# Trinity Basin Preparatory, Inc.

## Consolidated Financial Statements with Supplemental Information and Compliance Reports
## August 31, 2020

Sutton Frost Cary LLP
Certified Public Accountants

**Trinity Basin Preparatory, Inc.**
**Contents**

# Trinity Basin Preparatory, Inc.
# Certificate of Board

Trinity Basin Preparatory, Inc. — Name of Charter Holder

31-1614490 — Federal Employer ID Number

Trinity Basin Preparatory — Name of Charter School

DALLAS — County

057-813 — Co. Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Report of Trinity Basin Preparatory, Inc. was reviewed and (check one) X approved ___ disapproved for the year ended August 31, 2020, at a meeting of the governing body of the charter school on the 16th day of November 2020.

Signature of Board Secretary

Signature of Board President

Sutton Frost Cary LLP
Certified Public Accountants

**Independent Auditors' Report**

To the Board of Directors of
Trinity Basin Preparatory, Inc.

***Report on Consolidated Financial Statements***

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

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement. The financial statements of TBP Panola Project, Inc. were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trinity Basin Preparatory, 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 U.S. generally accepted accounting principles.

***Other Matters***

*Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 16, 2020 on our consideration of Trinity Basin Preparatory, Inc.'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 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 Trinity Basin Preparatory, 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 Trinity Basin Preparatory, Inc.'s internal control over financial reporting and compliance.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
November 16, 2020

# Trinity Basin Preparatory, Inc.
## Consolidated Statement of Financial Position
## August 31, 2020

| | |
|---|---|
| **Assets** | |
| **Current assets:** | |
| Cash and cash equivalents | $ 12,877,859 |
| Restricted cash equivalents | 12,903,865 |
| Investments | 913,526 |
| Government grants receivable | 3,568,922 |
| Prepaid expense | 130,265 |
| **Total current assets** | 30,394,437 |
| **Non-current assets:** | |
| Other assets | 20,437 |
| Note receivable - new market tax credit | 6,058,000 |
| Property and equipment, net | 75,284,623 |
| **Total non-current assets** | 81,363,060 |
| **Total assets** | $ 111,757,497 |
| **Liabilities and Net Assets** | |
| **Current liabilities:** | |
| Accounts payable | $ 2,986,092 |
| Accrued wages | 2,902,500 |
| Accrued expenses | 519,759 |
| Lines of credit | 5,600,000 |
| Current maturities of long-term debt | 2,569,366 |
| **Total current liabilities** | 14,577,717 |
| **Long-term liabilities:** | |
| Deferred rent | 290,500 |
| Long-term debt, net of debt issuance costs - new market tax credit | 7,971,797 |
| Long-term debt, net of debt issuance costs | 68,636,304 |
| **Total long-term liabilities** | 76,898,601 |
| **Total liabilities** | 91,476,318 |
| **Net assets:** | |
| Without donor restrictions | 3,947,806 |
| With donor restrictions | 16,333,373 |
| **Total net assets** | 20,281,179 |
| **Total liabilities and net assets** | $ 111,757,497 |

See notes to consolidated financial statements.

# Trinity Basin Preparatory, Inc.
## Consolidated Statement of Activities
## Year Ended August 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenue and support:** | | | |
| Local support: | | | |
| 5740 Other revenue from local sources | $ 348,316 | $ - | $ 348,316 |
| 5750 Food service activity | 135,859 | - | 135,859 |
| **Total local support** | 484,175 | - | 484,175 |
| State program revenue: | | | |
| 5810 Foundation School Program | - | 36,313,659 | 36,313,659 |
| 5810 Available School Fund | - | 973,769 | 973,769 |
| 5820 State Program Revenues Distributed by TEA | - | 267,963 | 267,963 |
| 5830 SPED Special Allotment | - | 30,000 | 30,000 |
| **Total state program revenue** | - | 37,585,391 | 37,585,391 |
| Federal program revenue: | | | |
| 5920 ESEA Title I, Part A | - | 923,941 | 923,941 |
| 5920 IDEA Part B, Formula | - | 453,756 | 453,756 |
| 5920 IDEA Part B, Preschool | - | 6,800 | 6,800 |
| 5920 Child Nutrition Program | - | 1,345,385 | 1,345,385 |
| 5920 ESEA Title II, Part A | - | 118,899 | 118,899 |
| 5920 ESEA Title III, Part A | - | 202,414 | 202,414 |
| 5920 HQ Expansion Grant | - | 450,000 | 450,000 |
| 5920 Title IV, Part A Subpart I | - | 43,836 | 43,836 |
| 5920 ESSER | - | 516,543 | 516,543 |
| 5920 CRF Funds | - | 516,632 | 516,632 |
| 5930 Federal Revenues Distributed by State of Texas Government Agencies (other than TEA) | - | 367,969 | 367,969 |
| **Total federal program revenue** | - | 4,946,175 | 4,946,175 |
| Net assets released from restrictions- satisfaction of program restrictions | 36,775,453 | (36,775,453) | - |
| **Total revenue and support** | 37,259,628 | 5,756,113 | 43,015,741 |

See notes to consolidated financial statements.

# Trinity Basin Preparatory, Inc.
## Consolidated Statement of Activities
## Year Ended August 31, 2020

| | | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|---|
| **Expenses:** | | | | |
| 11 | Instruction | $ 21,945,635 | $ - | $ 21,945,635 |
| 12 | Instruction resources and media services | 3,558 | - | 3,558 |
| 13 | Curriculum development and instructional staff development | 156,095 | - | 156,095 |
| 21 | Instructional leadership | 591,056 | - | 591,056 |
| 23 | School leadership | 1,813,696 | - | 1,813,696 |
| 31 | Guidance, counseling, evaluation services | 1,059,205 | - | 1,059,205 |
| 33 | Health services | 330,216 | - | 330,216 |
| 35 | Food services | 1,867,704 | - | 1,867,704 |
| 36 | Extracurricular activities | 14,699 | - | 14,699 |
| 41 | General administration | 1,909,848 | - | 1,909,848 |
| 51 | Facilities maintenance and operations | 3,870,180 | - | 3,870,180 |
| 52 | Security | 250,255 | - | 250,255 |
| 53 | Data processing services | 964,043 | - | 964,043 |
| 61 | Community services | 76,683 | - | 76,683 |
| 71 | Debt service | 1,728,018 | - | 1,728,018 |
| 81 | Fundraising | 194,562 | - | 194,562 |
| | **Total expenses** | 36,775,453 | - | 36,775,453 |
| | **Increase in net assets** | 484,175 | 5,756,113 | 6,240,288 |
| **Net assets at beginning of year** | | 3,463,631 | 10,577,260 | 14,040,891 |
| **Net assets at end of year** | | $ 3,947,806 | $ 16,333,373 | $ 20,281,179 |

See notes to consolidated financial statements.

# Trinity Basin Preparatory, Inc.
## Consolidated Statement of Cash Flows
## Year Ended August 31, 2020

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Increase in net assets | $ 6,240,288 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities | |
| Depreciation | 2,320,929 |
| Amortization of debt issuance costs | 44,378 |
| Amortization of bond premium | (72,706) |
| Changes in operating assets and liabilities: | |
| Government grants receivable | 46,194 |
| Prepaid expense | (28,466) |
| Other assets | 11,323 |
| Accounts payable and accruals | 544,582 |
| Deferred rent | (52,000) |
| Net cash provided by operating activities | 9,054,522 |
| **Cash flows from investing activities:** | |
| Purchases of property and equipment | (5,200,715) |
| Purchases of investments | (310,227) |
| Net cash used by investing activities | (5,510,942) |
| **Cash flows from financing activities:** | |
| Proceeds from issuance of Series 2020 bonds | 15,683,987 |
| Proceeds from PPP loan | 4,630,075 |
| Net payments on lines of credit | (10,000,000) |
| Payments on long-term debt | (3,420,193) |
| Net cash provided by financing activities | 6,893,869 |
| Net increase in cash and cash equivalents | 10,437,449 |
| **Cash and cash equivalents at beginning of year** | 15,344,275 |
| **Cash and cash equivalents at end of year** | $ 25,781,724 |

See notes to consolidated financial statements.

# Trinity Basin Preparatory, Inc.
## Consolidated Statement of Cash Flows
## Year Ended August 31, 2020

| | |
|---|---|
| **Supplemental disclosure of cash flow information:** | |
| Cash paid for interest | $ 1,625,390 |
| **Supplemental schedule of noncash investing and financing activities:** | |
| Property and equipment acquired through issuance of long-term debt | $ 24,816,014 |
| Debt issuance costs paid through issuance of long-term debt | $ 1,785,692 |
| Accrued purchases of property and equipment | $ 1,933,965 |
| **Reconciliation of cash and restricted cash reported within the consolidated statement of financial position to the consolidated statement of cash flows :** | |
| Cash and cash equivalents | $ 12,877,859 |
| Restricted cash and cash equivalents | 12,903,865 |
| **Total cash and restricted cash shown in the statement of cash flows** | $ 25,781,724 |

See notes to consolidated financial statements.

## 1. Organization and Nature of Activities

Trinity Basin Preparatory, Inc. (Trinity Basin Preparatory or TBP) operates under an open enrollment charter granted by the State of Texas Board of Education. The original charter was issued for the period October 1, 1998 to July 31, 2003. The charter was last renewed June 20, 2013 and now expires July 31, 2023. The charter is subject to review and renewal prior to expiration. Trinity Basin Preparatory 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. Trinity Basin Preparatory does not have the authority to impose ad valorem taxes or to charge tuition. TBP operates under a single charter and does not conduct any non-charter activities. Trinity Basin Preparatory provides a safe, disciplined learning environment for students in grades Pre K3 through eighth at four locations in Oak Cliff, two in Fort Worth and one in Mesquite. Enrollment was over 3,800 students during the 2019/2020 school year and is currently over 4,100 students for the 2020/2021 school year.

TBP Panola Project, Inc. (Project) is a Texas nonprofit corporation formed on November 16, 2018. The purpose of Project is to work with TBP to secure benefits of New Market Tax Credit (NMTC) financing. The board of directors of TBP elects the board of directors of Project. Trinity Basin Preparatory and Project are collectively referred to herein as the School.

## 2. Summary of Significant Accounting Policies

### *Consolidated Financial Statements*

The consolidated financial statements include the accounts and transactions of TBP and Project. All significant inter-organizational accounts and transactions have been eliminated in consolidation.

### *Basis of Accounting and Financial Statement Presentation*

The School prepares its consolidated financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. 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. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors or limited in other respects, such as by contract.

*Net assets with donor restrictions* - Net assets subject to donor or grantor stipulations that will be met by actions of the School 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 consolidated statement of activities as net assets released from restrictions.

***Financial Instruments and Credit Risk Concentrations***

Financial instruments which are potentially subject to concentrations of credit risk consist of cash and cash equivalents, investments and government grants receivable. The School maintains cash balances at various high credit quality financial institutions. The balances at each financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At August 31, 2020, the School's uninsured bank balances totaled $12,480,000. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Government grants receivable are unsecured and are due mainly from the Texas Education Agency. The School continually evaluates the collectability of receivables and maintains allowances as necessary. No provision has been made for uncollectible receivables as of the statement of financial position date, given that none have been identified.

For the year ended August 31, 2020, the School received over 99% of its total revenue and support from governmental agencies.

***Cash and Cash Equivalents***

Cash and cash equivalents consists of cash on hand and all highly liquid investments purchased with an initial maturity of three months or less.

***Restricted Cash Equivalents***

Indenture requirements of bond financing (see Note 3) provide for the establishment and maintenance of various bank accounts with trustees. The indenture terms limit the use of these funds to the construction of educational facilities and payment of principal and interest to bond holders. Restricted cash equivalents consists of U.S. government money market funds and are recorded at cost, which approximates fair value.

***Investments***

Public fund investment pools are stated at fair value. Investment return is reported in the consolidated 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.

### *Debt Issuance Costs and Original Issue Premiums*

The School amortizes the costs of obtaining long-term financing and original issue premiums on bond indebtedness over the average period the related bonds will be outstanding. Debt issuance costs and original issue premiums are included in long-term debt in the accompanying consolidated statement of financial position. Amortization expense is included in debt service in the accompanying consolidated statement of activities.

### *Note Receivable – New Market Tax Credit*

The note receivable – new market tax credit (NMTC) is collateralized by the membership interests related to the NMTC transaction (see Notes 4 and 7) and is stated at the principal amount. The School has one class of financing receivables from a highly credible institution. Management assesses the credit quality of the NMTC note based on indicators such as collateralization and collection experience. As of August 31, 2020, no allowance has been established.

### *Property and Equipment*

Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Assets with a cost of $5,000 or more and an expected life greater than one year are capitalized. Depreciation of property and equipment is calculated on a straight-line method over the estimated useful lives of 3 to 30 years. Leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

Construction in progress will not be depreciated over the useful lives of the respective assets until they are ready for their intended use. Interest expense on debt issued for construction projects is capitalized until the projects are placed in service.

Property and equipment acquired with public funds received for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. For depreciable property and equipment purchased with donor or grantor resources, the donor or grantor restriction expires over the assets' useful lives as required by the grantor agency.

The School reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. There were no indications of asset impairment during the year ended August 31, 2020.

***Deferred Rent***

The School has a lease which includes escalating rent over the lease term. In accordance with GAAP, rent cost is accounted for on a straight-line basis over the term of the lease.

***Revenues and Support***

The School considers all government grants and contracts to be contributions. The School recognizes revenue from government grants and contracts, as eligible expenditures are incurred. Revenues from the State are earned based on students' daily attendance. Advances from government agencies are recorded as deferred revenues if the monies are conditioned on an action or future event. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract. Contributions of donated noncash assets are recorded at the estimated fair value in the period the unconditional commitment is received. The related expense is recognized as the item is used.

***Contributed Services and Assets***

Contributed services are recognized in the accompanying consolidated 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 School. No donated services were utilized that met the criteria to be recorded as revenue in the School's consolidated financial statements.

***Federal Income Taxes***

TBP and the Project are exempt from federal income taxes under Section 501(c)(3) and Section 501(c)(2), respectively of the Internal Revenue Code (Code) and are not private foundations as defined in the Code. Income generated from activities unrelated to the School's exempt purposes is subject to tax under Code Section 511. The School 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 consolidated financial statements.

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

***Estimates and Assumptions***

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Adoption of Accounting Standards***

The School adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) September 1, 2019, using the full retrospective method. Based on the School's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. Adoption of this ASU had no impact on total beginning net assets but resulted in additional disclosures.

The School adopted the amendments of ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to Topic 606 and (2) determining whether a contribution is conditional. ASU 2018-08 was adopted using the full retrospective method and had no impact on total beginning net assets but resulted in additional disclosures.

***Recent Accounting Pronouncements***

In 2016, the FASB issued ASU 2016-02*, Leases* (Topic 842). Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of consolidated financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the consolidated statement of activities will depend on a lease's classification. The new standard is effective for the School for fiscal year beginning September 1, 2022. The School is currently assessing the impact that adopting this new guidance will have on the consolidated financial statements.

## 3. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are restricted as follows at August 31, 2020:

| | | |
|---|---|---|
| Restricted bond proceeds | $ | 12,593,490 |
| Restricted by NMTC agreements | | 310,375 |
| | $ | 12,903,865 |

## 4. Note Receivable – New Market Tax Credit

The School entered into an agreement in November 2018 to lend $6,058,000 to COCRF Investor 143 Investment Fund, LLC (Capital One NMTC Fund). The note is secured by Capital One NMTC Fund's membership interest in two community development entities, COCRF SubCDE 81, LLC and Partnerships of Hope XXVI, LLC. The interest rate on the note is fixed at 1%. Interest is due quarterly beginning December 2018 until December 2025 at which time principal and interest payments of $87,622 are due quarterly with all unpaid principal and interest due upon maturity on November 15, 2044.

Maturity of the note receivable is as follows for the years ending August 31:

| | | |
|---|---|---|
| 2021 | $ | - |
| 2022 | | - |
| 2023 | | - |
| 2024 | | - |
| 2025 | | - |
| Thereafter | | 6,058,000 |
| | $ | 6,058,000 |

## 5. 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.

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***

All of the School's investments are held in 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.

## 6. Property and Equipment

Property and equipment consist of the following:

| | |
|---|---|
| Land | $ 14,275,730 |
| Buildings and improvements | 58,960,330 |
| Furniture and equipment | 5,792,694 |
| Vehicles | 163,041 |
| Construction in process | 3,588,643 |
| Total property and equipment | 82,780,438 |
| Less accumulated depreciation | (7,495,815) |
| Property and equipment, net | $ 75,284,623 |

Depreciation expense for the year ended August 31, 2020 totaled $2,320,929.

## 7. Long-Term Debt

The following is a summary of changes in the School's long-term debt for the year ended August 31, 2020:

| | Interest Rate | Begininning Balances | Additions | Reductions | Ending Balances | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| Bonds payable: | | | | | | |
| Series 2014 A | 3.25 - 5.00% | $ 26,745,000 | $ - | $ - | $ 26,745,000 | $ 165,000 |
| Series 2020 | 3.00 - 5.00% | - | 35,545,000 | - | 35,545,000 | 500,000 |
| Total bonds payable | | 26,745,000 | 35,545,000 | - | 62,290,000 | 665,000 |
| Bond premiums | | 137,617 | 6,740,693 | (72,706) | 6,805,604 | - |
| Debt issuance costs | | (764,913) | (1,785,692) | 30,596 | (2,520,009) | - |
| Total bonds payable, net | | 26,117,704 | 40,500,001 | (42,110) | 66,575,595 | 665,000 |
| Lines of credit | | 15,600,000 | - | (10,000,000) | 5,600,000 | 5,600,000 |
| Note payable | | 3,420,193 | - | (3,420,193) | - | - |
| Paycheck Protection Program forgivable loan | | - | 4,630,075 | - | 4,630,075 | 1,904,366 |
| Notes payable - new market tax credit | | 8,360,000 | - | - | 8,360,000 | - |
| Debt issuance costs | | (401,985) | - | 13,782 | (388,203) | - |
| Total notes payable, net - new market tax credit | | 7,958,015 | - | 13,782 | 7,971,797 | - |
| Total | | $ 53,095,912 | $ 45,130,076 | $ (13,448,521) | $ 84,777,467 | $ 8,169,366 |

**Bonds Payable**

In August 2020, the School completed a transaction in which the Arlington Higher Education Finance Corporation (AHEFC) issued $35,545,000 Series 2020 Education Revenue Bonds (Series 2020 Bonds) and loaned the proceeds to the School to purchase and construct certain educational facilities. Wilmington Trust is trustee for the bonds. The bonds are collateralized by a pledge of revenues of the School and are guaranteed by the Permanent School Fund of the State of Texas. The balance outstanding on the Series 2020 Bonds totaled $35,545,000 at August 31, 2020.

In August 2014, the School completed a transaction in which the AHEFC issued $29,055,000 Series 2014A Education Revenue Bonds (Series 2014 Bonds) and loaned the proceeds to the School. Wilmington Trust is trustee for the bonds. The Series 2014 Bonds are parity debt under the Master Indenture but are not secured by a deed of trust. The Series 2014 Bonds are collateralized by a pledge of revenues of the School and are guaranteed by the Permanent School Fund of the State of Texas. The balance outstanding on the Series 2014 Bonds totaled $26,745,000 at August 31, 2020.

The loan agreements, Master Trust Indenture and the Supplemental Master Trust Indenture for the Series 2020 Bonds and Series 2014 Bonds establishes a debt service coverage ratio, which stipulates that available revenues for each fiscal year must be equal to at least 1.00 times the annual debt service of the School (1.10 if cash on hand is less than 60 days) until the individual bonds or notes have been paid in full. During the year ended August 31, 2020, the School was in compliance with this covenant and all other applicable covenants contained in the loan agreements, Master Trust Indenture and the Supplemental Master Trust Indenture.

The required debt service payments of the long-term debt to satisfy the requirements of the bonds are as follows for the years ending August 31:

| | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 665,000 | $ 2,658,769 | $ 3,323,769 |
| 2022 | 1,330,000 | 2,538,456 | 3,868,456 |
| 2023 | 1,385,000 | 2,484,656 | 3,869,656 |
| 2024 | 1,445,000 | 2,428,506 | 3,873,506 |
| 2025 | 1,510,000 | 2,356,256 | 3,866,256 |
| 2026-2030 | 8,690,000 | 10,665,988 | 19,355,988 |
| 2031-2035 | 10,740,000 | 8,599,950 | 19,339,950 |
| 2036-2040 | 13,180,000 | 6,170,000 | 19,350,000 |
| 2041-2045 | 14,105,000 | 3,446,800 | 17,551,800 |
| 2046-2050 | 9,240,000 | 1,137,800 | 10,377,800 |
| Total | $ 62,290,000 | $ 42,487,182 | $ 104,777,182 |

**Lines of Credit**

The School has line of credit agreements with a bank whereby it may borrow up to $5,600,000, with interest due at the prime rate plus 1.50% (4.75% at August 31, 2020). Interest payments are due monthly with principal due upon maturity on January 5, 2021. As of August 31, 2020, $5,600,000 in advances were outstanding on the agreements. The lines are collateralized by real estate.

The School has a separate line of credit agreement with a bank whereby it may borrow up to $20,000,000, with interest due at the daily LIBOR rate plus 2.00% (3.08% at August 31, 2020). Interest payments are due monthly with principal due upon maturity on August 22, 2022. As of August 31, 2020, there were no advances outstanding on the line of credit. The line is collateralized under the Master Trust Indenture.

**Paycheck Protection Program Loan Payable**

The School applied for and received a loan under the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), administered by the U.S. Small Business Administration (SBA) from an SBA authorized lender. Under the terms of the note, the School received proceeds of $4,630,075 bearing interest at 1% per annum with a maturity date of April 10, 2022. The principal may be forgiven if the loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities.

Management has opted to account for the proceeds as a loan under FASB ASC 470 until the loan is, in part or wholly, forgiven and the School has been legally released.

**Notes Payable**

During the year ended August 31, 2018, the School entered into a promissory note agreement with a bank allowing for advances up to $5,000,000, with interest due at the prime rate plus 1.50%. Commencing on December 16, 2018, principal and interest totaling $33,551 are due monthly until maturity in November 16, 2022. The note is collateralized by real estate. The School paid the balance in full and retired the note during the year ended August 31, 2020.

**New Market Tax Credit Financing**

On November 16, 2018, the School entered into a NMTC financing transaction to finance the construction of a new school. As part of the transaction, the School made a loan of $6,058,000 to Capital One Community Renewal Fund Investor 143, LLC (Investment Fund). The loan is due November 15, 2044 and carries an annual interest rate of 1% (see Note 4).

In conjunction with the School's loan, Capital One, N.A. (NMTC Investor), a Delaware corporation, contributed $1,152,000 to the Investment Fund. The NMTC Investor will receive tax credits in return for its investment in the Investment Fund. The Investment Fund used the collective proceeds from the School and the NMTC Investor to fund two Community Development Entities (CDE), COCRF SubCDE 81, LLC and Partnerships of Home XXVI, LLC.

The School entered into a $6,860,000 loan agreement with Partnerships of Hope XXVI (POH). The loan consists of two tranches, Loan A in the amount of $5,026,000 and Loan B in the amount of $1,834,000, both of which have an interest rate of 1.084% per annum. The School also entered into a $1,500,000 loan agreement with COCRF SubCDE 81, LLC. The loan consists of two tranches, Loan A in the amount of $1,032,000 and Loan B in the amount of $468,000, both of which have an interest rate of 1.084% per annum. Interest payments are due and payable annually, in arrears, beginning March 10, 2020 to POH. Commencing on December 10, 2025, annual payments of principal and interest in the amount of $411,139 are due in arrears until maturity. The loan matures on November 15, 2048. The loan is secured by a deed of trust, security agreement, assignment of rents and leases and financing statement on the Project property.

The NMTCs were allocated in this transaction pursuant to Section 45D of the IRC. After the seven-year NMTC compliance period expires, it is anticipated that the NMTC Investor will exercise its put option to sell its ownership interest in the Investment Fund to the School for $1,000. If the NMTC Investor does not exercise that put option then the put and call agreement allows the School to exercise a call option to purchase the interest in the Investment Fund at an appraised fair value. Immediately after the exit transactions are completed, the School will be the holder of the Investment Fund's note payable and, as such the loan will be eliminated in the consolidated financial statements. It is anticipated that the loans will be discharged.

Future maturities are as follows for the years ending August 31:

| | Bonds Payable | Line of Credit | PPP Forgivable Loan | Notes Payable - New Market Tax Credit | Total |
|---|---|---|---|---|---|
| 2021 | $ 665,000 | $ 5,600,000 | $ 1,904,366 | $ - | $ 8,169,366 |
| 2022 | 1,330,000 | - | 2,334,373 | - | 3,664,373 |
| 2023 | 1,385,000 | - | 391,336 | - | 1,776,336 |
| 2024 | 1,445,000 | - | - | - | 1,445,000 |
| 2025 | 1,510,000 | - | - | - | 1,510,000 |
| Thereafter | 55,955,000 | - | - | 8,360,000 | 64,315,000 |
| Total | $ 62,290,000 | $ 5,600,000 | $ 4,630,075 | $ 8,360,000 | $ 80,880,075 |

Interest expense on all long-term debt and lines of credit for the year ended August 31, 2020 totaled $1,724,129.

## 8. Net Assets With Donor Restrictions

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

## 9. Multi-employer Defined Benefit Pension Plan

***Plan Description***

The School's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multi-employer, defined benefit pension plan. All risks and costs are not shared by the School, but are the liability of the State.

***Funding Policy***

Plan members contributed 7.7% of their annual covered salary in 2020. The School contributes 7.5% for new members of the first 90 days of employment, and the State contributes 7.5%. Additionally, the School makes a 1.5% non-OASDI payment for all TRS eligible employees. The School contributions do not represent more than 5% of the TRS' total contributions. For the year ended August 31, 2020, the School contributed $962,969 to TRS.

The risks of participating in a multi-employer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of the most recent fiscal year ended for TRS of August 31, 2019 were $181.8 billion. Accumulated benefit obligation as of August 31, 2019 was $210 billion. The plan was 86.6% funded as of August 31, 2019.

## 10. Health Care Coverage

During the year ended August 31, 2020, eligible participants of the School were covered by the TRS Active Employee Health Insurance Plan. The School contributed $280 per month per participant for the period from September 1, 2019 to August 31, 2020 to the plan. Participants, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

## 11. Operating Lease

The School has a non-cancelable operating lease agreement for an educational facility that expires in August 2024. The following is a schedule of future minimum lease payments under the operating lease agreement for the years ending August 31:

| | |
|---|---|
| 2021 | $ 280,000 |
| 2022 | 290,000 |
| 2023 | 300,000 |
| 2024 | 310,000 |
| | $ 1,180,000 |

Lease expense incurred for non-cancelable operating lease agreements during the year ended August 31, 2020 totaled $274,481.

## 12. Functional Allocation of Expenses

Expenses are reported by their functional classification as program services or management and general or fundraising.

Program services are the direct conduct or supervision of activities that fulfill the purposes for which the School exists. Fundraising activities include the solicitation of contributions of money, securities, material, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more functional classifications are allocated among the activities benefited. Salaries and related costs are charged directly either to program services, fundraising or administration based on actual time worked in each area. Information technology costs, depreciation, interest expense, and occupancy costs are allocated based on whether the costs are associated with instructional campuses (program services) or with administrative buildings.

The School's expenses by natural classification and function are as follows for the year ended August 31, 2020:

| | Payroll Costs | Professional and Contracted Services | Supplies and Materials | Other Operating Costs | Debt Service | Total |
|---|---|---|---|---|---|---|
| Program Services: | | | | | | |
| Instructional and instructional related services | $ 18,293,110 | $ 422,258 | $ 836,578 | $ 2,408,388 | $ 1,086,185 | $ 23,046,519 |
| Instructional and school leadership | - | - | 3,558 | - | 174 | 3,732 |
| Support services - student based | 2,076,908 | 86,411 | 1,206,187 | 43,714 | 115,447 | 3,528,667 |
| Support services - nonstudent based | 591,056 | - | - | - | 80,934 | 671,990 |
| Community services | 38,673 | 10,350 | 27,660 | - | 3,761 | 80,444 |
| Total program services | 20,999,747 | 519,019 | 2,073,983 | 2,452,102 | 1,286,501 | 27,331,352 |
| Support Services: | | | | | | |
| Management and general: | | | | | | |
| Instructional and school leadership | 1,813,696 | - | - | - | 88,950 | 1,902,646 |
| Administrative support services | 873,527 | 2,292,696 | 452,295 | 251,662 | 189,807 | 4,059,987 |
| Support services - nonstudent based | 2,399,597 | 409,277 | 360,467 | (45,195) | 153,218 | 3,277,364 |
| Fundraising | 193,103 | 60 | 1,399 | - | 9,542 | 204,104 |
| Total support services | 5,279,923 | 2,702,033 | 814,161 | 206,467 | 441,517 | 9,444,101 |
| Total expenses | $ 26,279,670 | $ 3,221,052 | $ 2,888,144 | $ 2,658,569 | $ 1,728,018 | $ 36,775,453 |

## 13. Liquidity and Availability of Resources

The School 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 twelve-month period, the School 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 School'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.

The School's financial assets available for general expenditure within one year of the consolidated statement of financial position date are as follows:

| | |
|---|---|
| Financial assets at August 31, 2020: | |
| Cash and cash equivalents | $ 12,877,859 |
| Restricted cash equivalents | 12,903,865 |
| Investments | 913,526 |
| Government grants receivable | 3,568,922 |
| Total financial assets | 30,264,172 |
| Less financial assets not available for general expenditure: | |
| Cash restricted by NMTC agreements | (310,374) |
| Cash restricted for construction | (12,593,491) |
| Total financial assets available for general expenditure | $ 17,360,307 |

## 14. Commitments and Contingencies

The continued global pandemic in 2020 has created substantial volatility in financial markets and the economy, including the geographical areas in which the School operates. While the School has mitigated the financial impact to its business, it is unknown how long these conditions will last and what the complete financial effect will be to the School. Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted, and as such cannot be determined.

The School entered into construction contract commitments related to the expansion of the Panola Campus for approximately $13.7 million. As of August 31, 2020, the School had remaining commitments of approximately $10.1 million, all of which are expected to be incurred in fiscal year 20-21.

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

From time to time, the School is subject to certain claims and contingent liabilities that arise in the normal course of business. The School records a liability when management believes that it is both probably that a loss has been incurred and that the amount can be reasonably estimated. Significant judgement is required to determine the outcome and the estimated amounts of a loss related to such matters. Management believes that liabilities, if any, arising from such claims would not have a material effect on the School’s consolidated financial position.

## 15. Subsequent Events

The School evaluated subsequent events through the date the of the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.

Supplemental Information

# Trinity Basin Preparatory, Inc.
## Consolidating Statement of Financial Position
## August 31, 2020

| | Trinity Basin Preparatory, Inc. | TBP Panola Project, Inc. | Eliminations | Total |
|---|---|---|---|---|
| | **Assets** | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ 12,877,859 | $ - | $ - | $ 12,877,859 |
| Restricted cash equivalents | 12,593,491 | 310,374 | - | 12,903,865 |
| Investments | 913,526 | - | - | 913,526 |
| Government grants receivable | 3,568,922 | - | - | 3,568,922 |
| Prepaid expense | 130,265 | - | - | 130,265 |
| **Total current assets** | 30,084,063 | 310,374 | - | 30,394,437 |
| **Non-current assets:** | | | | |
| Other assets | 20,437 | 97 | (97) | 20,437 |
| Note receivable - new market tax credit | 6,058,000 | - | - | 6,058,000 |
| Due to/Due from | (480,000) | 480,000 | - | - |
| Property and equipment, net | 67,527,944 | 7,756,679 | - | 75,284,623 |
| **Total non-current assets** | 73,126,381 | 8,236,776 | (97) | 81,363,060 |
| **Total assets** | $ 103,210,444 | $ 8,547,150 | $ (97) | $ 111,757,497 |
| | **Liabilities and Net Assets** | | | |
| **Current liabilities:** | | | | |
| Accounts payable | $ 2,961,092 | $ 25,000 | $ - | $ 2,986,092 |
| Accrued wages | 2,902,500 | - | - | 2,902,500 |
| Accrued expense | 519,759 | - | - | 519,759 |
| Lines of credit | 5,600,000 | - | - | 5,600,000 |
| Current maturities of long-term debt | 2,569,366 | - | - | 2,569,366 |
| **Total current liabilities** | 14,552,717 | 25,000 | - | 14,577,717 |
| **Long-term liabilities:** | | | | |
| Deferred rent | 290,597 | - | (97) | 290,500 |
| Long-term debt, net of debt issuance costs - new market tax credit | - | 7,971,797 | - | 7,971,797 |
| Long-term debt, net of debt issuance costs | 68,636,304 | - | - | 68,636,304 |
| **Total long-term liabilities** | 68,926,901 | 7,971,797 | (97) | 76,898,601 |
| **Total liabilities** | 83,479,618 | 7,996,797 | (97) | 91,476,318 |
| **Net assets:** | | | | |
| Without donor restrictions | 3,397,453 | 550,353 | - | 3,947,806 |
| With donor restrictions | 16,333,373 | - | - | 16,333,373 |
| **Total net assets** | 19,730,826 | 550,353 | - | 20,281,179 |
| **Total liabilities and net assets** | $ 103,210,444 | $ 8,547,150 | $ (97) | $ 111,757,497 |

# Trinity Basin Preparatory, Inc.
## Consolidating Statement of Activities
## Year Ended August 31, 2020

| | | Trinity Basin Preparatory, Inc. | TBP Panola Project, Inc. | Eliminations | Total |
|---|---|---|---|---|---|
| **Revenue and support:** | | | | | |
| Local support: | | | | | |
| 5740 | Other revenue from local sources | $ 348,316 | $ 360,000 | $ (360,000) | $ 348,316 |
| 5750 | Food service activity | 135,859 | - | - | 135,859 |
| | **Total local support** | 484,175 | 360,000 | (360,000) | 484,175 |
| State program revenue: | | | | | |
| 5810 | Foundation School Program | 36,313,659 | - | - | 36,313,659 |
| 5810 | Available School Fund | 973,769 | - | - | 973,769 |
| 5820 | State Program Revenues Distributed by TEA | 267,963 | - | - | 267,963 |
| 5830 | SPED Special Allotment | 30,000 | - | - | 30,000 |
| | **Total state program revenue** | 37,585,391 | - | - | 37,585,391 |
| Federal program revenue: | | | | | |
| 5920 | ESEA Title I, Part A | 923,941 | - | - | 923,941 |
| 5920 | IDEA Part B, Formula | 453,756 | - | - | 453,756 |
| 5920 | IDEA Part B, Preschool | 6,800 | - | - | 6,800 |
| 5920 | Child Nutrition Program | 1,345,385 | - | - | 1,345,385 |
| 5920 | ESEA Title II, Part A | 118,899 | - | - | 118,899 |
| 5920 | ESEA Title III, Part A | 202,414 | - | - | 202,414 |
| 5920 | HQ Expansion Grant | 450,000 | - | - | 450,000 |
| 5920 | Title IV, Part A Subpart I | 43,836 | - | - | 43,836 |
| 5920 | ESSER | 516,543 | - | - | 516,543 |
| 5920 | CRF Funds | 516,632 | - | - | 516,632 |
| 5930 | Federal Revenues Distributed by State of Texas Government Agencies (other than TEA) | 367,969 | - | - | 367,969 |
| | **Total federal program revenue** | 4,946,175 | - | - | 4,946,175 |
| | **Total revenue and support** | 43,015,741 | 360,000 | (360,000) | 43,015,741 |

# Trinity Basin Preparatory, Inc.
## Consolidating Statement of Activities
## Year Ended August 31, 2020

| | | Trinity Basin Preparatory, Inc. | TBP Panola Project, Inc. | Eliminations | Total |
|---|---|---|---|---|---|
| **Expenses:** | | | | | |
| 11 | Instruction | $ 21,792,192 | $ 153,443 | $ - | $ 21,945,635 |
| 12 | Instruction resources and media services | 3,558 | - | - | 3,558 |
| 13 | Curriculum development and instructional staff development | 156,095 | - | - | 156,095 |
| 21 | Instructional leadership | 591,056 | - | - | 591,056 |
| 23 | School leadership | 1,813,696 | - | - | 1,813,696 |
| 31 | Guidance, counseling, evaluation services | 1,059,205 | - | - | 1,059,205 |
| 33 | Health services | 330,216 | - | - | 330,216 |
| 35 | Food services | 1,867,704 | - | - | 1,867,704 |
| 36 | Extracurricular activities | 14,699 | - | - | 14,699 |
| 41 | General administration | 1,899,848 | 10,000 | - | 1,909,848 |
| 51 | Facilities maintenance and operations | 3,870,180 | - | - | 3,870,180 |
| 52 | Security | 250,255 | - | - | 250,255 |
| 53 | Data processing services | 964,043 | - | - | 964,043 |
| 61 | Community services | 76,683 | - | - | 76,683 |
| 71 | Debt service | 1,599,829 | 128,189 | - | 1,728,018 |
| 81 | Fundraising | 194,562 | - | - | 194,562 |
| | **Total expenses** | 36,483,821 | 291,632 | - | 36,775,453 |
| | **Increase in net assets** | 6,531,920 | 68,368 | (360,000) | 6,240,288 |
| **Net assets at beginning of year** | | 13,558,905 | 481,986 | - | 14,040,891 |
| **Net assets at end of year** | | $ 20,090,825 | $ 550,354 | $ (360,000) | $ 20,281,179 |

Supplemental Information Required by TEA

# Trinity Basin Preparatory, Inc.
## Consolidated Schedule of Capital Assets
## August 31, 2020

| | | Ownership Interest | |
|---|---|---|---|
| Description | | Local | State |
| 1510 | Land | $ - | $ 14,275,730 |
| 1520 | Buildings and improvements | - | 58,960,330 |
| 1549 | Furniture and equipment | - | 5,792,694 |
| 1541 | Vehicles | - | 163,041 |
| 1580 | CIP | - | 3,588,643 |
| | | $ - | $ 82,780,438 |

# Trinity Basin Preparatory, Inc.
## Budgetary Comparison Schedule
## Year Ended August 31, 2020

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance from Final Budget |
|---|---|---|---|---|
| **Revenue and other support:** | | | | |
| Local support | $ 493,962 | $ 493,962 | $ 484,175 | $ (9,787) |
| State program revenue | 37,303,943 | 37,303,943 | 37,585,391 | 281,448 |
| Federal program revenue | 3,493,618 | 3,493,618 | 4,946,175 | 1,452,557 |
| **Total revenue and support** | 41,291,523 | 41,291,523 | 43,015,741 | 1,724,218 |
| **Expenses:** | | | | |
| 11 Instruction | 21,382,714 | 21,382,713 | 21,945,635 | (562,922) |
| 12 Instructional resources and media services | 3,558 | 3,558 | 3,558 | - |
| 13 Curriculum development and instructional staff development | 196,705 | 196,705 | 156,095 | 40,610 |
| 21 Instructional leadership | 584,290 | 584,290 | 591,056 | (6,766) |
| 23 School leadership | 1,782,554 | 1,782,554 | 1,813,696 | (31,142) |
| 31 Guidance, counseling and evaluation services | 1,062,002 | 1,062,002 | 1,059,205 | 2,797 |
| 33 Health services | 319,470 | 319,470 | 330,216 | (10,746) |
| 35 Food services | 1,807,619 | 1,807,619 | 1,867,704 | (60,085) |
| 36 Extracurricular activities | 14,699 | 14,699 | 14,699 | - |
| 41 General administration | 1,891,026 | 1,891,026 | 1,909,848 | (18,822) |
| 51 Facilities maintenance and operations | 3,395,871 | 3,395,871 | 3,870,180 | (474,309) |
| 52 Security | 238,660 | 238,660 | 250,255 | (11,595) |
| 53 Data processing services | 918,758 | 918,758 | 964,043 | (45,285) |
| 61 Community services | 75,081 | 75,081 | 76,683 | (1,602) |
| 71 Debt service | 1,724,129 | 1,724,129 | 1,728,018 | (3,889) |
| 81 Fundraising | 194,387 | 194,388 | 194,562 | (174) |
| **Total expenses** | 35,591,523 | 35,591,523 | 36,775,453 | (1,183,930) |
| **Increase in net assets** | $ 5,700,000 | $ 5,700,000 | $ 6,240,288 | $ 540,288 |

# Trinity Basin Preparatory, Inc.
## Consolidated Schedule of Expenses
## Year Ended August 31, 2020

| Object Code | Description | Amount |
|---|---|---|
| 6100 | Payroll costs | $ 26,279,670 |
| 6200 | Professional and contracted services | 3,221,052 |
| 6300 | Supplies and materials | 2,888,144 |
| 6400 | Other operating expenses | 2,658,569 |
| 6500 | Debt service | 1,728,018 |
| | | $ 36,775,453 |

Compliance Reports

Sutton Frost Cary LLP
Certified Public Accountants

## 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*

Board of Directors
Trinity Basin Preparatory, Inc.

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 consolidated financial statements of Trinity Basin Preparatory, Inc. (TBP) (a nonprofit organization), which comprise the consolidated statement of financial position as of August 31, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 16, 2020. The financial statements of TBP Panola Project, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with TBP Panola Project, Inc.

### *Internal Control over Financial Reporting*

In planning and performing our audit of the consolidated financial statements, we considered TBP'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of TBP's internal control. Accordingly, we do not express an opinion on the effectiveness of TBP'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 TBP's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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


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### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether TBP's consolidated 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 consolidated 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 TBP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TBP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
November 16, 2020

**Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Directors
Trinity Basin Preparatory, Inc.

***Report on Compliance for Each Major Federal Program***

We have audited Trinity Basin Preparatory, Inc.'s (TBP) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of TBP's major federal programs for the year ended August 31, 2020. TBP's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of TBP's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TBP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of TBP's compliance.

***Opinion on Major Federal Program***

In our opinion, TBP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.



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***Report on Internal Control over Compliance***

Management of TBP is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered TBP's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TBP's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
November 16, 2020

# Trinity Basin Preparatory, Inc.
## Schedule of Findings and Questioned Costs
## Year Ended August 31, 2020

**Section I – Summary of Auditors' Results**

*Consolidated Financial Statements*

| | | |
|---|---|---|
| Type of auditors' report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| • Material weaknesses identified? | ___ yes | X no |
| • Significant deficiencies identified? | ___ yes | X none reported |
| Noncompliance material to financial statements noted? | ___ yes | X no |

*Federal Awards*

| | | |
|---|---|---|
| Internal control over major programs: | | |
| • Material weaknesses identified? | ___ yes | X no |
| • Significant deficiencies identified? | ___ yes | X none reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | ___ yes | X no |

Identification of major federal program or cluster:

Child Nutrition Cluster CFDAs 10.553 and 10.555
Coronavirus Relief Fund CFDA 21.019

| | | |
|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 | |
| Auditee qualified as low-risk auditee? | X yes | ___ no |

**Section II – Financial Statement Findings**
Audit findings: None

**Section III – Federal Award Findings and Questioned Costs**
Audit findings: None

**Section IV – Summary of Prior Year Audit Findings**
None

# Trinity Basin Preparatory, Inc.
## Schedule of Expenditures of Federal Awards
## Year Ended August 31, 2020

| Federal Grantor/ Pass through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through entity identifying number | Federal Expenditures |
|---|---|---|---|
| U.S. Department of Education | | | |
| Passed through Texas Education Agency | | | |
| Special Education-Grants to States (IDEA, Part B) | 84.027 | 206600010578136000 | $ 453,756 |
| Special Education-Preschool Grants (IDEA Preschool) | 84.173 | 206610010578136000 | 6,800 |
| Total Special Education Cluster | | | 460,556 |
| Passed through Texas Education Agency | | | |
| Title I Part A - Improving Basic Programs | 84.010 | 20694501057813 | 923,941 |
| Charter School Program | 84.282 | 20694501057813 | 450,000 |
| ESEA Title II Part A - Teacher & Principal Training | 84.367 | 20694501057813 | 118,899 |
| Title III, Language Instruction LEP | 84.365 | 20671001057813 | 202,414 |
| Title IV, Part A, Subpart 1 | 84.424 | 20680101057813 | 43,836 |
| COVID - Elementary & Secondary School Emergency Relief | 84.425 | 20521001057813 | 516,543 |
| Total U.S. Department of Education | | | 2,716,189 |
| U.S. Department of Agriculture | | | |
| Passed through Texas Education Agency | | | |
| National School Breakfast Program | 10.553 | 71402001 | 236,501 |
| National School Lunch Program | 10.555 | 71302001 | 1,108,884 |
| Total Child Nutrition Cluster and U.S. Department of Agriculture | | | 1,345,385 |
| U.S. Department of Treasury | | | |
| Passed through Texas Division Emergency Management | | | |
| COVID - CRF Funds | 21.019 | U282A170018 | 516,632 |
| U.S. Department of Health and Human Services | | | |
| Passed through State Departement of Health and Human Services | | | |
| Medicaid Administrative Claiming Program | 93.778 | - | 3,674 |
| Total Expenditures of Federal Awards | | | $ 4,581,880 |

See notes to schedule of expenditures of federal awards.

## 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Trinity Basin Preparatory, Inc. (TBP). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of TBP, it is not intended to and does not present the financial position, changes in net assets, or cash flows of TBP.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. TBP has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance and continues to use the allowable indirect costs for each award as determined by the awarding agency.

## 2. Non-Cash Federal Awards

TBP received non-cash awards in the form of food commodities totaling $108,131 for the year ended August 31, 2020.