Round Rock Christian Academy

Financial Statements
as of and for the the Year Ended
June 30, 2023 and
Independent Auditors' Report

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Round Rock Christian Academy

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Independent Auditors' Report

To the Board of Directors of
Round Rock Christian Academy:

Opinion

We have audited the accompanying financial statements of Round Rock Christian Academy (a nonprofit organization) (the "Academy"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

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

Austin, Texas
September XX, 2023

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Round Rock Christian Academy

Statement of Financial Position
June 30, 2023

Assets	
Current assets:	
Cash and cash equivalents	$ 2,046,909
Tuition receivable	12,205
Pledges receivable, current	5,509
Prepaid expenses and other assets	242,407
Total current assets	2,307,030
Cash restricted to investment in gym construction	202,108
Pledges receivable, long-term	15,000
Property and equipment, net	11,591,245
Total	$ 14,115,383
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 1,163,181
Deferred revenue	1,383,223
Current portion of notes payable	161,570
Total current liabilities	2,707,974
Notes payable	7,020,419
Total liabilities	9,728,393
Net assets:	
Without donor restrictions	4,164,373
With donor restrictions	222,617
Total net assets	4,386,990
Total	$ 14,115,383

See notes to financial statements.

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Round Rock Christian Academy

Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and net assets released from restrictions:			
Net tuition and student fees	$ 6,293,990	-	6,293,990
Contributions	755,633	129,570	885,203
Education programs	146,435	-	146,435
Other income	26,312	-	26,312
Net assets released from restrictions	-	-	-
Total revenues and net assets released from restrictions	7,222,370	129,570	7,351,940
Expenses:			
Program services:			
Secondary school	2,096,166	-	2,096,166
Elementary school	2,058,392	-	2,058,392
Early childhood development	202,058	-	202,058
Total program services	4,356,616	-	4,356,616
Support services:			
Administration	1,823,492	-	1,823,492
Development	146,563	-	146,563
Total support services	1,970,055	-	1,970,055
Total expenses	6,326,671	-	6,326,671
Change in net assets	895,699	129,570	1,025,269
Net assets, beginning of year	3,268,674	93,047	3,361,721
Net assets, end of year	$ 4,164,373	222,617	4,386,990

See notes to financial statements.

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Round Rock Christian Academy

Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services				Support Services			
	Secondary School	Elementary School	Early Childhood Development	Total Program Services	Administration	Development	Total Support Service	Total
Employee expenses:								
Salaries	$ 1,151,878	1,079,334	127,942	2,359,154	1,019,599	48,411	1,068,010	3,427,164
Benefits	91,623	119,474	4,995	216,092	86,590	7,964	94,554	310,646
Payroll taxes	81,696	84,159	9,476	175,331	70,956	3,946	74,902	250,233
Payroll processing fees	3,309	3,664	473	7,446	2,127	236	2,363	9,809
Total employee expenses	1,328,506	1,286,631	142,886	2,758,023	1,179,272	60,557	1,239,829	3,997,852
Other expenses:								
Depreciation and amortization	178,192	187,102	17,819	383,113	98,006	8,910	106,916	490,029
Student education	137,965	197,740	5,632	341,337	-	-	-	341,337
Interest	-	-	-	-	324,875	-	324,875	324,875
Facilities and lease	116,518	122,344	11,652	250,514	64,085	5,826	69,911	320,425
Technology	88,119	96,415	9,155	193,689	21,521	3,768	25,289	218,978
Athletics	107,900	31,075	-	138,975	-	-	-	138,975
Building and grounds	35,005	36,755	3,500	75,260	19,253	1,750	21,003	96,263
Student programs	55,169	27,539	5,370	88,078	-	-	-	88,078
Office	26,785	29,655	3,826	60,266	18,413	1,913	20,326	80,592
Advertising and promotion	-	-	-	-	6,425	63,839	70,264	70,264
Insurance	20,378	22,297	2,117	44,792	-	-	-	44,792
Professional fees	-	-	-	-	26,450	-	26,450	26,450
Vehicle maintenance	-	-	-	-	23,469	-	23,469	23,469
Bad debt	-	19,128	-	19,128	-	-	-	19,128
Professional development	1,629	1,711	101	3,441	12,641	-	12,641	16,082
Professional organization	-	-	-	-	14,824	-	14,824	14,824
Other	-	-	-	-	14,258	-	14,258	14,258
Total other expenses	767,660	771,761	59,172	1,598,593	644,220	86,006	730,226	2,328,819
Total expenses	$ 2,096,166	2,058,392	202,058	4,356,616	1,823,492	146,563	1,970,055	6,326,671

See notes to financial statements.

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Round Rock Christian Academy

Statement of Cash Flows
Year Ended June 30, 2023

Cash Flows from Operating Activities:		
Change in net assets	$	1,025,269
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		490,029
Bad debt expense		19,128
Contributions restricted for building construction		(109,570)
Changes in operating assets and liabilities that provided (used) cash:		
Tuition receivables		30,619
Pledges receivable		(33,776)
Prepaid expenses and other assets		(47,461)
Accounts payable and accrued expenses		87,923
Deferred revenue		198,585
Net cash provided by operating activities		1,660,746
Cash Flows from Investing Activities-		
Purchases of property and equipment		(2,014,578)
Cash Flows from Financing Activities:		
Borrowings on notes payable		455,955
Payments on notes payable		(157,596)
Contributions restricted for building construction		109,570
Net cash provided by financing activities		407,929
Net change in cash and cash equivalents		54,097
Cash, cash equivalents, and restricted cash, beginning of year		2,194,920
Cash, cash equivalents, and restricted cash, end of year	$	2,249,017
Supplemental Disclosure of Cash Flow Information-		
Interest paid on notes payable	$	323,640
Supplemental Non-Cash Disclosure-		
Additions to construction-in-progress not yet paid	$	788,180

See notes to financial statements.

1. Organization

Round Rock Christian Academy (the "Academy") is an independent private school in Round Rock, Texas. The Academy's mission is to be a Christ-centered college preparatory school, equipping and developing students to effectively integrate Biblical truth and academic learning into their daily lives to impact their community for Christ. The Academy is accredited through COGNIA and the Association of Christian School International, both approved by the Texas Private School Accreditation Commission, and recognized by the Texas Education Agency, through the State Commissioner of Education. These financial statements include auxiliary operations of the school, including the Booster Club, the Parent Support Team, and the student council. The cash balances held by the auxiliary operations are reported as both cash and cash equivalents and accrued expenses in the statement of financial position.

2. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Asset Classifications - Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Academy and changes therein are classified as follows:

<u>Without Donor Restrictions</u> **-** These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use by the Academy, or at the discretion of the Board of Directors (the "Board") for the Academy's use.

<u>With Donor Restrictions</u> **-** These net assets are subject to donor-imposed stipulations, which limit their use by the Academy to a specific purpose and/or the passage of time, or which require them to be maintained permanently. The Academy has not received any permanently restricted contributions.

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Cash, Cash Equivalents, and Restricted Cash - The Academy considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Academy also holds cash restricted to investment in gym construction.

Tuition Receivable - Tuition receivable is recorded when the Academy has an unconditional right to payment under the terms of the customer contract. The Academy continually monitors the credit worthiness of each family and recognizes allowances for estimated bad debts on accounts that are no longer estimated to be collectible. The Academy regularly adjusts any allowance for subsequent collections or upon final determination that a tuition receivable is no longer collectible. The Academy had no allowance for uncollectible accounts as of June 30, 2023 as management estimated all outstanding balances to be collectible.

Costs to Obtain or Fulfill Contracts - As performance obligations in the Academy's contracts with customers are satisfied over a period of one year or less, the Academy applies the practical expedient to expense costs to obtain a contract as incurred. The Academy does not incur significant fulfillment costs requiring capitalization.

Pledges Receivable - Unconditional promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. The Academy did not record a net present value discount on pledges receivable as of June 30, 2023 as management determined such discount would not be significant. Management has determined that pledges receivable are fully collectible; therefore, no allowance for uncollectible pledges was considered necessary as of June 30, 2023.

Property and Equipment - Property and equipment are capitalized at cost if purchased and at fair market value on the date of receipt if donated. The Academy capitalizes property and equipment acquisitions in excess of $1,500. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets, ranging from five to seven years for furniture, equipment, and vehicles and twenty-eight years for building and improvements. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of activities. Construction-in-progress is not depreciated until placed in-service, and land is not depreciated. Maintenance and repairs that do not improve or extend the useful life of the respective asset are expensed when incurred.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment at the asset group level whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset group exceeds fair value, if the carrying amount of the asset group is not recoverable.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement -In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for leases under Topic 840, *Leases*. The standard requires the recognition of right-of-use ("ROU") assets and lease liabilities for all leases, including operating leases. The Academy adopted ASU No. 2016-02, as amended, on July 1, 2022, using a modified retrospective approach. The adoption did not have a significant impact on the Academy's statement of financial position or statement of activities.

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Leases - Leases with an initial term of twelve months or less are classified as short-term leases and are not recognized in the statement of financial position unless the lease contains a purchase option that is reasonably certain to be exercised. Management assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys the Academy's right to control the use of an identified asset for a period of time in exchange for consideration. A determination is made at inception as to whether the lease is an operating lease or a finance lease, and lease determinations are reassessed in the event of a change in lease terms. ROU assets and associated liabilities are recognized at the commencement date and initially measured based on the present value of future minimum lease payments over the expected lease term, with ROU assets increased for initial direct costs and prepaid lease payments and reduced by any lease incentives received from the lessor. There were no ROU assets or associated liabilities recorded on the Academy's statement of financial position as of June 30, 2023 as the Academy was not obligated under any lease agreements.

Revenue Recognition - Revenue is recognized when promised services are transferred to students in an amount that reflects the consideration to which the Academy expects to be entitled in exchange for those services by following a five-step process: (1) identify the contract with a student, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Academy satisfies a performance obligation, as further described below.

Tuition income includes student tuition and related fees and is recorded net of financial aid, scholarships, or discounts, which totaled $845,967 during the year ended June 30, 2023. Student tuition and fee payments received prior to the start of the Academy's school term are deferred until the term begins and recognized in the statement of activities as tuition revenue ratably over the school term and as fee revenue once the school term begins.

The timing of revenue recognition, billings and cash collections resulted in accounts receivable totaling $42,824 and deferred revenue totaling $1,184,638 as of June 30, 2022.

Contributions - All contributions are recorded at their fair value and are considered to be available for operations of the Academy unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related restricted net assets are reclassified to net assets without donor restrictions. This is reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire within the fiscal year in which the contributions are received. Conditional promises to give, defined as those with a measurable performance or other barrier and a right to return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

In-kind contributions include donated services and materials which are reflected in the statement of activities at their fair value on the date of receipt. Donated services are recognized if the services received (a) create or enhance non-financial assets and (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2023, no donated services met the criteria for recognition.

Advertising expense - Advertising costs are charged to expense as incurred. Total advertising expense for the year ended June 30, 2023 was $6,425.

Functional Allocation of Expense - The accompanying financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques, such as time and effort.

Federal Income Taxes - The Academy is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; except as it relates to any unrelated business income. The Academy did not incur any significant tax liabilities due to unrelated business income during the year ended June 30, 2023. The Academy files Form 990 tax returns in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

Recently Issued Accounting Pronouncement - In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables and other commitments to extend credit held by a reporting entity at each reporting date. Entities are required to replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendment is effective using a modified retrospective approach for fiscal years beginning after December 15, 2022 and early adoption is permitted. The Academy is currently evaluating the impact the amendment will have on its financial statements.

3. Liquidity and Availability of Financial Assets

As of June 30, 2023, the Academy's financial assets available within one year for general expenditure were as follows:

Cash and cash equivalents	$ 2,046,909
Tuition receivable	12,205
Total financial assets available to management for general expenditure within one year	$ 2,059,114

The Board ensures the Academy's financial stability by approving an annual budget prior to the start of each fiscal year. Any expenditures not in the approved budget must be approved. Donor-restricted net assets that are temporarily restricted for the gymnasium building are not included in financial assets available to management for general expenditures within one year.

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4. Concentration of Credit Risk

Financial instruments which potentially subject the Academy to concentrations of credit risk consist principally of cash and cash equivalents and tuition and pledges receivable. The Academy places its cash and cash equivalents with a limited number of high-quality financial institutions and may exceed the amount of insurance provided on such deposits. The Academy does not maintain collateral for its tuition or pledges receivable. One donor comprised 40% of contribution revenue during the year ended June 30, 2023.

5. Property and Equipment

Property and equipment consisted of the following as of June 30, 2023:

Building and improvements	$ 8,563,907
Furniture and equipment	674,385
Vehicles	152,964
	9,391,256
Less: Accumulated depreciation and amortization	(1,757,929)
Construction-in-progress	2,763,793
Land	1,194,125
Total property and equipment, net	$ 11,591,245

6. Notes Payable

In June 2019, the Academy entered into a loan for the construction of the new school building (the "2019 Construction Loan") which allows the Academy to borrow up to $7,112,394. Interest only payments were due monthly at a rate of 4.75% per annum through April 2022, thereafter, both principal and interest are due until the note matures in April 2047 with various interest rate adjustments, as defined, capped at 8.00% per annum. As of June 30, 2023, the outstanding balance of the 2019 Construction Loan was $6,337,268 (4.75% at June 30, 2023). The Academy is subject to a debt service coverage requirement. The 2019 Construction Loan is secured by the Academy's revenues and the property.

In September 2020, the Academy entered into a second construction loan (the "2020 Construction Loan") that allows the Academy to borrow up to $453,000. Interest only was due monthly at a rate of 4.50% per annum through June 2021, thereafter, both principal and interest are due based on a twenty-five year amortization term until the note matures in June 2047 with various interest rate adjustments, as defined, capped at 8.00% per annum. As of June 30, 2023, the outstanding balance of the 2020 Construction Loan was $393,141 (4.50% at June 30, 2023). The Academy is subject to a debt service coverage requirement. The 2020 Construction Loan is secured by the Academy's revenues and the property.

In November 2022, the Academy entered into a third construction loan (the "2022 Construction Loan") that allows the Academy to borrow up to $6,955,000. Interest only is due monthly at a rate of 6.75% per annum through December 2024, thereafter, both principal and interest are due based on a twenty-five year amortization term until the note matures in November 2032 with various interest rate adjustments, as defined, with a floor equal to 6.75% per annum. The agreement also provides that principal reduction payments of $500,000 or greater to be made on November 1, 2024 and November 1, 2026. As of June 30, 2023, the outstanding balance of the 2022 Construction Loan was $451,580 (6.75% at June 30, 2023). The Academy is subject to a debt service coverage requirement. The 2022 Construction Loan is secured by the Academy's revenues and the property.

Future required principal payments on debt obligations were as follows as of June 30, 2023:

2024	$ 161,570
2025	628,430
2026	185,396
2027	194,354
2028	203,746
Thereafter	5,808,493
Total	$ 7,181,989

7. Net Assets with Donor Restrictions

As of June 30, 2023, net assets with donor restrictions were temporarily restricted for the capital campaign related to the gymnasium.

8. Employee Retention Tax Credit

During the year ended June 30, 2023, the Academy received $357,525 through the Employee Retention Tax Credit ("ERTC") offered under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and administered by the U.S. Small Business Administration ("SBA"). The Academy accounted for the ERTC as a conditional grant with one performance criteria of incurring qualifying expenses. The conditions were met prior to fiscal year end and therefore $357,525 was recorded as contribution revenue in the statement of activities for the year then ended.

9. Related Party Transactions

Contributions from members of the Board during the year ended June 30, 2023 totaled $48,095. As of June 20, 2023, there was an outstanding pledge receivable of $20,000 from a related party.

10. Retirement Plan

The Academy offers a defined contribution plan covering substantially all employees. For contributions made by employees, the Academy makes a matching contribution up to 2% of each participating employee's eligible compensation. Matching contributions totaled $36,528 during the year ended June 30, 2023.

11. Subsequent Event

The Academy has evaluated subsequent events through September XX, 2023 (the date the financial statements were available to be issued) and no events have occurred from the statement of financial position date through that date that would impact the financial statements.

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