



Arlington Classics Academy

**Financial Statements with Compliance Report and
Supplementary Information**

August 31, 2020

(with summarized comparative totals for August 31, 2019)

Arlington Classics Academy

Certificate of Board

Arlington Classics Academy
Name of Charter Holder

75-2734435
Federal Employer ID Number

Arlington Classics Academy
Name of Charter School

Tarrant
County

220-802
Co. Dist. Number

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Arlington Classics Academy was reviewed and (check one) approved ___ disapproved for the year ended August 31, 2020, at a meeting of the governing body of the charter holder on the 19 day of November 2020.

Jean Rouch
Signature of Board Secretary

Deborah Stark
Signature of Board President

Arlington Classics Academy

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Independent Auditors' Report

To the Board of Directors of
Arlington Classics Academy

We have audited the accompanying financial statements of Arlington Classics Academy (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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risk 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 Arlington Classics Academy as of August 31, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Report on Summarized Comparative Information

We have previously audited Arlington Classics Academy's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The supplemental 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. 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 November 19, 2020 on our consideration of Arlington Classic Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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 Arlington Classic Academy's internal control over financial reporting and compliance.

Sutton Frost Cary

A Limited Liability Partnership

Arlington Classics Academy

Statement of Financial Position

August 31, 2020

(with summarized comparative totals as of August 31, 2019)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,438,960	\$ 1,929,722
Restricted cash and cash equivalents	65,000	60,000
Investments	7,189,647	7,112,935
Due from Texas Education Agency	1,252,557	1,188,464
Prepaid expenses	12,681	11,082
Total current assets	11,958,845	10,302,203
Non-current assets:		
Restricted cash and cash equivalents	480,451	480,109
Property and equipment, net	19,492,782	19,778,960
Total non-current assets	19,973,233	20,259,069
Total assets	\$31,932,078	\$30,561,272
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 248,821	\$ 40,038
Accrued liabilities	978,386	828,690
Current maturities of long-term debt	549,774	524,637
Total current liabilities	1,776,981	1,393,365
Long-term debt, net	21,902,384	22,374,681
Total liabilities	23,679,365	23,768,046
Net assets:		
Without donor restrictions	4,206,406	3,547,059
With donor restrictions	4,046,307	3,246,167
Total net assets	8,252,713	6,793,226
Total liabilities and net assets	\$31,932,078	\$30,561,272

See notes to financial statements.

Arlington Classics Academy

Statement of Activities

Year ended August 31, 2020

(with summarized comparative totals for the year ended August 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue and other support:				
Local support:				
5740 Other revenue from local sources	\$ 478,754	\$ -	\$ 478,754	\$ 694,258
5750 Revenues from cocurricular, enterprising sources or activities	180,593	-	180,593	270,226
Total local support	659,347	-	659,347	964,484
State program revenues:				
5810 Foundation School Program	-	13,528,251	13,528,251	12,701,218
5820 State Program Revenues Distributed by TEA	-	319,668	319,668	179,648
Total state programs revenues	-	13,847,919	13,847,919	12,880,866
Federal program revenues:				
5920 ESEA Title I, Part A	-	110,837	110,837	103,043
5920 IDEA Part B, Formula	-	222,304	222,304	220,509
5920 ESEA Title II, Part A	-	41,192	41,192	28,209
5920 Child Nutrition Program	-	310,111	310,111	210,473
Total federal programs revenues	-	684,444	684,444	562,234
Net assets released from restrictions - restrictions satisfied by payments	13,732,223	(13,732,223)	-	-
Total revenue and other support	14,391,570	800,140	15,191,710	14,407,584

See notes to financial statements.

Arlington Classics Academy

Statement of Activities

Year ended August 31, 2020

(with summarized comparative totals for the year ended August 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Expenses:				
11 Instruction	\$ 7,187,432	\$ -	\$ 7,187,432	\$ 6,521,370
12 Instruction resources and media services	57,952	-	57,952	57,694
13 Curriculum development and instructional staff development	175,752	-	175,752	82,674
21 Instructional leadership	1,153	-	1,153	44,220
23 School leadership	753,938	-	753,938	741,045
31 Guidance, counseling, evaluation services	305,041	-	305,041	237,975
33 Health services	197,541	-	197,541	183,188
35 Food services	506,712	-	506,712	451,686
36 Extracurricular activities	213,560	-	213,560	198,961
41 General administration	621,927	-	621,927	607,725
51 Facilities maintenance and operations	1,682,608	-	1,682,608	1,597,224
52 Security and monitoring services	79,215	-	79,215	89,166
53 Data processing services	670,405	-	670,405	285,267
61 Community services	1,247	-	1,247	300
71 Debt service	1,171,704	-	1,171,704	1,335,083
81 Fundraising	106,036	-	106,036	141,789
Total expenses	13,732,223	-	13,732,223	12,575,367
Excess of revenues over expenses from operations	659,347	800,140	1,459,487	1,832,217
Non-operating activities:				
Loss on bond refinance	-	-	-	1,916,637
Total non-operating activities	-	-	-	1,916,637
Increase (decrease) in net assets	659,347	800,140	1,459,487	(84,420)
Net assets at beginning of year	3,547,059	3,246,167	6,793,226	6,877,646
Net assets at end of year	\$ 4,206,406	\$ 4,046,307	\$ 8,252,713	\$ 6,793,226

See notes to financial statements.

Arlington Classics Academy
Statement of Cash Flows
Year ended August 31, 2020
(with summarized comparative totals for the year ended August 31, 2019)

	2020	2019
Cash flows from operating activities:		
Foundation school program payments	\$ 13,526,848	\$ 12,582,020
Federal program payments	915,052	648,206
Local support	659,347	964,484
Payments to vendors	(3,419,670)	(2,880,204)
Payments to employees	(8,114,861)	(7,792,327)
Interest payments	(1,065,807)	(1,225,142)
Net cash provided by operating activities	2,500,909	2,297,037
Cash flows from investing activities:		
Purchases of property and equipment	(381,339)	(324,213)
Purchases of investments	(76,712)	(7,112,935)
Net cash used by investing activities	(458,051)	(7,437,148)
Cash flows from financing activities:		
Payments to escrow agents for defeasance of long-term debt	-	(619,874)
Principal payments of long-term debt	(528,278)	(440,270)
Net cash used by financing activities	(528,278)	(1,060,144)
Increase (decrease) in cash and cash equivalents	1,514,580	(6,200,255)
Total cash and cash equivalents at beginning of year	2,469,831	8,670,086
Total cash and cash equivalents at end of year	\$ 3,984,411	\$ 2,469,831
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 1,459,487	\$ (84,420)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	667,517	633,432
Amortization	81,118	88,441
Loss on bond defeasance	-	1,916,637
Changes in operating assets and liabilities:		
Due from Texas Education Agency	(64,093)	(136,738)
Prepaid expenses	(1,599)	(8,119)
Accounts payable	208,783	(67,581)
Accrued liabilities	149,696	(44,615)
Net cash provided by operating activities	\$ 2,500,909	\$ 2,297,037
Reconciliation of cash and restricted cash and cash equivalents reported within the statements of financial position to the statements of cash flows:		
Cash and cash equivalents	\$ 3,438,960	\$ 1,929,722
Restricted cash and cash equivalents	545,451	540,109
Total cash and cash equivalents shown in statements of cash flows	\$ 3,984,411	\$ 2,469,831
Supplemental cash flow information-		
Interest paid	\$ 1,065,807	\$ 1,225,142
Supplemental schedule of noncash financing activities:		
Payoff of Series 2010 bonds	\$ -	\$ 14,807,500
Proceeds of CIF Loan	\$ -	\$ 15,635,234
Debt issuance costs on CIF Loan	\$ -	\$ 322,924
Write off Series 2010 of debt issuance costs	\$ -	\$ 791,953

See notes to financial statements.

Arlington Classics Academy

Notes to Financial Statements

1. Organization

Arlington Classics Academy (Academy) operates under an open enrollment charter granted by the State of Texas Board of Education. This charter expires July 31, 2023 and is subject to review and renewal prior to the expiration date of the charter. The Academy is part of the public school system of the State of Texas (State) and is therefore entitled to distribution from the State's available school fund. The Academy does not have the authority to impose ad valorem taxes or to charge tuition. The Academy operates a single charter school for students from kindergarten through ninth grade and does not conduct any non-charter activities.

The mission of the Academy is to equip a diverse student body with a comprehensive education, including a special focus on Western civilization. Students will develop a commanding knowledge of the origins of our liberty and the ability to sustain it through moral leadership. We aim to accomplish this goal through a high level of academic instruction and high behavioral expectations.

The Academy serves families residing in Tarrant, Dallas and Johnson Counties at three campuses (K-2, 3-5 and 6-8) serving over 1,500 students.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Academy prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor or grantor stipulations. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor or grantor-imposed restrictions even though their use may be limited in other respects, such as by contract or board designation.

Net assets with donor restrictions - Net assets subject to donor or grantor stipulations that will be met by actions of the Academy and/or the passage of time. 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.

Arlington Classics Academy

Notes to Financial Statements

Financial Instruments and Concentrations of Risk

Financial instruments which are potentially subject to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Academy places cash and cash equivalents, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. At August 31, 2020, the Academy's cash was partially covered by federal depository insurance and the remaining balance was fully collateralized by securities held by the Academy's agent in the Academy's name. The Academy has not experienced any losses in such accounts. Accounts receivable are unsecured and are primarily due from the Texas Education Agency. The Academy continually evaluates the collectability of accounts receivable and maintains allowances as necessary. No provision has been made for uncollectible accounts receivable as of the statement of financial position date, given that none have been identified.

For the year ended August 31, 2020, the Academy received 96% of its total revenue and support from governmental agencies.

Cash and Cash Equivalents

The Academy considers all highly liquid investments available for current use with original maturities of three months or less to be cash equivalents.

Investments

Public fund investment pools are stated at fair value. Investment return is reported in the statement of activities as an increase in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions. Net investment return consists of interest and dividends net of external and direct internal investment expenses.

Property and Equipment

Property and equipment purchased by the Academy are recorded at cost, or if donated, at fair value on the date received. Property and equipment is defined by the Academy as assets with an individual cost of more than \$5,000 and a useful life of more than 1 year. Interest expense on debt issued for construction projects is capitalized until the project is placed in service. Depreciation is provided on the straight-line method based upon the estimated useful lives of 3 to 30 years. Expenditures for maintenance and repairs are expensed when incurred; significant renewals and betterments are capitalized. Property and equipment acquired with public funds received for the operation of the Academy constitute public property pursuant to Chapter 12 of the Texas Education Code.

For depreciable property and equipment, or resources to be used to acquire depreciable property and equipment, the donor or grantor restriction expires over the assets' useful life, as required by the TEA.

Arlington Classics Academy

Notes to Financial Statements

The Academy reviews the carrying value of long-lived assets to determine if facts and circumstances suggest that they may be impaired. The Academy did not recognize an impairment loss during the year ended August 31, 2020.

Revenues and Contributions

Revenues from the State's available school fund are earned based on reported attendance. 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.

All contributions are considered to be available for purposes without restriction unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support that increases net assets with donor restrictions.

Contributed Goods and Services

Contributed services are recognized in the accompanying financial statements at fair value if the services received create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Academy. No donated services were utilized that met the criteria to be recorded as revenue in the Academy's financial statements. Donated goods are reflected as contributions at their estimated fair value at date of receipt. The Academy received \$26,370 of donated food for the year ended August 31, 2020.

Financing Costs

Costs of obtaining financing are recorded as financing costs and are deferred as a direct deduction from the carrying amount of that debt liability and amortized using the interest method over the related bond period. Amortization expense is included in debt service in the accompanying statement of activities.

Federal Income Taxes

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and has not been classified as a private foundation as defined in the Code. Income generated from activities unrelated to the Academy's exempt purposes is subject to tax under Code Section 511. The Academy had no unrelated business income for the year ended August 31, 2020. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Academy's tax returns and recognition of a tax liability (or asset) if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service.

Arlington Classics Academy

Notes to Financial Statements

Management has analyzed the tax positions taken by the Academy, and has concluded that as of August 31, 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Estimates and Assumptions

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 disclosure 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.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification.

The Academy considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Academy's financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. The standard takes effect for fiscal years beginning after December 15, 2021.

The Academy is currently assessing the impact that adopting this new guidance will have on the financial statements.

Accounting Pronouncements Adopted

In 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that replaces existing revenue recognition guidance. The core principle of the guidance is that an 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 those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The Academy has adopted this ASU as of and for the year ended August 31, 2020 on the retrospective basis.

Arlington Classics Academy

Notes to Financial Statements

In 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, Not-for-Profit Entities or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The Academy has adopted this ASU as of and for the year ended August 31, 2020 on the retrospective basis.

Analysis of various provisions of the adopted ASUs resulted in no significant changes in the way the Academy recognizes revenue, and therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the ASUs.

3. Restricted Cash and Cash Equivalents Held by Bond Trustee

As a result of issuing the Series 2016 Bonds, the Academy is required to maintain separate bank accounts that are restricted for debt-related matters as follows as of August 31, 2020:

Debt service	\$ 545,433
Debt service reserve	<u>18</u>
	<u>\$ 545,451</u>

4. Fair Value Measurements

The requirements of Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification (ASC) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value 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. Fair Value Measurements and Disclosures also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels.

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are observable, other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities, such as pricing models and discounted cash flow methodologies.

Arlington Classics Academy

Notes to Financial Statements

Level 3: Inputs are unobservable, are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Public Fund Investment Pools

These investments are reported at the net asset value per unit, which approximates fair value, using the amortized cost method. These investments use net asset value as a practical expedient and are not categorized in the fair value hierarchy.

Assets measured at fair value at August 31, 2020 consist of investments in Texpool totaling \$7,189,647.

5. Property and Equipment

Property and equipment consist of the following as of August 31, 2020:

Buildings and improvements	\$ 20,872,204
Land	2,463,134
Furniture and equipment	1,001,824
Vehicles	<u>28,090</u>
Total property and equipment	24,365,252
Less accumulated depreciation	<u>(4,872,470)</u>
Property and equipment, net	<u><u>\$ 19,492,782</u></u>

Depreciation expense for the year ended August 31, 2020 was \$667,517.

6. Long-Term Debt

In March 2019, the Academy entered into a \$15,634,234 financing agreement (CIF Note) with a nonprofit charter impact fund. The proceeds from the CIF Note were deposited in escrow with the bond trustee for the defeasance of the 2010 bonds. As a result, the Academy was legally defeased of its obligation of the 2010 bonds. The CIF Note requires monthly debt service payments of \$92,551, beginning April 1, 2019 and continuing for 256 months, with all outstanding principal and interest due August 1, 2040. The CIF Note bears interest at 4.24% and is collateralized by a deed of trust.

Arlington Classics Academy Notes to Financial Statements

In April 2016, the Academy issued \$8,465,000 of bonds; \$7,870,000 of Series 2016A and \$595,000 of Series 2016B. Bond proceeds were used to pay issuance costs and the underwriter's discount, pay off previously outstanding debt, and provide funds for real property construction cost and required escrow related accounts. The bonds were issued as education revenue bonds, and have interest rates ranging from 5% to 6.125%, mature in varying amounts through August 2045 and are collateralized by deeds of trust on property. Interest paid during the year ended August 31, 2020 was \$1,065,807. The Academy was in compliance with all debt covenants at August 31, 2020.

Long-term debt activity for the year ended August 31, 2020 was as follows:

	Beginning Balances	Additions	Retirements	Amortization expense	Ending Balance	Current maturities of long-term debt
Series 2016A	\$ 7,870,000	\$ -	\$ -	\$ -	\$ 7,870,000	\$ -
Series 2016B	430,000	-	(61,769)	-	368,231	65,000
CIF 2019	15,412,464	-	(466,509)	-	14,945,955	484,774
Total long-term debt	23,712,464	-	(528,278)	-	23,184,186	549,774
Unamortized discount	-	-	-	-	-	-
Debt issuance costs	(813,146)	-	-	81,118	(732,028)	-
	<u>\$22,899,318</u>	<u>\$ -</u>	<u>\$ (528,278)</u>	<u>\$ 81,118</u>	<u>\$22,452,158</u>	<u>\$ 549,774</u>

The required debt service payments for the years ending August 31 are as follows:

	Principal	Interest	Total
2021	\$ 549,774	\$ 1,042,995	\$ 1,592,769
2022	575,783	1,017,004	1,592,787
2023	602,702	990,798	1,593,500
2024	630,571	963,335	1,593,906
2025	652,663	934,574	1,587,237
Thereafter	20,172,693	11,797,148	31,969,841
	<u>\$23,184,186</u>	<u>\$16,745,854</u>	<u>\$39,930,040</u>

On October 19, 2017 and June 1, 2018, the Academy was awarded two grants up to \$2,000,000 from the Texas Credit Enhancement Program (TCEP). The TCEP was established to create reserve funds for open enrollment charter schools that issue municipal bonds to finance the acquisition, construction, repair or renovation of Texas charter school facilities. The grant funds are held in the State treasury solely to provide security for repayment of the 2016 bonds. The grant award reduced the Debt Service Reserve funds held by the trustee permitting the Academy to use the funds for project expenditures or debt repayment.

Arlington Classics Academy
Notes to Financial Statements

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available to pay expenses as allowed by Section 45.105(c) of the Texas Education Code.

8. Multi-employer Defined Benefit Pension Plan

The Academy participates in a cost-sharing multi-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan (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 Plan's Board of Trustees does not have the authority to establish or amend benefit terms. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the Plan.

TRS provides service retirement and disability retirement benefits, and death benefits to eligible employees (and their beneficiaries) of public and higher education in Texas. 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 not a withdrawal penalty for leaving the TRS system.

Information with respect to the Plan and the Academy's participation in the Plan for the year ended August 31, 2019 is as follows:

Legal Name of Plan:	Teacher Retirement System of Texas
EIN/Pension Plan Number:	N/A
Total Plan Assets:	\$181,800,159,205
Accumulated Benefit Obligations:	\$209,961,325,288
Plan funded percentage:	75.24% funded
Is plan covered by collective bargaining agreements?	No
Employer contributions to the plan:	\$619,428
Contributions greater than 5% of total plan contributions?	No
Contribution rates:	
Member	7.7%
Non-Employer Contributing Entity (State)	6.8%
Employers	6.8%

Arlington Classics Academy

Notes to Financial Statements

There have been no changes that would affect the comparison of employer contributions from year to year.

9. Health Care Coverage

During the year ended August 31, 2020, employees of the Academy were covered by the TRS Active employee Health Insurance Plan (Plan). The Academy contributed \$378 per month per employee for the period from September 1, 2019 to August 31, 2020 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

10. Functional Expenses

Allocation of Functional Expenses

Expenses are reported by their functional classification as program services or supporting services. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the Academy exists. Supporting services are not directly identifiable with specific program. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefited. Salaries and related costs are charged directly either to program services or supporting services based on actual time worked in each area. Occupancy costs are allocated based on whether the costs are associated with instruction (program services) or with administration.

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Debt	Total
Program Services:						
Instructional and Instructional related services	\$ 6,586,382	\$ 51,105	\$ 735,777	\$ 515,014	\$ 731,134	\$ 8,619,412
Instructional and school leadership	-	-	1,153	73	114	1,340
Support Services - Student	818,279	20,562	311,138	143,038	120,476	1,413,493
Support Services - Nonstudent based	338,638	404,881	164,565	173,988	107,812	1,189,884
Ancillary services	-	-	1,247	6,891	123	8,261
Total program services	7,743,299	476,548	1,213,880	839,004	959,659	11,232,390
Support Services:						
Instructional and school leadership	730,350	-	15,778	55,266	74,278	875,672
Administrative support services	428,793	136,483	15,349	80,451	61,273	722,349
Support services - nonstudent based	141,381	173,488	349,585	48,153	66,049	778,656
Fundraising	59,606	-	13,083	40,022	10,445	123,156
Total support services	1,360,130	309,971	393,795	223,892	212,045	2,499,833
Total expenses	\$ 9,103,429	\$ 786,519	\$ 1,607,675	\$ 1,062,896	\$ 1,171,704	\$13,732,223

11. Contingencies

The Academy receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses

Arlington Classics Academy

Notes to Financial Statements

charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Academy 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.

12. Service Contract Commitments

The Organization entered into two service contracts, one for accounting support and the other for internet. The contracts expire October 2020 and June 2023, respectfully. The following is a schedule of future minimum contract service payments required under the contract agreements for the years ending August 31:

2021	\$ 55,000
2022	36,000
2023	30,000

13. Liquidity and Availability of Resources

Financial assets available for general expenditures within one year from August 31, 2020 are as follows:

Cash and cash equivalents	\$ 3,438,960
Restricted cash and cash equivalents	545,451
Due from Texas Education Agency	1,252,557
Investments	<u>7,189,647</u>
Total financial assets	12,426,615
Less financial assets not available for general expenditure	
Cash contractually restricted for debt service	<u>(545,451)</u>
Total financial assets available for general expenditure	<u>\$ 11,881,164</u>

The Academy relies on state aid and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Academy considers all expenditures related to its ongoing activities of education, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of the Academy's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash.

Arlington Classics Academy

Notes to Financial Statements

14. Uncertainty

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. As a result of the spread of COVID-19, the state of Texas issued shelter-in-place orders and other measures around public gatherings and business operations to slow the spread of the virus. Given the uncertainty in the epidemiological and economic outlook, there may be short and long-term implications for the Academy. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

14. Subsequent Events

The Academy has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no disclosures are required.

Compliance Report

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Arlington Classics Academy

We have audited, in accordance with U.S. generally accepted auditing standards 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 Arlington Classics Academy (Academy) (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 November 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 Academy'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



A Limited Liability Partnership
Certified Public Accountants

Arlington, Texas
November 19, 2020

Supplemental Information

Arlington Classics Academy
Schedule of Capital Assets
August 31, 2020

Description	Ownership Interest		
	Local	State	Federal
1510 Land and improvements	\$ -	\$ 2,463,134	\$ -
1520 Buildings and improvements	-	20,872,204	-
1549 Furniture and equipment	-	1,001,824	-
1531 Vehicles	-	28,090	-
	<u>\$ -</u>	<u>\$ 24,365,252</u>	<u>\$ -</u>

Arlington Classics Academy
Budgetary Comparison Schedule
Year ended August 31, 2020

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenue and other support:				
Local support:				
5740 Other revenues from local sources	\$ -	\$ 478,754	\$ 478,754	\$ -
5750 Revenues from cocurricular, enterprising sources or activities	-	180,593	180,593	-
State program revenues:				
5810 Foundation School Program	12,963,613	13,528,251	13,528,251	-
5820 State Program Revenues Distributed by TEA	-	319,668	319,668	-
Federal program revenues:				
5920 Federal program revenues	465,831	684,444	684,444	-
Total revenue and other support	13,429,444	15,191,710	15,191,710	-
Expenses:				
11 Instruction	6,851,626	7,187,432	7,187,432	-
12 Instructional resources and media services	65,332	57,952	57,952	-
13 Curriculum development and instructional staff development	181,440	175,752	175,752	-
21 Instructional leadership	2,000	1,153	1,153	-
23 School leadership	825,935	753,938	753,938	-
31 Guidance, counseling, evaluation services	276,689	305,041	305,041	-
33 Health services	199,396	197,541	197,541	-
35 Food services	465,831	506,712	506,712	-
36 Extracurricular activities	22,500	213,560	213,560	-
41 General administration	695,708	621,927	621,927	-
51 Facilities maintenance and operations	1,752,276	1,682,608	1,682,608	-
52 Security and monitoring services	102,500	79,215	79,215	-
53 Data processing services	328,155	670,405	670,405	-
61 Community services	3,000	1,247	1,247	-
71 Debt service	1,158,787	1,171,704	1,171,704	-
81 Fundraising	86,364	106,036	106,036	-
Total expenses	13,017,539	13,732,223	13,732,223	-
Increase in net assets	411,905	1,459,487	1,459,487	-
Net assets at beginning of year	6,793,226	6,793,226	6,793,226	-
Net assets at end of year	\$ 7,205,131	\$ 8,252,713	\$ 8,252,713	\$ -

Arlington Classics Academy
Schedule of Expenses
Year ended August 31, 2020

<u>Object Code</u>	<u>Description</u>	<u>Amount</u>
6100	Payroll costs	\$ 9,103,429
6200	Professional and contracted services	786,519
6300	Supplies and materials	1,607,675
6400	Other operating expenses	1,062,896
6500	Debt service	<u>1,171,704</u>
		<u>\$ 13,732,223</u>