

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

Audit Report

August 31, 2017 and 2016

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

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Ennis, Texas 75119**

Calvin Nelms Charter High School, Inc.
DBA Calvin Nelms Charter School
For the Years Ended August 31, 2017 and 2016

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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 High School, Inc., DBA: Calvin Nelms Charter School was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2017, at a meeting of the governing body of the charter holder on the 29 day of November 2017


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

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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, 2017 and 2016, 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, 2017, and 2016, 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 October 30, 2017 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.

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

Ennis, Texas

October 30, 2017

Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Statements of Financial Position
As of August 31, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 639,426	\$ 341,238
Investments	101,017	100,501
Accounts receivable	64,805	56,660
Current portion of note receivable	12,000	17,600
Inventory	263	263
Total Current Assets	817,511	516,262
 Net property and equipment	 2,766,987	 2,949,384
 Note receivable, net	 81,000	 82,200
 Total Assets	 \$ 3,665,498	 \$ 3,547,846
 <u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 115,429	\$ 117,182
Accrued liabilities	81,648	73,498
Current portion of long-term debt	100,230	95,144
Total current liabilities	297,307	285,824
 Long-term Debt, net	 747,715	 847,531
 Total Liabilities	 \$ 1,045,022	 \$ 1,133,355
 Net Assets		
Temporarily restricted	550,914	330,473
Unrestricted	2,069,562	2,084,018
 Total Net Assets	 \$ 2,620,476	 \$ 2,414,491
 Total Liabilities and Net Assets	 \$ 3,665,498	 \$ 3,547,846

The 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, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues						
Local Support:						
5700 Other Revenues from Local Sources	\$ 68,744	1,000	69,744	\$ 71,359	1,000	72,359
State Program Revenues						
5800 Foundation School Program	-	2,577,392	2,577,392	-	2,533,805	2,533,805
5800 Other State Aid	-	115,190	115,190	-	119,399	119,399
Total State Program Revenues	-	2,692,582	2,692,582	-	2,653,204	2,653,204
Federal Program Revenues:						
5900 IDEA - Part B Formula	-	50,702	50,702	-	47,341	47,341
Total Federal Program Revenues	-	50,702	50,702	-	47,341	47,341
Net Assets Released from Restrictions:						
Restrictions Satisfied by Payments	2,523,843	(2,523,843)	-	2,371,116	(2,371,116)	-
Total Revenues	\$ 2,592,587	220,441	2,813,028	\$ 2,442,475	330,429	2,772,904
Expenses						
Program Services:						
11 Instruction and Instructional-Related Services	1,406,017	-	1,406,017	1,338,601	-	1,338,601
13 Curriculum and Staff Development	60,443	-	60,443	38,932	-	38,932
23 Instructional and School Leadership	161,578	-	161,578	183,295	-	183,295
Support Services:						
31 Guidance, Counseling and Evaluation	83,611	-	83,611	80,404	-	80,404
34 Student Transportation	152,416	-	152,416	89,679	-	89,679
35 Food Service	92,785	-	92,785	102,136	-	102,136
36 Co curricular/Extracurricular Activities	16,151	-	16,151	21,784	-	21,784
41 Administrative Support Services	335,964	-	335,964	290,261	-	290,261
51 Facilities Maintenance and Operations	219,469	-	219,469	259,349	-	259,349
52 Security and Monitoring Services	6,755	-	6,755	4,229	-	4,229
53 Data Processing Services	31,390	-	31,390	20,683	-	20,683
71 Interest Expense	46,255	-	46,255	54,958	-	54,958
Total Expenses	\$ 2,612,834	-	2,612,834	\$ 2,484,311	-	2,484,311
Gain on Sale	5,791	-	5,791	5,127	-	5,127
Change in Net Assets	(14,456)	220,441	205,985	(36,709)	330,429	293,720
Net Assets, beginning of year	2,084,018	330,473	2,414,491	2,120,727	44	2,120,771
Net Assets, ending of year	\$ 2,069,562	550,914	2,620,476	\$ 2,084,018	330,473	2,414,491

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Foundation School Program Payments	\$ 2,684,437	\$ 2,678,063
Grant Payments	50,702	47,341
Local Sources	69,744	72,359
Payments to Vendors for Goods and Services Rendered	(562,691)	(552,683)
Payment to Charter School Personnel for Services Rendered	(1,829,789)	(1,751,693)
Interest Payments	(46,255)	(54,958)
Net Cash Provided by Operating Activities	<u>366,148</u>	<u>438,429</u>
Cash Flows from Investing Activities:		
Proceeds from Sale of Assets	35,274	7,500
Proceeds from Note Receivable	6,800	5,600
Purchase of Equipment	(15,304)	(203,725)
Purchase of Investments	-	(100,000)
Net Cash Provided/(Used) by Investing Activities	<u>26,770</u>	<u>(290,625)</u>
Cash Flows from Financing Activities:		
Payments on Long-term Debt	(94,730)	(90,311)
Net Cash (Used) by Financing Activities	<u>(94,730)</u>	<u>(90,311)</u>
Net Increase (Decrease) in Cash	298,188	57,493
Cash at Beginning of Year	<u>341,238</u>	<u>283,745</u>
Cash at Ending of Year	<u>\$ 639,426</u>	<u>\$ 341,238</u>
Reconciliation of Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Change in Net Assets	\$ 205,985	\$ 293,720
Adjustments to Reconcile change in net assets to		
Net Cash Provided by Operating Activities:		
Depreciation	167,702	157,902
Gain from sales of assets	(5,791)	(5,127)
(Increase) Decrease in Assets:		
Accounts Receivable	(8,145)	20,222
Increase (Decrease) in Liabilities		
Accounts Payable	(1,753)	(1,516)
Accrued Liabilities	8,150	(26,772)
Net Cash Provided by Operating Activities	<u>\$ 366,148</u>	<u>\$ 438,429</u>
Supplemental:		
Interest paid	<u>\$ 46,255</u>	<u>\$ 54,958</u>

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
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

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 accompanying 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, 2017 and 2016 the unrestricted net assets were \$ 2,069,562 and \$ 2,084,018.

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, 2017 and 2016 the temporarily restricted net assets were \$ 550,914 and \$ 330,473. 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.

Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

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, 2017 and 2016 was \$ 639,426 and \$ 341,238.

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.

Calvin Nelms Charter High School, Inc.
 DBA: Calvin Nelms Charter School
 Notes to the Financial Statements
 For the Years Ended August 31, 2017 and 2016

Investment at August 31, 2017 were carried at fair market value. The balance at August 31, 2017 were as follows:

	Fair Market Value	Interest Rate	Level
Certificate of Deposit	\$ 50,691	0.50%	1
Certificate of Deposit	50,326	0.55%	1
Total	<u>\$ 101,017</u>		

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	<u>\$ 100,501</u>		

Inventory

Inventory is stated at cost and consist of office supplies, at years ended August 31, 2017 and 2016 the amount of inventory was \$263 and \$263.

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, 2017 and 2016 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.

Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

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, 2017, 2015 through 2017 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, 2017 and 2016.

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.

Calvin Nelms Charter High School, Inc.
 DBA: Calvin Nelms Charter School
 Notes to the Financial Statements
 For the Years Ended August 31, 2017 and 2016

Note 2: Property and Equipment

Property and Equipment assets at August 31, 2017 and 2016, being depreciated were as follows:

	2017	2016
Buildings and improvements	\$3,429,208	\$3,255,528
Vehicles and equipment	646,608	638,127
Total property and equipment	4,075,816	3,893,655
Less accumulated depreciation	(1,429,430)	(1,261,728)
Total of capital assets being depreciated	2,646,386	2,631,927

Property and improvements at August 31, 2017 and 2016, which are not being depreciated were as follows:

Land	120,601	150,601
Construction in Progress	-	166,856
Total of capital assets not being depreciated	120,601	317,457
Property and Equipment (net)	\$ 2,766,987	\$ 2,949,384

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.

Calvin Nelms Charter High School, Inc.
 DBA: Calvin Nelms Charter School
 Notes to the Financial Statements
 For the Years Ended August 31, 2017 and 2016

Note 3: Accounts Receivable

Temporarily restricted net assets for the years ending August 31, 2017 and 2016 of accounts receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Foundation School Program Act Revenues (Due from State)	<u>\$ 64,805</u>	<u>\$ 56,660</u>

Unrestricted net assets for the years ending August 31, 2017 and 2016 of accounts receivable consist of the following:

Other Accounts Receivable (Current portion of note receivable)	12,000	17,600
Total Accounts Receivable	<u>\$ 12,000</u>	<u>\$ 17,600</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 2017 was \$6,800 and \$5,600 in 2016.

The note receivable is recorded at as follows:

Year ended August 31,	Principal	Total
2018	\$ 12,000	\$ 12,000
2019	12,000	12,000
2020	12,000	12,000
2021	12,000	12,000
2022-2024	45,000	45,000
	<u>93,000</u>	<u>93,000</u>
Less current portion	(12,000)	(12,000)
	<u>\$ 81,000</u>	<u>\$ 81,000</u>

Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

Note 5: Long-Term Debt

Long-term debt at August 31, 2017 and 2016 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.

	2017	2016
Ending Balance	\$ 128,172	\$ 181,015
Less current portion of long-term debt	(55,585)	(52,843)
Net	<u>\$ 72,587</u>	<u>\$ 128,172</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.

	2017	2016
Ending Balance	\$ 719,773	\$ 761,660
Less current portion of long-term debt	(44,645)	(42,301)
Net	<u>\$ 675,128</u>	<u>\$ 719,359</u>

Future maturities on long-term debt at August 31, 2017 are as follows:

Year ended August 31,	Principal	Interest	Total
2018	\$ 100,230	\$ 44,819	\$ 145,049
2019	733,339	27,369	760,708
2020	14,376	35	14,411
	<u>\$ 847,945</u>	<u>\$ 72,223</u>	<u>\$ 920,168</u>

Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

Note 6: Lease Commitments

During the years ended August 31, 2017 and 2016, the Corporation had an operating lease for copier. Rental expense under the operating leases for the years ended August 31, 2017 and 2016, was \$ 3,158.

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

Year ended August 31	
2018	\$ 3,158
2019	3,158
	<u>\$ 6,316</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. Known as the Teacher Retirement System of Texas it is a public employee retirement system (PERS). The plan is administered through a trust and has the following characteristics:

Contributions from employers and non-employer contributing to the pension plan and earnings on the plan are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with benefit terms, and

Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. Plan assets are also legally protected from creditors of the plan members

Benefits are established or amended primarily under the authority of the revisions of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Cods, Title 8, Subtitle C. The pension's board of trustees does not have the authority to establish or amend benefits. 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 or exceeds 80 years. The benefit formula is 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to equal the annual standard annuity. For members who are grandfathered, the three highest annual salaries are used. To be eligible for disability retirement, a member must have a physical or mental disability that precludes the member's continued performance of current duties, and the disability must be certified by the TRS Medical Board as probably permanent. Reduced service retirement is at age 55 with 5 years of credited service and any age below 50 with 30 years of credited service. A member is full vested after 5 years of credited service and entitled to any benefit for which eligibility requirements have been met. The plan does not provide automatic cost of living adjustments (COLA's). Death and Survivor retirement benefits are available to the beneficiary of an active member.

Calvin Nelms Charter High School, Inc.
 DBA: Calvin Nelms Charter School
 Notes to the Financial Statements
 For the Years Ended August 31, 2017 and 2016

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

As of August 31, 2016, the numbers of participating employers were as follows:

Independent School Districts	1,025
Charter Schools (open enrollment only)	173
Community and Junior Colleges	50
Senior Colleges and Universities	49
Regional Service Centers	20
Medical School	9
Educational Districts	5
State Agencies	1
Total	<u><u>1,332</u></u>

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.

As of August 31, 2016, TRS gross membership consisted of the following:

Retired plan member or beneficiaries currently receiving benefits	393,914
Inactive plan members entitled to but not yet receiving benefits	262,353
Active plan members	847,673
Total	<u><u>1,503,940</u></u>

The average Expected Remaining Service life (AERSL) of 6.7724 is based on the membership information as of the beginning of the fiscal year

Contributions. Contribution requirements are established or amended pursuant to the following state laws: (1) Article 16, section 67 of the Texas Constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution 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. Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize the TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

Calvin Nelms Charter High School, Inc.
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 For the Years Ended August 31, 2017 and 2016

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

On the portion of the member's salary that exceeds the stature minimum for member 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 sources, a privately sponsored source, from non-educational and general, or local funds.

When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% or the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

The following table shows contributions to the pension fund by type of contributor:

<u>Contributor</u>	<u>Fiscal Year 2016 Contribution Rate</u>	<u>Amount</u>
Member	7.20%	\$2,943,669,320
Non-Employer Contributing Entity (State)	6.8	1,675,631,248
Employers	6.8	1,097,631,061
Total		<u>\$5,716,931,629</u>

Employers are also required to pay surcharges in the following cases;

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 applicable salary.

When employing a retiree of the Teacher Retirement System, the employer shall pay an amount equal to the member contribution and the state contribution as an employment after retirement surcharge.

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The following table shows the types of surcharges paid by the participating employers:

<u>Surcharge</u>	<u>Fiscal Year 2016 Contribution Rate</u>	<u>Amount</u>
Non-OASDI	1.50%	\$366,804,399
Employment after Retirement- Employer	6.8	9,769,093
Employment after Retirement- Employee	7.2	9,184,795
Total		<u>\$385,758,287</u>

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act established the employer contribution rate for fiscal year 2016. Contribution rates for amounts for fiscal year 2016 and 2017 as follows:

The following table shows past and future contribution rates:

<u>Year</u>	<u>Contribution Rates</u>	
	<u>Member</u>	<u>Employer</u>
2014	6.4%	6.8%
2015	6.7	6.8
2016	7.2	6.8
2017	7.7	6.8

Legal Reserve Account Balances. Section 825.309 of the Government Code requires that money in the Retired Reserve Account be used to pay all retirement annuities and all death or survivor benefits, including post-retirement benefit increases and other adjustments to annuities.

The balances in the statutory accounts as of August 31, 2016 were:

Member Savings Account	\$ 34,871,425,091
State Contribution Account	12,274,656,928
Retired Reserve Account	86,718,000,757
Deferred Retirement Option Account	18,083,634
Expense Account	126,471,063
Total	<u>\$ 134,008,637,473</u>

Deferred Retirement Option Program. The Deferred Retirement Option Plan (DROP) was closed to new members on December 31, 2005. It was a plan available for active members who were eligible for normal age service retirement and had at least 25 years of credited service. They could choose to participate in 12-month increments for up to five years.

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Components of the Liability. Components of the Net Pension Liability of the pension plan as of August 31, 2016 are as follows:

<u>Components of Liability</u>	<u>Amount</u>
Total Pension Liability	\$ 171,797,150,487
Less: Plan Fiduciary Net Position	(134,008,637,473)
Net Pension Liability	<u>\$ 37,788,513,014</u>
Net Position as a Percentage of Total Pension Liability	78.00%

Actuarial Assumptions. The total pension liability is determined by annual actuarial valuation. The actuarial methods and assumptions have been selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and were adopted in September 2015.

The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females. The Post-retirement mortality rates are based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

Discount Rate. A single discount rate of 8.0% was used to measure the total pension liability. There was no change in the discount rate since the previous fiscal year. This single discount rate was based on the expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this single discount rate assumed that contributions from plan members are those of the contributing employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2014 legislative session.

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 with no cross-over point to a municipal bond rate.

The long-term expected rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major 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 as of August 31, 2016 are summarized as follows:

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The following assumptions were applied to this measurement period:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate*	N/A*
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.50%
Salary Increases including inflation	3.5% to 9.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

**If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.*

Sensitivity of the Net Pension Liability. The following presents the net pension liability of the plan using the discount rate of 8 percent, as well as what the net pension liability would be if were calculated using a discount rate that is one-percentage point lower (7%) or one-percentage point higher (9%) than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate Assumptions			
1% Decrease	Current Single Discount Rate	1% Increase	
7%	8%	9%	
\$ 58,483,888,620	\$ 37,788,513,014	\$ 20,234,650,980	

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

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

Total Pension Expense	\$58,896
Projected and Actual Investment Earnings	\$53,871
Employer and Proportionate Share of Contributions and Changes in Proportion	\$30,199
Net Pension Liability End of Year	\$279,556
Contributions per TRAQS (as adjusted)	(\$23,505)
Proportionate Share	0.0000073979

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, 2017 and 2016 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 2017 and 2016 were as follows: \$50,791 and \$45,675.

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, 2017 and 2016.

Note 11: Related Party Transactions

The Corporation paid Terry Lopic as an employee, Superintendent for part of the 16-17 fiscal year, compensation of \$ 95,481 for 16-17 was paid as of August 31, 2017. Mr. Terry Lopic was also a board member during part of the year. Compensation of \$111,796 for the year ended August 31, 2016, Mr. Terry Lopic was also a board member the entire 2015-2016 fiscal year.

Calvin Nelms Charter High School, Inc.
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Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

Note 12: Subsequent Event

There were no subsequent events determined by management subsequent to the Statements of Financial Position and through October 30, 2017, which approximates the date the financial statements are available to be issued.

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Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Schedule of Expenses
For the Years Ended August 31, 2017 and 2016

Expenses		Totals	Totals
		2017	2016
6100	Payroll Costs	\$ 1,846,089	\$ 1,719,794
6200	Professional and Contracted Services	271,486	279,466
6300	Supplies and Materials	187,658	183,308
6400	Other Operating Cost	261,346	246,784
6500	Interest	46,255	54,958
Total Expenses		<u>\$ 2,612,834</u>	<u>\$ 2,484,310</u>

Calvin Nelms Charter High School, Inc.
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Schedule of Capital Assets
For the Years Ended August 31, 2017 and 2016

	Ownership Interest 2017				Ownership Interest 2016			
	Local	State	Federal	Total	Local	State	Federal	Total
1110 Cash	\$ 639,426	\$ -	\$ -	\$ 639,426	\$ 341,238	\$ -	\$ -	\$ 341,238
1120 Investments	101,017	-	-	101,017	100,501	-	-	100,501
1510 Land and Improvements:	120,601	-	-	120,601	150,601	-	-	150,601
1520 Buildings and Improvements:	3,304,918	-	124,290	3,429,208	3,131,238	-	124,290	3,255,528
1531 Vehicles:	399,404	-	-	399,404	399,404	-	-	399,404
1539 Furniture and Equipment:	164,609	46,309	36,286	247,204	156,129	46,309	36,286	238,724
1580 Construction in Progress	-	-	-	-	166,856	-	-	166,856
Total Property and Equipment	<u>\$ 4,729,975</u>	<u>\$ 46,309</u>	<u>\$ 160,576</u>	<u>\$ 4,936,860</u>	<u>\$ 4,445,967</u>	<u>\$ 46,309</u>	<u>\$ 160,576</u>	<u>\$ 4,652,852</u>

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

Calvin Nelms Charter High School, Inc.
DBA: Calvin Nelms Charter School
Budgetary Comparison Schedule
For the Years Ended August 31, 2017 and 2016

	2017				2016			
	Budgeted Amounts		Actual Amounts	Variance from Final Budget	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final			Original	Final		
Revenues								
Local support:								
5740 Other Revenues from Local Sources	\$ 90,770	97,012	69,744	\$ (27,268)	\$ 25,000	\$ 90,000	\$ 72,359	\$ (17,641)
State Program Revenues								
5800 State Program Revenues	2,677,161	2,677,161	2,692,582	15,421	2,650,000	2,650,000	2,653,204	3,204
Federal program revenues:								
5920 Federal Revenues Distributed by the Texas Education Agency	49,462	50,702	50,702	-	40,872	47,260	47,341	81
	<u>2,817,393</u>	<u>2,824,875</u>	<u>2,813,028</u>	<u>(11,847)</u>	<u>2,715,872</u>	<u>2,787,260</u>	<u>2,772,904</u>	<u>(14,356)</u>
Total Revenues								
Expenses								
11 Instruction and Instructional-Related Services	1,564,203	1,514,030	1,406,017	108,013	1,447,554	1,500,000	1,338,601	161,399
13 Curriculum and Staff Development	66,770	66,769	60,443	6,326	49,411	35,000	38,932	(3,932)
23 Instructional and School Leadership	206,403	206,403	161,578	44,825	182,493	190,000	183,295	6,705
31 Guidance, Counseling and Evaluation	123,913	125,153	83,611	41,542	109,685	115,341	80,404	34,937
34 Student Transportation	111,482	111,482	152,416	(40,934)	133,926	100,000	89,679	10,321
35 Food Service	90,770	97,012	92,785	4,227	79,575	98,000	102,136	(4,136)
36 Co curricular/Extracurricular Activities	27,325	27,326	16,151	11,175	27,435	26,755	21,784	4,971
41 Administrative Support Services	337,812	355,000	335,964	19,036	238,396	295,000	290,261	4,739
51 Facilities Maintenance and Operations	213,314	230,000	219,469	10,531	332,153	440,000	259,349	180,651
52 Security and Monitoring Services	6,700	8,000	6,755	1,245	13,550	7,000	4,229	2,771
53 Data Processing Services	18,000	33,000	31,390	1,610	17,000	21,000	20,683	317
71 Interest Expense	50,700	50,700	46,255	4,445	145,918	60,000	54,958	5,042
	<u>2,817,392</u>	<u>2,824,875</u>	<u>2,612,834</u>	<u>212,041</u>	<u>2,777,096</u>	<u>2,888,096</u>	<u>2,484,311</u>	<u>403,785</u>
Total Expenses								
Gain on sale of Asset	-	-	5,791	5,791	-	-	5,127	5,127
Change in Net Assets	1	-	205,985	205,985	(61,224)	(100,836)	293,720	394,556
Net Assets, beginning of year		<u>2,414,491</u>	<u>2,414,491</u>	<u>-</u>	<u>2,120,727</u>	<u>2,120,727</u>	<u>2,120,771</u>	<u>-</u>
Net Assets, ending of year	<u>\$ 1</u>	<u>\$ 2,414,491</u>	<u>\$ 2,620,476</u>	<u>\$ 205,985</u>	<u>\$ 2,059,503</u>	<u>\$ 2,019,891</u>	<u>\$ 2,414,491</u>	<u>\$ 394,556</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, 2017 and 2016, 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 October 30, 2017.

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." in a cursive style.

Ennis, Texas

October 30, 2017