

**CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS**

**FINANCIAL STATEMENTS WITH
COMPLIANCE REPORTING**

August 31, 2020 and 2019

CALVIN NELMS CHARTER HIGH SCHOOL
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FINANCIAL STATEMENTS WITH COMPLIANCE REPORTING
August 31, 2020 and 2019

Table of Contents

Certificate of Board	1
Independent Auditor's Report	2-3
Financial Statements	
Statements of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8-15
Supplementary Information	
Schedule of Expenses	16
Schedule of Capital Assets	17
Budgetary Comparison Schedule	18
Summary of Audit Findings	19
Other Required Reporting	
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 <i>Government Auditing Standards</i>	20-21

**CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS**

Federal Employer Identification Number: 76-0600747

Certificate of Board

We, the undersigned, certify that the attached annual financial reports of the above-named charter holder were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2020, at a meeting of the Board of Directors of such charter holder on the 15 day of December, 2020.



Signature of Board Secretary



Signature of Board President

If the Board of Directors disapproved the auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Calvin Nelms Charter High School
dba Calvin Nelms Charter Schools
Katy, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Calvin Nelms Charter High School dba Calvin Nelms Charter Schools (the School), a nonprofit organization, which comprise the statements of financial position as of August 31, 2020 and 2019, and the related statements of activities (with comparative totals for 2019), functional expenses (with comparative totals for 2019), 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 16-19 are presented for purposes of additional analysis and are 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 our 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*, we have also issued our report dated December 14, 2020 on pages 20-21 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Randy Walker & Co.

San Antonio, Texas
December 14, 2020

FINANCIAL STATEMENTS

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
STATEMENTS OF FINANCIAL POSITION
August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,737,567	\$ 1,114,524
Due from Texas Education Agency	320,641	35,288
Other Receivables	100	100
Inventory	3,158	250
Note Receivable - current portion	12,000	12,000
Total Current Assets	<u>2,073,466</u>	<u>1,162,162</u>
LONG-TERM ASSETS		
Note Receivable - long-term portion	44,000	55,100
Property and Equipment - net	2,630,394	2,724,155
Total Long-Term Assets	<u>2,674,394</u>	<u>2,779,255</u>
TOTAL ASSETS	<u><u>\$ 4,747,860</u></u>	<u><u>\$ 3,941,417</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 21,185	\$ 9,642
Accrued Expenses	132,281	134,711
Note Payable - current portion	42,279	44,241
PPP Loan Payable - current portion	201,949	-
Total Current Liabilities	<u>397,694</u>	<u>188,594</u>
LONG-TERM LIABILITIES		
Note Payable - long-term portion	357,847	468,971
PPP Loan Payable - long-term portion	142,551	-
Total Long-Term Liabilities	<u>500,398</u>	<u>468,971</u>
TOTAL LIABILITIES	<u>898,092</u>	<u>657,565</u>
NET ASSETS		
Without Donor Restrictions	1,618,874	2,062,771
With Donor Restrictions	2,230,894	1,221,081
TOTAL NET ASSETS	<u>3,849,768</u>	<u>3,283,852</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,747,860</u></u>	<u><u>\$ 3,941,417</u></u>

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

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2020
(with comparative totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<u>OPERATING REVENUES AND OTHER SUPPORT</u>				
Local Support:				
5749 Other Revenue from Local Sources	\$ 6,433	\$ -	\$ 6,433	\$ 8,380
5751 Food Service Activity	25,638	-	25,638	35,729
5752 Athletic Activities	952	-	952	1,339
5755 Enterprising Services Revenue	6,272	-	6,272	9,563
5759 Cocurricular, Enterprising Services or Activities	8,311	-	8,311	9,599
Total Local Support	47,606	-	47,606	64,610
State Program Revenues:				
5810 Per Capita and Foundation School Program Act Revenues	-	3,380,317	3,380,317	3,010,078
5820 State Program Revenues Distributed by Texas Education Agency	-	98,902	98,902	2,541
Total State Program Revenues	-	3,479,219	3,479,219	3,012,619
Federal Program Revenues:				
5910 Federal Revenues Distributed Through Government Entities Other than State or Federal Agencies	-	-	-	3,117
5920 Federal Revenues Distributed by Texas Education Agency	-	54,439	54,439	53,201
Total Federal Program Revenues	-	54,439	54,439	56,318
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	2,523,845	(2,523,845)	-	-
TOTAL OPERATING REVENUES AND OTHER SUPPORT	2,571,451	1,009,813	3,581,264	3,133,547
<u>OPERATING EXPENSES</u>				
11 Instructional	1,764,980	-	1,764,980	1,445,056
13 Curriculum Development and Instructional Staff Development	97,262	-	97,262	41,240
23 School Leadership	129,523	-	129,523	161,529
31 Guidance, Counseling and Evaluation Services	146,609	-	146,609	118,798
33 Health Services	2,593	-	2,593	-
34 Student Transportation	117,475	-	117,475	118,406
35 Food Services	49,783	-	49,783	89,099
36 Extracurricular Activities	26,674	-	26,674	36,740
41 General Administration	251,467	-	251,467	290,961
51 Plant Maintenance and Operations	322,578	-	322,578	286,690
52 Security and Monitoring Services	15,164	-	15,164	20,658
53 Data Processing Services	61,848	-	61,848	51,213
71 Debt Service	30,913	-	30,913	42,230
TOTAL OPERATING EXPENSES	3,016,869	-	3,016,869	2,702,620
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	(445,418)	1,009,813	564,395	430,927
<u>NON-OPERATING ACTIVITY</u>				
Interest Income	1,521	-	1,521	1,236
Other Income	-	-	-	7,552
TOTAL NON-OPERATING ACTIVITY	1,521	-	1,521	8,788
CHANGE IN NET ASSETS AFTER NON- OPERATING ACTIVITY	(443,897)	1,009,813	565,916	439,715
NET ASSETS, Beginning of Year	2,062,771	1,221,081	3,283,852	2,844,137
NET ASSETS, End of Year	\$ 1,618,874	\$ 2,230,894	\$ 3,849,768	\$ 3,283,852

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

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2020
(with comparative totals for 2019)

	Program	General and Administrative	2020 Total	2019 Total
<u>OPERATING EXPENSES</u>				
Salaries	\$ 1,554,428	\$ 264,276	\$ 1,818,704	\$ 1,749,427
Benefits	142,443	24,044	166,487	113,707
Payroll Taxes	19,974	6,658	26,632	25,021
Total Payroll Expenses	1,716,845	294,978	2,011,823	1,888,155
Supplies	114,953	121,743	236,696	63,017
Depreciation	155,614	25,204	180,818	154,489
Instructional Materials	110,006	2,841	112,847	107,686
Insurance and Bonding	75,625	5,208	80,833	69,692
Utilities	40,748	38,932	79,680	74,951
Maintenance and Repair	55,933	18,644	74,577	74,335
Professional Fees	12,967	53,735	66,702	57,631
Educational Service Center	25,138	8,379	33,517	28,988
Food	23,906	7,969	31,875	58,975
Interest Expense	23,185	7,728	30,913	42,230
Travel	14,895	5,038	19,933	27,926
Miscellaneous	8,877	2,959	11,836	8,615
Dues	5,686	1,896	7,582	8,053
Dual Credit Tuition	7,566	-	7,566	-
Training	7,519	-	7,519	-
Student Activities	4,367	1,455	5,822	6,770
Security	2,935	978	3,913	9,850
Other Fees	2,787	929	3,716	3,309
Contract Labor	-	3,527	3,527	1,125
Rental Expense	2,380	794	3,174	3,543
Scholarships	1,500	500	2,000	2,900
Bank Fees	-	-	-	10,380
TOTAL OPERATING EXPENSES	\$ 2,413,432	\$ 603,437	\$ 3,016,869	\$ 2,702,620

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

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase in Net Assets from Operations	\$ 565,916	\$ 439,715
Adjustments to Reconcile Net Change to Net Cash		
Provided by Operations:		
Depreciation	180,818	154,489
Gain on Sale of Asset	-	(2,400)
(Increase) Decrease in Assets:		
Due from Texas Education Agency	(285,353)	(29,045)
Other Receivables	-	(100)
Inventory	(2,908)	263
Increase (Decrease) in Liabilities:		
Accounts Payable	11,543	3,156
Accrued Expenses	(2,430)	22,001
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>467,586</u>	<u>588,079</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Change in Note Receivable	11,100	12,200
Purchases of Property and Equipment	(87,057)	(256,158)
NET CASH USED BY INVESTING ACTIVITIES	<u>(75,957)</u>	<u>(243,958)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayments on Long-Term Debt	(113,086)	(748,148)
Borrowings on PPP Loan	344,500	-
Proceeds from Refinancing of Long-Term Debt	-	550,000
Payments on Refinanced Long-Term Debt	-	(36,788)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>231,414</u>	<u>(234,936)</u>
NET INCREASE IN CASH FLOWS	623,043	109,185
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,114,524</u>	<u>1,005,339</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,737,567</u>	<u>\$ 1,114,524</u>
Supplemental Disclosures:		
Interest	\$ 30,913	\$ 42,230
Debt Service Fees Paid	\$ -	\$ 10,380

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

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Reporting Entity and Operations

Calvin Nelms Charter High School is a not-for-profit 501(c)(3) organization incorporated in the State of Texas in 1999. Calvin Nelms Charter High School does business as Calvin Nelms Charter Schools (the School).

The School is governed by the Board of Directors (the Board) which is comprised of five members. The Board is selected pursuant to the bylaws of the School and has the authority to make decisions, appoint the chief executive officer of the School, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the School.

The School receives the majority of its funding from the Texas Education Agency (the TEA) based on the School's Average Daily Attendance Foundation Formula program. Since the School receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

The School is the "sponsoring entity" of an "Open-Enrollment Charter" with the TEA pursuant to Chapter 12 of the Texas Education Code. The School has been open for enrollment since 1999. Through its open-enrollment charter, the School was organized to provide educational services to students in middle and high school, and the School's Board of Directors governs its programs, services, activities, and functions.

As of August 31, 2020, the School operates the middle and high school campuses at one location in Katy, Texas.

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the School's accounting policies are described below:

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with GAAP.

The School is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net Assets Without Donor Restrictions* – Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board-designated.
- *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions that are more restrictive than the School's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

Contributions

The School accounts for contributions as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (when a stipulated time restriction ends or purpose restriction is fulfilled), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, the School considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Concentration of Credit Risk

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Account balances are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 per bank. In addition, the School has an agreement with its bank institutions where the banks provide pledged collateral in the School's name in the event deposits exceed FDIC limits. The School has not experienced any losses in such accounts.

Grant Funds

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require a refund of all or part of the unused amount.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Calvin Nelms Charter High School dba Calvin Nelms Charter Schools is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School is also exempt from sales taxes and hotel taxes in the State of Texas. As of August 31, 2020, the tax years that remain subject to examination by taxing authorities begin with 2017.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenues from the State of Texas available school fund are earned based on reported attendance. Government grant contracts that are entered into by the School are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

Property and Equipment

Property and equipment are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from seven to forty years, using the straight-line method of depreciation. Property and equipment are defined as assets with an individual cost of more than \$5,000. 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 a cost.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this new standard will have on its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2021. A lessee will be required to recognize on the statement of financial position the assets and liabilities for leases with terms of more than twelve months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective for periods beginning after December 15, 2018. This pronouncement clarifies and improves the scope and the accounting guidance for contributions received and contributions made in order to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The School adopted this new pronouncement effective September 1, 2019. The change was applied retrospectively, but there is no cumulative effect on beginning net assets as of this date.

NOTE 2 - DUE FROM TEXAS EDUCATION AGENCY

The School had \$320,641 and \$35,288 due from the TEA related to various state grants and Foundation School Program revenue at August 31, 2020 and 2019, respectively. All amounts receivable are due in less than one year and are deemed by management to be fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 3 - COMMITMENTS AND CONTINGENCIES

The School 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 TEA 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 School have complex compliance requirements, and, should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or the grantor agency.

NOTE 4 - OPERATING LEASES

The School leases office equipment under a non-cancelable operating lease expiring in September 2021. Total equipment lease payments were \$3,174 and \$3,543 for the years ended August 31, 2020 and 2019, respectively. Future minimum lease payments are \$3,134 for the year ending August 31, 2021.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31:

	2020	2019
Land	\$ 120,601	\$ 120,601
Buildings	2,602,344	2,062,344
Improvements	1,031,324	944,267
Furniture and Fixtures	149,481	149,481
Vehicles	404,168	404,168
Portable Trailers	78,352	78,352
Equipment	47,365	47,365
Library	36,286	36,286
	4,469,921	4,385,864
Less Accumulated Depreciation	(1,839,527)	(1,658,709)
Total	\$ 2,630,394	\$ 2,724,155

Depreciation expense was \$180,818 and \$154,489 for the years ended August 31, 2020 and 2019, respectively.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The School adopted the provisions of ASC 820, “*Fair Value Measurements and Disclosures*” (formerly SFAS 157). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, and establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The adoption of ASC 820 did not affect the School’s financial position or results of operations.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.
- Level 2 valuations are based on quoted prices in markets that are not active.
- Level 3 valuations are based on inputs that are unobservable and supported by little or no market activity.

The School’s current assets and liabilities as presented in the statements of financial position are Level 1. The School does not have Level 2 or Level 3 assets or liabilities. The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

NOTE 7 - HEALTH INSURANCE PLAN

Employees of the School are covered by a health insurance plan. During the years ended August 31, 2020 and 2019, the School contributed a maximum of \$325 per month per employee towards the monthly insurance premium. The remaining balance of the premium was paid by the employees through payroll deductions. All premiums were paid to licensed insurers. The School’s contributions towards health insurance were \$68,766 and \$64,661 for the years ended August 31, 2020 and 2019, respectively.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$2,317,951 and \$1,221,081 were available for the Foundation School Program at August 31, 2020 and 2019, respectively.

NOTE 9 - NOTE RECEIVABLE

In July 2014, the School sold property it owned in Hempstead, Texas and received a \$119,000 note receivable as proceeds. The note bears a 0% interest rate, has monthly payments of \$1,000, and is payable over ten years. The note receivable balance was \$56,000 and \$67,100 at August 31, 2020 and 2019, respectively.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 10 - PENSION PLAN OBLIGATIONS

Plan Description

The School contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system.

It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the School, but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, *Public Retirement Systems*, Subtitle C, *Teacher Retirement System of Texas*, which is subject to amendment by the Texas Legislature. TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

The TRS plan differs from a single-employer plan as follows:

- Charter schools are legally separate entities from the state and each other.
- Assets contributed by one charter school or independent school district (ISD) may be used for the benefit of an employee of another ISD or charter school.
- The unfunded obligations get passed along to the other charter schools and ISDs.
- There is no withdrawal penalty for leaving the TRS system.

Total plan assets, accumulated benefit obligations, and % funded are as follows:

Total Plan Assets - \$184,361,871,000
Accumulated Benefit Obligations - \$209,719,687,047
The plan is 76.8% funded.

There are no collective-bargaining agreements.

Funding Policy

Under provisions in state law, plan members are required to contribute 7.7% of their annual covered salary and the state of Texas contributes an amount equal to 7.5% of the School's covered payroll.

The School's contributions to TRS were \$88,637 and \$38,558 for the years ended August 31, 2020 and 2019, respectively, which include \$25,132 and \$23,213, respectively, in Non-OASDI participating surcharges. The School's contributions did not represent more than 5% of the total contributions to the plan (i.e., total plan assets). There have been no changes that would affect the comparison of employer contributions from year to year.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 11 - REGULATED INDUSTRY

A portion of the School's activities and revenues are a result of contracts with the TEA. The School's operations are concentrated in the education field. As such, the School operates in a heavily regulated environment. The operations of the School are subject to administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, the TEA. Such administrative directives, rules, and regulations are subject to change by an act of Congress, an act of the state legislature, or an administrative change mandated by the TEA. Funding may be changed or decreased as a result of the above legislative or administrative changes.

NOTE 12 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the School's financial assets as of the statement of financial position date.

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,737,567	\$ 1,114,524
Due from Texas Education Agency	320,641	35,288
Other Receivables	100	100
Note Receivable - current portion	<u>12,000</u>	<u>12,000</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 2,070,308</u>	<u>\$ 1,161,912</u>

The School's primary sources of cash flows include Foundation School Program funds from the TEA, which are classified as net assets with donor restrictions on the statements of financial position. However, restrictions are part of the School's mission that make them available for general expenditure within one year of the statement of financial position date.

NOTE 13 - PRIOR PERIOD RECLASSIFICATION

The following reclassification between net asset balances was made to the financial statements for the year ended August 31, 2019: \$108,433 from net assets with donor restrictions to net assets without donor restrictions. The reclassification had no effect on the previously reported change in net assets.

NOTE 14 - LONG-TERM DEBT

During the year ended August 31, 2019, the School paid the remaining balance on a loan it had with Capital One Bank, N.A. The School had a second loan with Capital One Bank, N.A., which it refinanced through Guaranty Bank and Trust, N.A. for \$550,000 in April 2019. The new loan is due in monthly installments of \$6,099.41 (principal and interest), bears an interest rate of 5.875%, and matures in September 2028, at which time all unpaid principal and interest are payable in full. The loan is secured by the School's property on Clay Road in Harris County. Bank fees related to the refinancing of the loan were \$-0- and \$10,380 for the years ended August 31, 2020 and 2019, respectively. The note payable balance was \$400,126 and \$513,212 at August 31, 2020 and 2019, respectively.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2020 and 2019

NOTE 14 - LONG-TERM DEBT (continued)

During the year ended August 31, 2020, the School received a Paycheck Protection Program (PPP) loan of \$344,500 from the Small Business Administration as part of the CARES Act passed during the year to assist small businesses and non-profits affected by measures instituted in response to the COVID-19 pandemic. The loan is payable in monthly installments of approximately \$18,359, bears an interest rate of 1%, and matures in April 2022, at which time all unpaid principal and interest are payable in full. The loan is subject to forgiveness provided the School expends the funds in accordance with the time and purpose restrictions defined by the PPP.

Future scheduled maturities of the long-term debt are as follows:

For the Year Ending August 31,	
2021	\$ 244,228
2022	202,884
2023	57,239
2024	60,694
Thereafter	<u>179,581</u>
Total	<u>\$ 744,626</u>

Interest expense was \$30,913 and \$42,230 for the years ended August 31, 2020 and 2019, respectively.

NOTE 15 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the services and other activities of the School have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include payroll expenses which are allocated on the basis of estimates of time and effort, as well as supplies, depreciation, maintenance and repair, and various other expenses which are allocated on the basis of square footage or some other reasonable basis.

NOTE 16 - SUBSEQUENT EVENTS

Due to COVID-19, the School's student enrollment has decreased slightly for the 2020-21 school year. The School is evaluating current economic conditions and anticipates Foundation School Program Act revenues to decrease for the year ending August 31, 2021. The related financial impact cannot be reasonably estimated at this time.

The School applied for forgiveness of the PPP loan in September 2020, and the loan was forgiven in November 2020.

The School has evaluated subsequent events through December 14, 2020, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF EXPENSES
For the Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Expenses		
6100 Payroll Costs	\$ 2,011,823	\$ 1,897,555
6200 Professional and Contracted Services	282,574	240,573
6300 Supplies and Materials	394,936	252,781
6400 Other Operating Costs	296,623	301,984
6500 Debt Interest Expense	<u>30,913</u>	<u>42,230</u>
Total Expenses	<u><u>\$ 3,016,869</u></u>	<u><u>\$ 2,735,123</u></u>

See independent auditor's report.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF CAPITAL ASSETS
August 31, 2020

Capital assets acquired with public funds, which constitute public property pursuant to Chapter 12 of the Texas Education Code, are as follows:

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 1,737,567	\$ -
1510 Land and Improvements	-	120,601	-
1520 Buildings and Improvements	-	3,053,596	-
1530 Furniture and Equipment	-	253,708	-
1540 Vehicles	-	404,168	-
1560 Library and Media Assets	-	36,286	-
1590 Infrastructure Improvements	-	601,562	-
Total Capital Assets	\$ -	\$ 6,207,488	\$ -

Reconciliation of Property and Equipment on Schedule of Capital Assets to Statement of Financial Position:

Per Schedule of Capital Assets:

1510 Land and Improvements	\$ 120,601
1520 Buildings and Improvements	3,053,596
1530 Furniture and Equipment	253,708
1540 Vehicles	404,168
1560 Library and Media Assets	36,286
1590 Infrastructure Improvements	601,562

Less Accumulated Depreciation: (1,839,527)

Total Property and Equipment per Statement of Financial Position: \$ 2,630,394

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
BUDGETARY COMPARISON SCHEDULE
Year Ended August 31, 2020

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
<u>OPERATING REVENUES AND OTHER SUPPORT</u>				Favorable/ (Unfavorable)
Local Support:				
5740 Other Revenues from Local Sources	\$ 10,800	\$ 7,500	\$ 7,954	\$ 454
5750 Revenue from Cocurricular/Enterprising	63,145	66,445	41,173	(25,272) (1)
Total Local Support	73,945	73,945	49,127	(24,818)
State Program Revenues:				
5810 Per Capita and Foundation School Program Act Revenues	3,101,107	3,101,107	3,380,317	279,210
5820 State Program Revenues Distributed by Texas Education Agency	-	95,994	98,902	2,908
Total State Program Revenues	3,101,107	3,197,101	3,479,219	282,118
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	53,429	54,439	54,439	-
5940 Federal Revenues Distributed by the Small Business Administration	-	344,500	-	(344,500) (2)
Total Federal Program Revenues	53,429	398,939	54,439	(344,500)
TOTAL OPERATING REVENUES AND OTHER SUPPORT	3,228,481	3,669,985	3,582,785	(87,200)
<u>OPERATING EXPENSES</u>				
11 Instructional	1,748,770	2,035,405	1,764,980	270,425
13 Curriculum Development and Instructional Staff Development	44,582	99,521	97,262	2,259
23 School Leadership	159,936	170,514	129,523	40,991
31 Guidance, Counseling and Evaluation Services	188,141	192,871	146,609	46,262
33 Health Services	-	3,500	2,593	907
34 Student Transportation	128,679	136,153	117,475	18,678
35 Food Services	63,145	64,460	49,783	14,677
36 Extracurricular Activities	46,050	54,868	26,674	28,194
41 General Administration	310,034	333,382	251,467	81,915
51 Plant Maintenance and Operations	374,394	409,513	322,578	86,935
52 Security and Monitoring Services	55,000	55,000	15,164	39,836
53 Data Processing Services	77,750	77,750	61,848	15,902
71 Debt Service	32,000	37,048	30,913	6,135
TOTAL OPERATING EXPENSES	3,228,481	3,669,985	3,016,869	653,116
CHANGE IN NET ASSETS	-	-	565,916	565,916
NET ASSETS, Beginning of Year	3,283,852	3,283,852	3,283,852	-
NET ASSETS, End of Year	\$ 3,283,852	\$ 3,283,852	\$ 3,849,768	\$ 565,916

(1) Unfavorable variance is due to the School being closed for the remainder of the school year after March 6, 2020, due to the COVID-19 pandemic lockdown in place.

(2) Unfavorable variance is due to the budgeted amount including \$344,500 in Paycheck Protection Program (PPP) funds, which were recorded as a loan as of August 31, 2020, and were therefore not included in the actual amount for revenue.

See independent auditor's report.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SUMMARY OF AUDIT FINDINGS
For the Year Ended August 31, 2020

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Noncompliance material to the financial statements	None

OTHER REPORTING REQUIRED

**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
Calvin Nelms Charter High School
dba Calvin Nelms Charter Schools
Katy, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Calvin Nelms Charter High School dba Calvin Nelms Charter Schools (the School), a nonprofit organization, which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses and/or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Randy Walker & Co.

San Antonio, Texas
December 14, 2020