

EL PASO ACADEMY, INC.
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2020

EL PASO ACADEMY, INC.

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EL PASO ACADEMY, INC.


County District Identification Number 071-804

CERTIFICATE OF BOARD

We, the undersigned, certify that the attached Financial and Compliance Report of El Paso Academy, Inc. was reviewed and (check one) ☒ approved _____ disapproved for the year ended August 31, 2020, at a meeting of the governing body of El Paso Academy, Inc. on the 25th day of January, 2021.

DocuSigned by:

266702906F4A47C...
Signature of Board Secretary

DocuSigned by:

D3B16D167F0C477...
Signature of Board President

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
El Paso Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of El Paso Academy, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison schedule, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2021, on our consideration of El Paso Academy, Inc.'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 El Paso Academy, Inc.'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 El Paso Academy, Inc.'s internal control over financial reporting and compliance.

Gibson Ruddock Patterson, LLC
El Paso, Texas
January 20, 2021

EL PASO ACADEMY, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2020

ASSETS

Current Assets	
Cash and cash equivalents	\$ 5,646,349
Restricted cash and cash equivalents	8,824
Due from Texas Education Agency	228,229
Prepayments	<u>58,962</u>
Total current assets	5,942,364
Property and equipment, net	<u>1,818,649</u>
Total assets	<u><u>\$ 7,761,013</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 18,208
Payroll deductions and withholdings payable	26,052
Accrued wages payable	11,097
Due to student groups	8,824
Deferred revenue	<u>62,531</u>
Total current liabilities	<u>126,712</u>
Total liabilities	<u>126,712</u>
Net Assets	
With donor restrictions	6,617,144
Without donor restrictions	<u>1,017,157</u>
Total net assets	<u>7,634,301</u>
Total liabilities and net assets	<u><u>\$ 7,761,013</u></u>

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

EL PASO ACADEMY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total (Memo Only)
Revenues			
Local support:			
Interest income	\$ 51,359	\$ -	\$ 51,359
Miscellaneous revenue	266	-	266
Total local support	51,625	-	51,625
State program revenues:			
Foundation school program	-	2,806,123	2,806,123
Per Capita Apportionment	-	92,630	92,630
Total state program revenues	-	2,898,753	2,898,753
Federal program revenues:			
ESEA Title I Part A - Improving Basic Programs	-	193,659	193,659
ESEA Title II Part A - Supporting Effective Instruction	-	395	395
Total federal program revenues	-	194,054	194,054
Net assets released from restrictions:			
Restrictions satisfied by payments	2,521,967	(2,521,967)	-
Total revenues	2,573,592	570,840	3,144,432
Expenses			
Program services:			
Instruction and instructional - related services	1,367,193	-	1,367,193
Instructional and school leadership	262,964	-	262,964
Support services:			
Support services - student (pupil)	153,040	-	153,040
Administrative support services	396,874	-	396,874
Support services - non-student based	341,896	-	341,896
Total expenses	2,521,967	-	2,521,967
Change in net assets	51,625	570,840	622,465
Net assets, beginning of year	965,532	6,046,304	7,011,836
Net assets, end of year	\$ 1,017,157	\$ 6,617,144	\$ 7,634,301

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

EL PASO ACADEMY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2020

	Instruction & Instructional- Related Services	Instructional and School Leadership	Support Services - Pupil	Administrative Support Services	Support Services - Non-student Based	Total
Expenses						
Payroll						
Salaries and wages	\$ 859,076	\$ 211,291	\$ 91,388	\$ 211,607	\$ -	\$ 1,373,362
Benefits and payroll taxes	122,598	37,401	15,998	24,605	-	200,602
Total Payroll Expenses	981,674	248,692	107,386	236,212	-	1,573,964
Professional and contracted services						
Professional services	-	-	-	69,376	58,162	127,538
Staff and student tuition	4,000	-	-	-	-	4,000
Education Service Center services	7,606	-	-	27,835	-	35,441
Maintenance and repair	-	-	-	-	77,511	77,511
Utilities	-	-	-	-	114,373	114,373
Rentals	6,878	-	-	591	3,020	10,489
Misc. Contracted services	99,863	-	36,295	-	39,660	175,818
Total Professional and Contracted Services	118,347	-	-	97,802	292,726	545,170
Supplies and materials						
Supplies for maintenance	-	-	-	-	1,841	1,841
Food costs	-	-	6,658	-	-	6,658
General supplies	211,633	10,495	2,301	3,860	16,030	244,319
Total Supplies and Materials	211,633	10,495	45,254	3,860	17,871	252,818
Other operating costs						
Travel	6,151	428	400	6,637	-	13,616
Insurance	-	-	-	11,059	19,967	31,026
Depreciation	43,590	-	-	2,629	11,332	57,551
Misc. Operating costs	5,798	3,349	-	38,675	-	47,822
Total Other Operating Costs	55,539	3,777	400	59,000	31,299	150,015
Total Expenses	<u>\$ 1,367,193</u>	<u>\$ 262,964</u>	<u>\$ 153,040</u>	<u>\$ 396,874</u>	<u>\$ 341,896</u>	<u>\$ 2,521,967</u>

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

EL PASO ACADEMY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2020

Cash flows from operating activities:	
Foundation School Program payments	\$ 3,063,139
Grant payments	220,388
Interest revenue	51,359
Miscellaneous sources	1,449
Payments to charter school personnel for services rendered	(1,603,463)
Payments to vendors for goods and services rendered	(804,166)
Payments for other operating expenditures	<u>(94,919)</u>
Net cash provided by operating activities	<u>833,787</u>
Cash flows from investing activities:	
Proceeds from liquidation of Certificate of Deposit	<u>247,692</u>
Net cash provided by investing activities	<u>247,692</u>
Net increase in cash	1,081,479
Cash, cash equivalents, and restricted cash at beginning of year	<u>4,573,694</u>
Cash, cash equivalents, and restricted cash at end of year	<u><u>\$ 5,655,173</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ 622,465
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	57,551
(Increase) decrease in assets	
Due from Texas Education Agency	128,189
Other Receivable	1,183
Prepaid Assets	1,859
Increase (decrease) in operating liabilities	
Accounts payable	(8,037)
Payroll deductions and withholdings payable	(1,537)
Accrued wages	(27,962)
Due to student groups	(2,455)
Unearned revenue	<u>62,531</u>
Net cash provided by operating activities	<u><u>\$ 833,787</u></u>

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

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statements of El Paso Academy, Inc. were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

A. Organization and Nature of Activities

El Paso Academy, Inc. (the "Academy") was incorporated on June 21, 2000, and has been recognized as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no tax liability has been included in the accompanying financial statements. The Academy is governed by a Board of Directors selected pursuant to the bylaws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Academy.

The Academy provides college preparatory curricula for students in grades 9 - 12. The Academy operates under one open enrollment charter granted by the State of Texas Board of Education and does not conduct any non-charter activities. The Academy is part of the public school system of the State of Texas and is therefore entitled to distributions from the State's available school fund. The Academy does not have the authority to impose ad valorem taxes or to charge tuition.

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

B. Financial Statement Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - net assets available for use in general obligations and not subject to donor restrictions and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - net assets subject to donor-imposed restrictions. 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.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

D. Cash, Cash Equivalents, and Restricted Cash

For purposes of the statement of cash flows, the Academy considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

E. Investments

We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

F. Certificates of Deposit

Certificates of deposit with original maturities greater than three months are considered investments. Certificates of deposit with original maturities of more than three months that are held for more than 12 months are considered long-term investments.

G. Financial Instruments and Credit Risk

The Academy manages deposit concentration risk by placing cash with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Academy has not experienced any losses in any of these accounts.

H. Property and Equipment

All assets acquired with a value of \$5,000 or greater are defined by the Academy as fixed assets and are recorded at historical or estimated cost. Such assets are depreciated over the estimated useful lives of the assets, which range from 5 to 50 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. Donated assets are reported as direct additions to net assets at the fair market value at the time of donation, which is then treated as cost. The Academy's long-lived assets are not carried at amounts in excess of their fair values at August 31, 2020.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

I. Revenues and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenues from the State of Texas Available School Fund are earned based on reported attendance and are restricted as they are held in trust by the Academy for the benefit of the students of the Academy. These funds can only be used for the purpose for which a school can use local funds under Section 45.105(c) of the Texas Education Code.

Government grant contracts that are entered into by the Academy are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

J. Fair Value Measurement

The Academy utilizes fair value measurement for financial assets and financial liabilities on a recurring basis and for non-financial items that are measured at fair value on a non-recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Academy follows a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

Level 2: Fair value is determined by using other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These include quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Fair value is determined by using inputs based on management assumptions that are not directly observable. In these situations, management develops inputs using the best information available in the circumstances.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could affect the fair value estimates.

The Academy has determined that the following items meet the definition of financial instruments: Cash and Cash equivalents, Certificates of Deposits, due from Texas Education Agency, prepaid assets, accounts payables, and accrued liabilities. Management believes the carrying amount of its financial instruments, approximate fair value at August 31, 2020, because of the relative short term nature of these instruments. These are all considered to be recorded at Level 1 measurements.

The Academy reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and is not aware of any events or changes in circumstances that would require impairment testing during 2020.

K. Personal Leave

All employees of the Academy earn ten days of paid personal leave per year. Five of these days are granted by the State. Only these days are accumulated if not used. However, the Academy does not have a policy requiring the payment of any amounts related to accumulated personal leave when employees separate from service. As such, as of August 31, 2020, there is no liability accrued on these financial statements.

L. Change in Accounting Principle

During June 2018, FASB issued 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. The update addresses clarification on (1) evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization implemented ASU 2018-08 and adjusted the presentation in these financial statements accordingly.

During August 2016, FASB issued Accounting Standards Update (ASU) 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The Organization implemented ASU 2016-15 and adjusted the presentation in these financial statements accordingly.

During November 2016, FASB issued Accounting Standards Update (ASU) 2016-18 Statement of Cash Flows (Topic 230) - Restricted Cash. This update addresses restricted cash in the statement of cash flows with the objective of reducing the existing diversity in practice. The Organization implemented ASU 2016-18 and adjusted the presentation in these financial statements accordingly.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

2. CASH AND INVESTMENTS

At August 31, 2020 the carrying amount of the Academy's deposits (cash and interest-bearing savings accounts) was \$1,553,400 and the bank balance was \$1,610,701. Of the aforementioned balance the entire amount was insured by the Federal Depository Insurance Corporation.

The Academy reported \$8,824 of restricted cash and cash equivalents which is restricted for Student groups.

The Texas Administrative Code Section 100.1045 contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. For charter schools, it requires the Academy to (1) maintain a discrete charter investment account, (2) invest in accordance with any debt covenants or similar agreements, (3) use judgement and care under prevailing circumstances, (4) invest using the following objectives, in order of priority: preservation and safety of principal, liquidity, and yield, and (5) have investment decisions made by an employee who exercises prudence, discretion, and intelligence with respect to investment decisions.

In addition, the charter school must adhere to sections 2256.009-.016 of the Public Funds Investment Act (Government Code Chapter 2256), which authorizes the Academy to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. Management asserts that the Academy is in substantial compliance with the requirements of the Act and with local policies.

Due to the immediate availability of the funds, the Academy's temporary investments are presented as cash and cash equivalents as of August 31, 2020, and, include the following:

	Carrying Amount	Fair Value	WAM (in days)	Rating
TexSTAR	\$ 4,101,773	\$ 4,101,773	116 days	AAAm
Total	<u>\$ 4,101,773</u>	<u>\$ 4,101,773</u>		

The TexSTAR Local Government Investment Pool is an external investment pool overseen by a five member governing board. The responsibility of the board includes the ability to influence operations, designation of management, and accountability for fiscal matters. In addition, the fund has a Participant Advisory Board which provides input and feedback on the operations and direction of the program. The Pool has received a rating of AAAm from Standard & Poor's as required by the Public Fund's Investment Act.

The fair value of the Academy's position in the TexSTAR pool is the same as the value of TexSTAR shares. These funds are not insured or guaranteed by the FDIC or any other governmental agency.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use beyond the limitations dictated by the charter, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 5,646,349
Due from TEA	<u>228,229</u>
Total	<u>\$ 5,874,578</u>

Per the Texas Education Agency, Foundation School Program revenues should be classified as revenue with donor restrictions. However, the funds do not have a time restriction, but must be used for education purposes in accordance with State law. As such, there are cash, investments, and amounts due from the State which are available for use for educational purposes. Furthermore, the Academy monitors cash flow and liquidity through budget analysis and timely grant reporting to ensure funds are available as needed.

4. DUE FROM TEXAS EDUCATION AGENCY

As of August 31, 2020, the Academy had earned the following unpaid amounts:

Title II, Part A - Supporting Effective Instruction	\$ 395
Foundation School Program	<u>227,834</u>
	<u>\$ 228,229</u>

Management has determined that an allowance for doubtful accounts is not necessary for fair presentation as there is usually no risk of uncollectibility.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

5. CAPITAL ASSETS

Capital asset activity for the Academy for the year ended August 31, 2020, was as follows:

Asset	Beginning Balance 8/31/19	Additions	Deletion, Reclassification and Adjustment	Ending Balance 8/31/20	Depreciable Lives
Land	\$ 168,000	\$ -	\$ -	\$ 168,000	
Building and improvements	2,364,698	-	-	2,364,698	50 yrs.
Equipment	68,309	-	-	68,309	5 yrs.
Total property and equipment	2,601,007	-	-	2,601,007	
Less accumulated depreciation for:					
Building and improvements	695,698	44,463	-	740,161	
Equipment	29,109	13,088	-	42,197	
Total accumulated depreciation	724,807	57,551	-	782,358	
Property and equipment, net	\$ 1,876,200	\$ (57,551)	\$ -	\$ 1,818,649	

Depreciation expense for the year ended August 31, 2020, was \$57,551.

Depreciation expense was charged to the following functions:

Instruction	\$ 43,590
General Administration	2,629
Security Monitoring	11,332
Total Depreciation Expense	<u>\$ 57,551</u>

6. SCHEDULE OF CAPITAL ASSET OWNERSHIP

Capital assets acquired with public funds received by the Academy for its operations constitute public property pursuant to Chapter 12 of the Texas Education Code and is restricted for this purpose. As of August 31, 2020, the cost of these assets is identified as follows:

	Ownership Interest			
	Local	State	Federal	Total
1510 Land	\$ -	\$ 168,000	\$ -	\$ 168,000
1520 Buildings and improvements	10,000	2,354,698	-	2,364,698
1539 Equipment	-	68,309	-	68,309
Total capital assets	<u>\$ 10,000</u>	<u>\$ 2,591,007</u>	<u>\$ -</u>	<u>\$ 2,601,007</u>

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

7. DEFINED BENEFIT PENSION PLAN

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

Pension Plan Fiduciary Net Position: Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by visiting the TRS website at www.trs.state.tx.us under the TRS Publication heading; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

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.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee and employer contribution rates for fiscal years 2020 through 2025.

There have been no changes that would affect the comparison of employer contributions from year to year. All contributions made were equal to the required contributions for the year. In addition, the Academy's contributions into the plan do not represent more than 5% of the total contributions to the plan. The Academy was assessed a surcharge as noted below for the Non-OASDI members and for the retiree rehires.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

7. DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended August 31	Staff Members' Contributions to TRS		State TRS Contribution Made on Behalf of the Academy		Academy Contributions to TRS	
	Rate	Amount	Rate	Amount	Rate	Amount
2020	7.70%	\$ 97,448	7.50%	\$ 90,114	7.50%	\$ 45,840
2019	7.70%	\$ 117,676	6.80%	\$ 91,245	6.80%	\$ 35,601
2018	7.70%	\$ 116,469	6.80%	\$ 90,757	6.80%	\$ 35,112

The Academy is required to contribute for those salaries funded through certain private and federal grants, new members, both the employer and employee contributions for retiree rehires (reporting entity pension surcharge for retirees) and also pay a 1.5% surcharge to TRS of all covered salaries that did not participate in social security (Non-OASDI surcharge). The contributions for each of these categories is as follows:

- Federally Funded salaries - \$7,006
- New Members - \$2,395
- Non-OASDI Members - \$18,459

The TRS Comprehensive Annual Financial Report for the plan year ended August 31, 2019, in which the El Paso Academy, Inc. participates, indicated the following:

Year	Total Plan Assets	TRS Plan Fiduciary Net Position	Total Pension Liability	Net Pension Liability	Percent Funded
2019	\$ 181,800,159,205	\$ 157,978,199,075	\$ 209,961,325,288	\$ 51,983,126,213	75.24%
2018	\$176,942,453,923	\$ 154,568,901,833	\$ 209,611,328,793	\$ 55,042,426,960	73.74%
2017	\$165,379,341,964	\$ 147,361,922,120	\$ 179,336,534,819	\$ 31,974,612,699	82.17%

8. HEALTH CARE COVERAGE

During the year ended August 31, 2020, the Academy participated in the TRS - Active Care Health Insurance Program. Employees of the Academy were covered by the Academy's insurance plan (the "Plan"). Under this plan, the Academy and State (Teacher Retirement System of Texas) contribute approximately \$450 and \$75, respectively, to the employee's premium. The employee pays the balance of their premium as well as premiums for dependent coverage through payroll deductions. There were no other liabilities associated with the Plan.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

9. RETIREE HEALTH PLAN

Plan Description: The Academy Inc. contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined Other Post-Employment Benefit health care plan with a special funding situation administered by the Teacher Retirement System of Texas. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants.

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

The TRS-Care plan for the year ended August 31, 2019, in which the Academy participates, is outlined in the table below. There are no collective-bargaining agreement nor is there a withdrawal penalty for leaving the TRS system:

TRS Care Other Post-Employment Benefits (OPEB)	Total Plan Assets	TRS Care Plan Fiduciary Net Position	Total OPEB Liabilities	Net OPEB Liability	Percent Funded
2019	\$1,475,508,564	\$1,292,022,349	\$ 48,583,247,239	\$ 47,291,224,890	2.66%
2018	\$1,001,649,953	\$ 798,574,633	\$ 50,729,490,103	\$ 49,930,915,470	1.57%

Benefits Provided: TRS-Care provides a basic health insurance coverage at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in the high deductible health plans. Eligible retirees and their dependents enrolled in Medicare may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

9. RETIREE HEALTH PLAN (Continued)

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with Medicare and without Medicare coverage.

TRS-Care Monthly Plan Premium Rates			
	Medicare		Non-Medicare
Retiree or Surviving Spouse	\$	135	\$ 200
Retiree and Spouse		529	689
Retiree or Surviving Spouse and Children		468	408
Retiree and Family		1,020	999

Contributions: Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75 percent of each active employee's pay. The following table shows contributions to the TRS-Care plan by type of contributor.

For the Year ended August 31	Staff Members' Contributions to TRS - Care		State TRS Contributions Made on Behalf of the Academy		Federal/private Funding remitted by the Academy		Academy Contributions to TRS - Care	
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount
2020	0.65%	\$ 8,147	1.25%	\$ 15,314	1.25%	\$ 1,272	0.75%	\$ 10,371
2019	0.65%	\$ 9,934	1.25%	\$ 19,103	1.25%	\$ 1,473	0.75%	\$ 11,462
2018	0.65%	\$ 9,831	1.25%	\$ 17,203	1.25%	\$ 1,303	0.75%	\$ 13,097

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

9. RETIREE HEALTH PLAN (Continued)

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Medicare Part D contributions made on behalf of the Academy for the years ended August 31, 2018, 2019, and 2020 were \$4,778, \$5,871, and \$6,254 respectively.

10. OPERATING LEASES

The Academy leases office equipment under lease agreements. The original terms of the agreements are for a period of 36 - 60 months.

The following is a lease schedule of future minimum rental payments required under all non-cancelable operating leases as of August 31, 2020:

2021	\$	5,880
2022		5,880
2023		5,880
2024		<u>3,430</u>
Total	\$	<u>26,950</u>

Total rental expense for all operating leases was \$10,489 for the year ended August 31, 2020.

11. COMMITMENTS AND CONTINGENCIES

The Academy receives funds through state and federal programs which 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 the federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. In the opinion of management, there are no contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been made in the accompanying financial statements for such contingencies.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

12. LITIGATION

The Academy is the defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material effect on the accompanying financial statements and accordingly, no provision has been accrued.

13. ECONOMIC DEPENDENCY

During the year ended August 31, 2020, the Academy received revenue of \$3,092,807 from the Texas Education Agency (TEA). This constitutes approximately 98% of total revenue earned. The loss of this charter agreement with TEA could have a material impact on the ability of the Academy to continue to provide the current level of services to its students.

14. INCOME TAX STATUS

The Internal Revenue Service has determine that the Academy is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Accordingly, no tax liability has been included in the accompanying financial statements.

The Academy's Forms 990, *Return of Organization Exempt from Income Tax*, for the fiscal years ending in 2017, 2018, and 2019 are subject to examination by the IRS, generally for three years after they were filed.

Management believes there is no unrelated business income for the year ended August 31, 2020.

(Continued)

EL PASO ACADEMY, INC.**NOTES TO FINANCIAL STATEMENTS**

AUGUST 31, 2020

15. REVENUES BY DETAIL OBJECT CODE

As of August 31, 2020, the Academy had the following revenues by detail object code:

		<u>Revenue</u>
<u>LOCAL SUPPORT</u>		
5740	Other revenues from local sources	\$ 51,359
5760	Revenues from intermediate sources	<u>266</u>
	Total local revenues	<u>51,625</u>
<u>STATE PROGRAM REVENUES</u>		
5810	Foundation school program act revenues	<u>2,898,753</u>
	Total state revenues	<u>2,898,753</u>
<u>FEDERAL PROGRAM REVENUES</u>		
5920	Federal revenues distributed by the TEA	<u>194,054</u>
	Total federal revenues	<u>194,054</u>
	Total revenues	<u><u>\$ 3,144,432</u></u>

16. EXPENSES BY TEA FUNCTION

As of August 31, 2020, the Academy had the following expenses by TEA function:

<u>Function</u>	<u>Description</u>	<u>Expense</u>
11	Instruction	\$ 1,347,503
13	Curriculum Development and Instructional Staff Development	19,690
23	School Leadership	262,964
31	Guidance, Counseling and Evaluation Services	146,382
35	Food Services	6,658
41	General Administration	396,874
51	Plant Maintenance and Operations	226,977
52	Security and Monitoring Services	70,792
53	Data Processing Services	<u>44,127</u>
		<u><u>\$ 2,521,967</u></u>

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

17. SCHEDULE OF EXPENSES BY OBJECT CODE

Expenses as of August 31, 2020:

6100	Payroll costs	\$ 1,573,964
6200	Professional and contracted services	545,170
6300	Supplies and materials	252,818
6400	Other operating costs	<u>150,015</u>
	Total expenses	<u>\$ 2,521,967</u>

18. RELATED PARTIES

From time to time, the Academy may enter into transactions with related parties through the normal course of business. If a Board member has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter. Management is not aware of any material related party transactions that occurred during the year ending August 31, 2020.

19. EVALUATION OF SUBSEQUENT EVENTS

The Academy has evaluated subsequent events through January 20, 2021, the date which the financial statements were available to be issued.

20. BUDGET VARIANCES

The final budget did not vary from the original budget in total. However, several functions did fluctuate, three of which fluctuated by more than 10% of the original budget. Specifically, the budget for school leadership was increased to allow for the addition of a campus administrator and the budget for guidance, counseling, and evaluation services was increased to allow for the addition of a full-time counselor. The budget was decreased in instructional leadership due to the Curriculum & Instruction Director leaving and not being replaced during the year.

(Continued)

EL PASO ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020

21. SIGNIFICANT EVENT - COVID-19

In January 2020, the President of the United States declared a public health emergency for the COVID-19 pandemic. Subsequently, on March 13th, districts across the state of Texas were ordered to shut down and initiate distance learning through the remainder of the 2019-2020 school year. With the pandemic ongoing, the districts had to begin their 2020-2021 academic year via distance learning as well.

The state allotments distributed to charter schools by the TEA may be impacted, the full effects of which are unknown. The Academy continues to closely monitor its budget and cash flows to address the needs of its students and personnel. Although future developments and mitigation strategies are out of the control of the Academy, management is committed to fulfilling its mission of providing students an alternative educational option, varied methods of instruction, and flexible school hours which allow students to work at their own pace, and develop strong academic skills.

22. NEW ACCOUNTING PRONOUNCEMENTS

During May 2014, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) was issued. ASU 2020-05 Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) - Effective Dates for Certain Entities delayed this standard's effective date. The requirements of this ASU will be effective for periods beginning after December 15, 2019. The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing and uncertainty of revenue from exchange transactions including certain funding from government agencies. We are evaluating the impact this standard will have on our financial reporting.

During February 2016, Accounting Standards Update No. 2016-02, Leases (Topic 842) was issued. ASU 2020-05 Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) - Effective Dates for Certain Entities delayed this standard's effective date. The requirements of this ASU will be effective for periods beginning after December 15, 2021. The new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. We are evaluating the impact this standard will have on our financial reporting.

OTHER INFORMATION - REQUIRED TEA SCHEDULE

EL PASO ACADEMY, INC.

**BUDGETARY COMPARISON SCHEDULE
CHARTER SCHOOL (Non-GAAP Basis)
(UNAUDITED)**

FOR THE YEAR ENDED AUGUST 31, 2020

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues:				
Local support:				
5740 Other Revenues from Local Sources	\$ 75,000	\$ 75,000	\$ 51,359	\$ (23,641)
5760 Revenues from Intermediate Sources	1,500	1,500	266	(1,234)
Total Local support	76,500	76,500	51,625	(24,875)
State program revenues:				
5810 Foundation School Program Act Revenues	3,010,476	3,010,476	2,898,753	(111,723)
Total State support	3,010,476	3,010,476	2,898,753	(111,723)
Total revenues	3,086,976	3,086,976	2,950,378	(136,598)
Expenses:				
11 Instruction	1,316,800	1,326,285	1,173,139	153,146
21 Instructional Leadership	73,900	700	-	700
23 School Leadership	240,059	270,059	262,965	7,094
31 Guidance Counseling and Evaluation Services	122,216	155,931	146,382	9,549
35 Food Services	12,000	12,000	6,658	5,342
41 General Administration	420,628	420,628	396,874	23,754
51 Plant maintenance and operations	246,000	246,000	226,977	19,023
52 Security and Monitoring Services	99,000	99,000	70,791	28,209
53 Data Processing Services	55,000	55,000	44,127	10,873
Total expenses	2,585,603	2,585,603	2,327,913	257,690
Change in net assets	501,373	501,373	622,465	121,092
Net assets, beginning of year	7,011,836	7,011,836	7,011,836	-
Net assets, ending of year	\$ 7,513,209	\$ 7,513,209	\$ 7,634,301	\$ 121,092

The preceding schedule discloses revenues by detailed object code and expenses by detailed function code as defined in the Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts (non-GAAP basis).

The budgetary comparison schedule only includes funds over which the Board has authority. As such, grant funds with budgets set by the granting agency and student activity funds are not included in the schedule above.

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
El Paso Academy, Inc.

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 El Paso Academy, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020, 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 our report thereon dated January 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Paso Academy, Inc.'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 El Paso Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of El Paso Academy, Inc.'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 the 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Paso Academy, Inc.'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 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 El Paso Academy, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gibson Ruddock Patterson, LLC
El Paso, Texas
January 20, 2021

EL PASO ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2020

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Were significant deficiencies in internal control disclosed? None reported

Were material weaknesses in internal control disclosed? No

Was any noncompliance disclosed that is material to the financial statements of the auditee, which would be required to be reported in accordance with Government Auditing Standards? No

EL PASO ACADEMY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED AUGUST 31, 2020

FINANCIAL STATEMENT FINDINGS

There are no current year findings.

EL PASO ACADEMY, INC.

SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2020

FINANCIAL STATEMENTS FINDINGS

There were no prior year findings.