

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

**FINANCIAL STATEMENTS WITH
COMPLIANCE REPORTING**

August 31, 2022 and 2021

CALVIN NELMS CHARTER HIGH SCHOOL
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August 31, 2022 and 2021

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**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) X approved disapproved for the year ended August 31, 2022, at a meeting of the Board of Directors of such charter holder on the 13th day of December , 2022.



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

Opinion

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, 2022 and 2021, and the related statements of activities (with comparative totals for 2021), functional expenses (with comparative totals for 2021), and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 16-22 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 13, 2022 on pages 23-24 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 13, 2022

FINANCIAL STATEMENTS

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
STATEMENTS OF FINANCIAL POSITION
August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,204,015	\$ 2,050,681
Due from Texas Education Agency	295,253	319,526
Other Receivables	100	100
Inventory	496	496
Prepaid Expenses	1,869	-
Note Receivable - current portion	12,000	12,000
Total Current Assets	<u>2,513,733</u>	<u>2,382,803</u>
LONG-TERM ASSETS		
Note Receivable - long-term portion	18,700	31,900
Property and Equipment - net	2,563,528	2,474,627
Total Long-Term Assets	<u>2,582,228</u>	<u>2,506,527</u>
TOTAL ASSETS	<u><u>\$ 5,095,961</u></u>	<u><u>\$ 4,889,330</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable	\$ 56,182	\$ 56,165
Accrued Expenses	160,170	139,357
Total Current Liabilities	<u>216,352</u>	<u>195,522</u>
TOTAL LIABILITIES	<u>216,352</u>	<u>195,522</u>
NET ASSETS		
Without Donor Restrictions	1,937,372	1,965,066
With Donor Restrictions	2,942,237	2,728,742
TOTAL NET ASSETS	<u>4,879,609</u>	<u>4,693,808</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,095,961</u></u>	<u><u>\$ 4,889,330</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, 2022
(with comparative totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
<u>OPERATING REVENUES AND OTHER SUPPORT</u>				
Local Support:				
5740 Other Revenue from Local Sources	\$ 11,037	\$ -	\$ 11,037	\$ 12,432
5751 Food Service Activity	52,886	-	52,886	19,685
5752 Athletic Activities	760	-	760	-
5755 Enterprising Services Revenue	4,755	-	4,755	437
5759 Cocurricular, Enterprising Services or Activities	-	11,637	11,637	806
Total Local Support	69,438	11,637	81,075	33,360
State Program Revenues:				
5810 Per Capita and Foundation School Program Act Revenues	-	3,189,517	3,189,517	3,133,481
Total State Program Revenues	-	3,189,517	3,189,517	3,133,481
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	-	53,530	53,530	84,556
5940 Federal Revenues Distributed Directly from the Federal Government	-	-	-	344,500
Total Federal Program Revenues	-	53,530	53,530	429,056
Net Assets Released From Restrictions				
Restrictions Satisfied By Payments	3,041,189	(3,041,189)	-	-
TOTAL OPERATING REVENUES AND OTHER SUPPORT	3,110,627	213,495	3,324,122	3,595,897
<u>OPERATING EXPENSES</u>				
11 Instructional	1,749,487	-	1,749,487	1,534,509
13 Curriculum Development and Instructional Staff Development	43,839	-	43,839	53,420
23 School Leadership	124,519	-	124,519	89,561
31 Guidance, Counseling and Evaluation Services	221,883	-	221,883	197,386
33 Health Services	932	-	932	4,349
34 Student Transportation	139,695	-	139,695	143,517
35 Food Services	108,229	-	108,229	37,780
36 Extracurricular Activities	39,275	-	39,275	8,457
41 General Administration	247,821	-	247,821	244,547
51 Plant Maintenance and Operations	375,824	-	375,824	345,450
52 Security and Monitoring Services	39,367	-	39,367	11,787
53 Data Processing Services	53,614	-	53,614	54,343
71 Debt Service	-	-	-	29,039
TOTAL OPERATING EXPENSES	3,144,485	-	3,144,485	2,754,145
CHANGE IN NET ASSETS BEFORE NON- OPERATING ACTIVITY	(33,858)	213,495	179,637	841,752
<u>NON-OPERATING ACTIVITY</u>				
Gain on Sale of Vehicle	6,046	-	6,046	-
Interest Income	118	-	118	2,288
TOTAL NON-OPERATING ACTIVITY	6,164	-	6,164	2,288
CHANGE IN NET ASSETS AFTER NON- OPERATING ACTIVITY	(27,694)	213,495	185,801	844,040
NET ASSETS, Beginning of Year	1,965,066	2,728,742	4,693,808	3,849,768
NET ASSETS, End of Year	\$ 1,937,372	\$ 2,942,237	\$ 4,879,609	\$ 4,693,808

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, 2022
(with comparative totals for 2021)

	Program	General and Administrative	2022 Total	2021 Total
<u>OPERATING EXPENSES</u>				
Salaries	\$ 1,658,131	\$ 292,611	\$ 1,950,742	\$ 1,742,722
Benefits	130,107	32,527	162,634	140,801
Payroll Taxes	20,819	6,940	27,759	24,797
Total Payroll Expenses	1,809,057	332,078	2,141,135	1,908,320
Supplies	125,033	130,136	255,169	168,816
Depreciation	139,697	24,652	164,349	165,767
Insurance and Bonding	86,454	7,518	93,972	86,146
Utilities	39,583	36,538	76,121	81,641
Food	52,789	20,527	73,316	23,225
Maintenance and Repair	52,117	17,372	69,489	76,157
Professional Fees	16,501	49,504	66,005	67,876
Custodial Services	39,327	9,832	49,159	41,690
Travel	23,837	12,835	36,672	5,311
Educational Service Center	20,463	6,821	27,284	29,251
Miscellaneous	18,767	6,257	25,024	15,751
Instructional Materials	18,769	-	18,769	8,837
Information Technology	17,565	-	17,565	22,852
Dues	7,943	2,647	10,590	9,457
Dual Credit Tuition	8,580	-	8,580	6,552
Security	5,571	1,857	7,428	1,439
Contract Labor	1,941	-	1,941	-
Scholarships	1,500	-	1,500	-
Rental Expense	313	104	417	4,303
Interest Expense	-	-	-	29,039
Training	-	-	-	1,715
TOTAL OPERATING EXPENSES	\$ 2,485,807	\$ 658,678	\$ 3,144,485	\$ 2,754,145

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Foundation School Program Payments	\$ 3,213,790	\$ 3,134,596
Grant Payments	53,530	84,556
Miscellaneous Sources	87,239	38,310
Payments to Vendors for Goods and Services Rendered	(840,853)	(645,078)
Payments to Charter School Personnel for Services Rendered	(2,120,322)	(1,901,244)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>393,384</u>	<u>711,140</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Change in Note Receivable	13,200	12,100
Purchases of Furniture and Equipment	(253,250)	(10,000)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(240,050)</u>	<u>2,100</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayments on Long-Term Debt	-	(400,126)
NET CASH USED BY FINANCING ACTIVITIES	<u>-</u>	<u>(400,126)</u>
NET INCREASE IN CASH FLOWS	153,334	313,114
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,050,681</u>	<u>1,737,567</u>
CASH AND CASH EQUIVALENTS, End of Year	<u><u>\$ 2,204,015</u></u>	<u><u>\$ 2,050,681</u></u>
Reconciliation of Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Change in Net Assets	\$ 185,801	\$ 844,040
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	164,349	165,767
Forgiveness of PPP Loan	-	(344,500)
Decrease (Increase) in Assets:		
Due from Texas Education Agency	24,273	1,115
Inventory	-	2,662
Prepaid Expenses	(1,869)	-
Increase in Liabilities:		
Accounts Payable	17	34,980
Accrued Expenses	20,813	7,076
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 393,384</u></u>	<u><u>\$ 711,140</u></u>

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, 2022 and 2021

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Reporting Entity and Operations

Calvin Nelms Charter High School is a 501(c)(3) not-for-profit 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 Board governs its programs and functions.

As of August 31, 2022, 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 (the FASB) 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, 2022 and 2021

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

Grants and Contributions

The School records grants and contributions in accordance with Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Grants and contributions restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the grants and contributions are recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions.

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.

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 institution where the bank provides pledged collateral in the School's name in the event deposits exceed FDIC limits. The School has not experienced any losses in such accounts.

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, 2022, the tax years that remain subject to examination by taxing authorities begin with 2019.

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.

CALVIN NELMS CHARTER HIGH SCHOOL
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NOTES TO FINANCIAL STATEMENTS
August 31, 2022 and 2021

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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 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 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, effective for periods beginning after December 15, 2019. This pronouncement improves the effectiveness of fair value measurement disclosures in the notes to the financial statements. The School adopted this pronouncement effective September 1, 2020.

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This pronouncement provides guidance regarding revenue recognition effective for reporting periods beginning after December 15, 2019. The pronouncement affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets. The core principle of this update is that the entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The School adopted this pronouncement effective September 1, 2020.

Revenue - Exchange Transactions

The School receives revenue from student meal sales and student activity fees, which are exchange transactions. The sales and fees are reported at the amount that reflects the consideration to which the School expects to be entitled in exchange for providing the meals and program services. Revenue is recognized as performance obligations are satisfied, which is at a point in time when the meal is sold or the activity is held. There were no receivables, contract assets, or contract liabilities related to these exchange transactions at August 31, 2022 and 2021.

NOTE 2 - DUE FROM TEXAS EDUCATION AGENCY

The School had \$295,253 and \$319,526 due from the TEA related to various state grants and Foundation School Program revenue at August 31, 2022 and 2021, 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
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NOTES TO FINANCIAL STATEMENTS
August 31, 2022 and 2021

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 - 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 \$30,700 and \$43,900 at August 31, 2022 and 2021, respectively.

NOTE 5 - OPERATING LEASES

The School leases office equipment under a non-cancelable operating lease that expired in September 2021. The lease was not renewed. Total rental expense was \$417 and \$4,303 for the years ended August 31, 2022 and 2021, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 120,601	\$ 120,601
Buildings	2,628,390	2,602,344
Improvements	1,041,324	1,041,324
Furniture and Fixtures	149,481	149,481
Vehicles	569,424	404,168
Portable Trailers	78,352	78,352
Equipment	47,365	47,365
Library	36,286	36,286
	<u>4,671,223</u>	<u>4,479,921</u>
Less Accumulated Depreciation	<u>(2,107,695)</u>	<u>(2,005,294)</u>
Total	<u>\$ 2,563,528</u>	<u>\$ 2,474,627</u>

Depreciation expense was \$164,349 and \$165,767 for the years ended August 31, 2022 and 2021, respectively.

CALVIN NELMS CHARTER HIGH SCHOOL
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NOTES TO FINANCIAL STATEMENTS
August 31, 2022 and 2021

NOTE 7 - 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 8 - HEALTH INSURANCE PLAN

Employees of the School are covered by a health insurance plan. During the years ended August 31, 2022 and 2021, 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 \$68,858 and \$65,007 for the years ended August 31, 2022 and 2021, respectively.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were for the following purposes at August 31:

	<u>2022</u>	<u>2021</u>
Foundation School Program	\$ 2,939,974	\$ 2,728,742
Student Activities	<u>2,263</u>	<u>-</u>
Total	<u>\$ 2,942,237</u>	<u>\$ 2,728,742</u>

NOTE 10 - 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.

CALVIN NELMS CHARTER HIGH SCHOOL
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NOTES TO FINANCIAL STATEMENTS
August 31, 2022 and 2021

NOTE 11 - 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 - \$223,172,755,000
Accumulated Benefit Obligations - \$218,037,583,497
The plan is 79.1% funded.

There are no collective-bargaining agreements.

Funding Policy

Under provisions in state law, plan members are required to contribute 8% of their annual covered salary and the state of Texas contributes an amount equal to 7.75% of the School's covered payroll.

The School's contributions to TRS were \$82,440 and \$73,508 for the years ended August 31, 2022 and 2021, respectively, which include \$31,396 and \$26,649, 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.

NOTE 12 - SUBSEQUENT EVENTS

As a result of the ongoing COVID-19 pandemic, the School continues to evaluate current economic conditions, and any potential financial impact cannot be reasonably estimated at this time.

The School has evaluated subsequent events through December 13, 2022, which is the date the financial statements were available to be issued.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
August 31, 2022 and 2021

NOTE 13 - 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 14 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

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

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 2,204,015	\$ 2,050,681
Due from Texas Education Agency	295,253	319,526
Other Receivables	100	100
Note Receivable - current portion	12,000	12,000
Total Financial Assets	<u>2,511,368</u>	<u>2,382,307</u>
Donor Restrictions (net of Foundation School Program)	<u>(2,263)</u>	<u>-</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 2,509,105</u>	<u>\$ 2,382,307</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.

SUPPLEMENTARY INFORMATION

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF EXPENSES
For the Years Ended August 31, 2022 and 2021

		<u>2022</u>	<u>2021</u>
<u>EXPENSES</u>			
6100	Payroll Costs	\$ 2,141,135	\$ 1,908,320
6200	Professional and Contracted Services	323,989	333,476
6300	Supplies and Materials	371,454	200,878
6400	Other Operating Costs	307,907	282,432
6500	Debt Interest Expense	-	29,039
Total Expenses		\$ 3,144,485	\$ 2,754,145

See independent auditor's report.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF CAPITAL ASSETS
August 31, 2022

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	\$ -	\$ 2,204,015	\$ -
1510 Land and Improvements	-	120,601	-
1520 Buildings and Improvements	-	3,079,642	-
1531 Vehicles	-	580,212	-
1539 Furniture and Equipment	-	242,920	-
1569 Library and Media Assets	-	36,286	-
1590 Infrastructure Improvements	-	611,562	-
Total Capital Assets	\$ -	\$ 6,875,238	\$ -

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	3,079,642
1531 Vehicles	580,212
1539 Furniture and Equipment	242,920
1569 Library and Media Assets	36,286
1590 Infrastructure Improvements	611,562

Less Accumulated Depreciation: (2,107,695)

Total Property and Equipment per Statement of Financial Position: \$ 2,563,528

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2022

	Budgeted Amounts		Variance From Original to Final Budget	Actual Amounts	Variance From Final Budget Favorable/ (Unfavorable)
<u>OPERATING REVENUES AND OTHER SUPPORT</u>	<u>Original</u>	<u>Final</u>	<u>Final Budget</u>		
Local Support:					
5740 Other Revenue from Local Sources	\$ 500	\$ 120	\$ 380 [1]	\$ 118	\$ (2)
5750 Revenue from Cocurricular/Enterprising	69,276	79,500	(10,224) [2]	81,075	1,575
Total Local Support	69,776	79,620	(9,844)	81,193	1,573
State Program Revenues:					
5810 Per Capita and Foundation School Program Act Revenues	3,011,076	3,123,000	(111,924)	3,189,517	66,517
Total State Program Revenues	3,011,076	3,123,000	(111,924)	3,189,517	66,517
Federal Program Revenues:					
5920 Federal Revenues Distributed by Texas Education Agency	51,858	53,530	(1,672)	53,530	-
Total Federal Program Revenues	51,858	53,530	(1,672)	53,530	-
TOTAL OPERATING REVENUES AND OTHER SUPPORT	3,132,710	3,256,150	(123,440)	3,324,240	68,090
<u>OPERATING EXPENSES</u>					
11 Instructional	1,705,535	1,745,000	(39,465)	1,749,487	(4,487)
13 Curriculum Development and Instructional Staff Development	67,861	61,750	6,111	43,839	17,911
23 School Leadership	127,893	127,893	-	124,519	3,374
31 Guidance, Counseling and Evaluation Services	214,198	227,530	(13,332)	221,883	5,647
33 Health Services	3,000	3,000	-	932	2,068
34 Student Transportation	132,199	152,000	(19,801) [3]	139,695	12,305
35 Food Services	68,076	109,500	(41,424) [4]	108,229	1,271
36 Extracurricular Activities	25,208	41,500	(16,292) [5]	39,275	2,225
41 General Administration	269,736	255,000	14,736	247,821	7,179
51 Plant Maintenance and Operations	408,716	408,716	-	375,824	32,892
52 Security and Monitoring Services	22,045	41,500	(19,455) [6]	39,367	2,133
53 Data Processing Services	62,643	57,000	5,643	53,614	3,386
71 Debt Service	25,600	-	25,600 [7]	-	-
TOTAL OPERATING EXPENSES	3,132,710	3,230,389	(97,679)	3,144,485	85,904
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITY	-	25,761	(25,761)	179,755	153,994
<u>NON-OPERATING ACTIVITY</u>					
7951 Gain on Sale	-	6,046	(6,046) [8]	6,046	-
TOTAL NON-OPERATING ACTIVITY	-	6,046	(6,046)	6,046	-
CHANGE IN NET ASSETS AFTER NON-OPERATING ACTIVITY	-	31,807	(31,807)	185,801	153,994
NET ASSETS, Beginning of Year	4,693,808	4,693,808	-	4,693,808	-
NET ASSETS, End of Year	\$ 4,693,808	\$ 4,725,615	\$ (31,807)	\$ 4,879,609	\$ 153,994

(1) Variance due to decrease in CD interest rates; original budget did not reflect lower rates.

(2) Variance due to the senior class and student council being very active during the year and experiencing greater success in fundraising than originally expected to cover the costs of the senior trip.

(3) Variance due to fuel costs for student transportation being higher than anticipated, in addition to original budget not including insurance on new school buses purchased.

(4) Variance due to the cost of food purchased for student meals increasing higher than anticipated, in addition to higher student demand for school meals during the year.

(5) Variance due to travel costs being higher than anticipated due to more students participating in events and more events taking place than originally planned.

(6) Variance due to security improvements and upgrades being made throughout the school during the year after original budget was prepared.

(7) Variance due to loan being paid off after original budget was prepared.

(8) Variance due to an older school bus being sold during the year that was not planned as part of original budget.

See independent auditor's report.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS
August 31, 2022

Section A: Compensatory Education Programs

Districts are required to use at least 55% of state compensatory education state allotment funds on direct program costs. Statutory Authority: Texas Education Code, §48.104.

AP1	Did your district expend any state compensatory education program state allotment funds during the district's fiscal year?		Yes
AP2	Does the district have written policies and procedures for its state compensatory education program?		Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$	204,511
AP4	List the actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$	188,618

Section B: Bilingual Education Programs

Districts are required to spend at least 55% of bilingual education state allotment funds on direct program costs. Statutory Authority: Texas Education Code, §48.105.

AP5	Did your district expend any bilingual education program state allotment funds during the district's fiscal year?		Yes
AP6	Does the district have written policies and procedures for its bilingual education program?		Yes
AP7	List the total state allotment funds received for bilingual education programs during the district's fiscal year.	\$	13,428
AP8	List the actual direct program expenditures for bilingual education programs during the district's fiscal year. (PICs 25, 35)	\$	9,096

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF RELATED PARTY COMPENSATION AND BENEFITS
For the Year Ended August 31, 2022

Related Party Name	Name of Relation to the Related Party	Relationship	Compensation or Benefit	Payment Frequency	Description	Source of Funds	Total Paid During FY
Lela G. Dean	Michael John Dean	Spouse	Compensation	Monthly	Salary	State	\$ 42,617
Lorie Nelms-Faulk	Russell Faulk	Spouse	Compensation	Monthly	Salary	State	\$ 93,133
Lela G. Dean	Michael John Dean	Spouse	Compensation	Monthly	Health Insurance	State	\$ 3,087
Lorie Nelms-Faulk	Russell Faulk	Spouse	Compensation	Monthly	Health Insurance	State	\$ 3,087

See independent auditor's report.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended August 31, 2022

Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid during Fiscal Year	Principal Balance Due
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

See independent auditor's report.

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
August 31, 2022

<u>Description</u>	<u>Property Address</u>	<u>Total Assessed Value</u>	<u>Ownership Interest Local</u>	<u>Ownership Interest State</u>	<u>Ownership Interest Federal</u>
Reserve A Block One	20625 Clay Road, Katy, TX 77449	\$ 5,312,080	\$ -	\$ 5,312,080	\$ -
Total Real Property Ownership Interest		<u>\$ 5,312,080</u>	<u>\$ -</u>	<u>\$ 5,312,080</u>	<u>\$ -</u>

See independent auditor's report.

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, 2022, 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 13, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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 13, 2022

CALVIN NELMS CHARTER HIGH SCHOOL
dba CALVIN NELMS CHARTER SCHOOLS
SUMMARY OF AUDIT FINDINGS
For the Year Ended August 31, 2022

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