20%	0.20%
Cash	1%	2.00%	0.00%
<b>Real Return</b>			
Global Inflation	3%	3.10%	0.00%
Real Assets	16%	7.30%	1.50%
Energy and Natural Resources	3%	8.80%	0.30%
Commodities	0%	3.40%	0.00%
<b>Risk Parity</b>			
Risk Parity	5%	8.90%	0.40%
Alpha			<u>1.00%</u>
<b>Total</b>	<u>100%</u>		<u>8.70%</u>

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

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	1% Decrease	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
The Corporation's proportionate share of the net pension liability:	\$ 81,478	\$ 45,596	\$ 18,764

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2015, the corporation reported a liability of \$13,948 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the corporation. The amount recognized by the corporation as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the corporation were as follows:

Corporation's Proportionate share of the collective net pension liability	\$	-
State's proportionate share that is associated with the Corporation		55,081
Total	\$	<u>55,081</u>

The net pension liability was measured as of August 31, 2014 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, 2013 thru August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was 0.000001707%. Since this is the first year of implementation, the corporation does not have the proportion measured as of August 31, 2013. The Notes to the Financial Statements for August 31, 2014 for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

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.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 09/01/2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the measurement period August 31, 2014, the corporation recognized pension expense of \$ 80,286 for support provided by the State.

At August 31, 2014, the corporation reported its proportionate share of the TRS's deferred revenue and deferred liabilities related to pensions from the following sources:

	Deferred Revenue	Deferred Liability
Differences between expected and actual economic experience	\$ 705	\$ -
Changes in actuarial assumptions	2,964	-
Difference between projected and actual investment earnings	-	13,936
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	12
Contributions paid to TRS subsequent to the measurement date	-	-
Total	\$ 3,669	\$ 13,948

The net amounts of the employer's balances of deferred revenue and deferred liabilities related to pensions will be recognized in pension expense as follows:

Year ended 31;	Pension Expense Amount
2015	\$ (2,867.00)
2016	\$ (2,867.00)
2017	\$ (2,867.00)
2018	\$ (2,867.00)
2019	\$ 617.00
Thereafter	\$ 572.00

#### Note 7: Health Care Coverage

During the years ended August 31, 2015 and 2014 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 2015 and 2014 were as follows: \$45,600 and \$32,400.

#### Note 8: 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 9: Litigation

No reportable litigation was pending against the Corporation at August 31, 2015 and 2014.

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Note 10: Subsequent Event

Subsequent to year in Calvin Nelms Charter High School, Inc. DBA: Calvin Nelms Charter School purchased certificates of deposit at a additional bank to cover any fund which are over the FIDC amount.

Subsequent to year in the amount of \$ 6,000 accounts receivable from a related party was paid in full.

Other than those events stated above, there were no subsequent events determined by management subsequent to the Statements of Financial Position and through January 18, 2016., which approximates the date the financial statements are available to be issued.

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## **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	<u>Totals</u>	<u>Totals</u>
	2015	2014
6100 Payroll Costs	\$ 1,856,969	\$ 1,481,966
6200 Professional and Contracted Services	279,151	344,441
6300 Supplies and Materials	207,695	268,993
6400 Other Operating Cost	246,542	240,361
6500 Interest	57,736	64,729
Total Expenses	<u>\$ 2,648,093</u>	<u>\$ 2,400,490</u>



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

	Ownership Interest 2015			Ownership Interest 2014			
	Local	State	Federal	Local	State	Federal	Total
1110 Cash	\$ 283,745	\$ -	\$ -	\$ 359,985	\$ -	\$ -	\$ 359,985
1510 Land and Improvements:	150,601	-	-	150,601	-	-	150,601
1520 Buildings and Improvements:	3,111,256	-	124,290	2,829,026	-	124,290	2,953,316
1531 Vehicles:	414,658	-	-	317,135	-	-	317,135
1539 Furniture and Equipment:	102,956	46,309	36,286	156,934	46,309	36,286	239,529
1580 Construction in Progress	-	-	-	20,480	-	-	20,480
<b>Total Property and Equipment</b>	<b>\$ 4,063,216</b>	<b>\$ 46,309</b>	<b>\$ 160,576</b>	<b>\$ 3,834,161</b>	<b>\$ 46,309</b>	<b>\$ 160,576</b>	<b>\$ 4,041,046</b>

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  
Budgetary Comparison Schedule  
For the Years Ended August 31, 2015 and 2014**

	2015			2014			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	\$ 60,725	\$ 60,725	\$ 97,134	\$ 69,920	\$ 69,920	\$ 85,764	\$ 15,844
State Program Revenues							
5800 State Program Revenues	2,257,512	2,257,512	2,648,599	2,195,414	2,195,414	2,387,013	191,599
Federal program revenues:							
5920 Federal Revenues Distributed by the Texas Education Agency	39,706	45,875	45,875	40,317	40,317	40,317	-
Total Revenues	<u>2,357,943</u>	<u>2,364,112</u>	<u>2,791,608</u>	<u>2,305,651</u>	<u>2,305,651</u>	<u>2,513,094</u>	<u>207,443</u>
<b>Expenses</b>							
11 Instruction and Instructional-Related Services	1,307,016	1,418,990	1,541,761	1,145,437	1,075,000	1,129,638	(54,638)
13 Curriculum and Staff Development	19,500	30,001	36,744	2,561	30,000	33,993	(3,993)
23 Instructional and School Leadership	137,657	187,657	170,819	149,760	152,000	162,647	(10,647)
31 Guidance, Counseling and Evaluation	77,638	77,638	141,407	117,093	125,317	125,900	(583)
34 Student Transportation	127,510	150,510	123,893	106,350	132,000	101,024	30,976
35 Food Service	94,350	115,250	81,637	-	74,000	71,742	2,258
36 Co curricular/Extracurricular Activities	30,435	30,435	25,123	34,204	34,600	33,289	1,311
41 Administrative Support Services	165,565	205,565	212,669	270,167	285,000	283,495	1,505
51 Support Services -Non Student Based	228,379	240,379	235,110	228,096	500,000	375,728	124,272
52 Security and Monitoring Services	4,945	7,445	5,363	5,550	5,550	2,400	3,150
53 Data Processing Services	15,500	15,500	15,831	15,500	16,500	15,904	596
71 Interest Expense	149,448	149,448	57,736	112,897	75,000	64,730	10,270
Total Expenses	<u>2,357,943</u>	<u>2,628,818</u>	<u>2,648,093</u>	<u>2,187,615</u>	<u>2,504,967</u>	<u>2,400,490</u>	<u>104,477</u>
Gain (Loss) on sale of Capital Assets					(200,000)	(197,398)	2,602
Change in Net Assets		(264,706)	143,515	118,036	(399,316)	(84,794)	314,522
Net Assets, beginning of year	<u>1,977,256</u>	<u>1,977,256</u>	<u>1,977,256</u>	<u>2,062,701</u>	<u>2,062,701</u>	<u>2,062,050</u>	-
Net Assets, ending of year	<u>\$ 1,977,256</u>	<u>\$ 1,712,550</u>	<u>\$ 2,120,771</u>	<u>\$ 2,180,737</u>	<u>\$ 1,663,385</u>	<u>\$ 1,977,256</u>	<u>\$ 314,522</u>

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, 2015 and 2014, 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 January 18, 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 the Organization'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 style with a prominent initial 'T'.

Ennis, Texas  
January 18, 2016