

**RESPONSIVE EDUCATION
SOLUTIONS**

Consolidated Financial Report for the Year Ended

August 31, 2015

RESPONSIVE EDUCATION SOLUTIONS

Annual Financial Report
For the Year Ended August 31, 2015

TABLE OF CONTENTS

Certificate of Board	
Independent Auditor's Report.....	1
Financial Statements:	
Statement of Financial Position.....	5
Statement of Activities	6
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9
Supplementary Information:	
Statement of Financial Position by Charter	26
Statement of Activities by Charter	28
Statement of Cash Flows by Charter.....	32
Schedule of Expenses by Charter.....	35
Schedule of Capital Assets by Charter	36
Budgetary Comparison Schedule by Charter.....	38
Compliance and Internal Control Section:	
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	43
Report on Compliance for Each Major Program and on Internal Control Over Compliance required by OMB Circular A-133.....	45
Schedule of Findings and Questioned Costs	47
Schedule of Expenditure of Federal Awards	48

CERTIFICATE OF BOARD

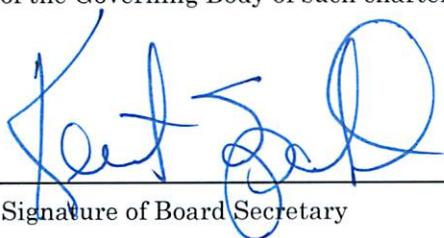
TEXAS COLLEGE PREPARATORY ACADEMIES
DISTRICT NUMBER: 221801

AND

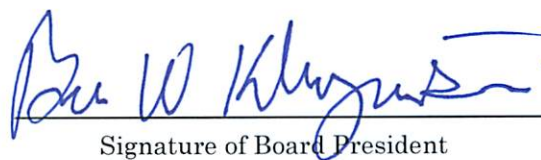
PREMIER HIGH SCHOOLS
DISTRICT NUMBER: 072801

FEDERAL EIN: 75-2748762

We, the undersigned, certify that the attached financial reports of Responsive Education Solutions were reviewed and approved ___ disapproved for the year ended August 31, 2015, at a meeting of the Governing Body of such charter school on the 21st day of January, 2016.



Signature of Board Secretary



Signature of Board President

If the auditor's report was disapproved, the reason(s) therefore is/are (attach list if necessary):

EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS
8950 GARY BURNS DRIVE, SUITE D
FRISCO, TEXAS 75034
972-335-9754/FAX 972-335-9758

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Responsive Education Solutions
Lewisville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Responsive Education Solutions (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Responsive Education Solutions as of August 31, 2015, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2016, on our consideration of Responsive Education Solutions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Responsive Education Solutions' internal control over financial reporting and compliance.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
Frisco, TX
January 7, 2016

FINANCIAL STATEMENTS

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RESPONSIVE EDUCATION SOLUTIONS

Statement of Financial Position

August 31, 2015

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 39,847,178
Due from State	1,855,559
Due from Res Ed School Svcs	378,151
Other Receivables	36,789,737
Inventory	449,928
Prepaid Expenses	60,197
Total Current Assets	<u>79,380,750</u>

Property & Equipment:

Land	13,317,546
Buildings & Improvements	43,600,755
Vehicles	198,708
Furniture & Equipment	6,419,600
Leasehold Improvements	1,611,114
Library Books & Media	663,941
Construction in Progress	14,047,962
Accumulated Depreciation	(8,354,900)
Total Net Property & Equipment	<u>71,504,726</u>

Other Assets:

Other Assets	1,433,923
Total Other Assets	<u>1,433,923</u>

TOTAL ASSETS **\$ 152,319,399**

LIABILITIES & NET ASSETS

Current Liabilities:

Accounts Payable	\$ 1,941,256
Other Payables	28,258,589
Accrued Wages & Other Benefits Payable	3,204,577
Accrued Expenses	836,072
Retainage Payable	512,886
Current Portion of Long Term Debt	454,482
Deferred Revenues	-
Total Current Liabilities	<u>35,207,862</u>

Long-Term Liabilities:

Notes Payable	7,923,150
Bonds Payable	63,965,000
Premium on Bonds Payable	1,965,187
Total Long-Term Liabilities	<u>73,853,337</u>

Net Assets:

Unrestricted	7,651,928
Temporarily Restricted	35,606,272
Total Net Assets	<u>43,258,200</u>

TOTAL LIABILITIES & NET ASSETS **\$ 152,319,399**

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS
Statement of Activities
For the Year Ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE & OTHER SUPPORT			
Local Support:			
Revenue from Local Sources	\$ 4,879,063	-	4,879,063
Total Local Support	<u>4,879,063</u>	<u>-</u>	<u>4,879,063</u>
State Program Revenues			
State Foundation Program	-	122,869,748	122,869,748
Other State Aid	-	1,037,892	1,037,892
Total State Program Revenues	<u>-</u>	<u>123,907,640</u>	<u>123,907,640</u>
Federal Program Revenues			
Breakfast Program	-	251,320	251,320
National School Lunch	-	866,744	866,744
Title I, Part A	-	2,439,187	2,439,187
IDEA-Part B Formula	-	2,051,263	2,051,263
Title II, Part A	-	468,845	468,845
Title III, Part A, ELA	-	103,859	103,859
Total Federal Program Revenues	<u>-</u>	<u>6,181,218</u>	<u>6,181,218</u>
Net Assets Released from Restrictions	123,476,692	(123,476,692)	-
Total Revenue & Other Support	<u>\$ 128,355,755</u>	<u>6,612,166</u>	<u>134,967,921</u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities

For the Year Ended August 31, 2015

continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
EXPENSES			
Program Services:			
11 Instruction	82,823,831	-	82,823,831
12 Instructional Resources & Media Svcs	984	-	984
13 Curriculum Dev. & Instr Staff Dev.	5,097,137	-	5,097,137
21 Instructional Leadership	4,559,233	-	4,559,233
23 School Leadership	11,548,664	-	11,548,664
Support Services:			
31 Guidance, Counseling & Eval Svcs	508,607	-	508,607
32 Social Work Services	30,363	-	30,363
33 Health Services	294,819	-	294,819
34 Student (Pupil) Transportation	95,218	-	95,218
35 Food Services	1,645,119	-	1,645,119
36 Cocurricular/Extracurricular Activities	103,185	-	103,185
41 General Administration	6,236,850	-	6,236,850
51 Plant Maintenance & Operations	8,564,614	-	8,564,614
52 Security & Monitoring Services	(254,967)	-	(254,967)
53 Data Processing Services	2,790,826	-	2,790,826
61 Community Services	325,065	-	325,065
71 Debt Service	1,547,313	-	1,547,313
81 Fundraising	588,684	-	588,684
	-	-	-
Total Expenses	<u>126,505,544</u>	<u>-</u>	<u>126,505,544</u>
Change in Net Assets	1,850,211	6,612,166	8,462,377
Net Assets, Beginning of Year	<u>5,801,717</u>	<u>28,994,106</u>	<u>34,795,823</u>
Net Assets, End of Year	<u><u>\$ 7,651,928</u></u>	<u><u>35,606,272</u></u>	<u><u>43,258,200</u></u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS

Statement of Cash Flows

For the Year Ended August 31, 2015

Cash Flows from Operating Activities:	
Cash from Local Sources	\$ 4,879,056
Cash from State Programs	123,907,640
Cash from Federal Programs	6,181,218
Cash Paid to Suppliers	(103,009,001)
Cash Paid to Employees	(56,688,559)
Cash Paid for Interest Expense	(1,601,740)
Net Cash Provided/(Used) by Operating Activities	<u>(26,331,386)</u>
Cash Flows from Investing Activities:	
Purchase of Property & Equipment	(26,318,941)
Gain/(Loss) on sale of Capital Assets	(41,589)
Net Cash Provided/(Used) by Investing Activities	<u>(26,360,530)</u>
Cash Flows from Financing Activities:	
Proceeds from New Debt	65,930,187
Payments on Debt	(23,857,885)
Net Cash Provided/(Used) by Financing Activities	<u>42,072,302</u>
Net Increase/(Decrease) in Cash	(10,619,614)
Cash at Beginning of Year	<u>50,466,792</u>
Cash at End of Year	<u><u>\$ 39,847,178</u></u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities	
Change in Net Assets	\$ 8,462,377
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:	
Depreciation	1,773,712
(Increase)/Decrease in Operating Assets	
Due from State	(1,116,464)
Inventory	720,858
Prepaid Expenses	3,702
Other Receivables	(35,677,568)
Other Assets	(1,091,665)
Increase/(Decrease) in Operating Liabilities	
Accounts Payable	(513,035)
Other Payables	(675,483)
Accrued Wages	453,383
Accrued Benefits Payable	(1,129)
Retainage Payable	515,197
Accrued Expenses	814,729
Net Adjustments	<u>(34,793,763)</u>
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ (26,331,386)</u></u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities

Responsive Education Solutions, Inc. a Texas non-profit corporation (The Organization), is recognized as an organization exempt from federal income taxes under 501(c)(3) of the Internal Revenue Service. The Organization is authorized to operate open enrollment charter schools (The Schools) in the states of Texas, Arkansas, and Ohio through the following agencies: The Texas Education Agency – Office of the Commissioner, the Arkansas Department of Education Charter Authorizing Panel, and the Ohio Council of Community Schools.

The Organization provides curricula and operates schools for students in grades K-12 through elementary schools (doing business as Vista Academies of Texas), intermediate schools (doing business as Quest Middle Schools), high schools (doing business as Premier High Schools and iSchool High), expanded-grade schools (Founders Classical Academies, grades K-12; Texas Virtual Academy, grades 3-12), an autism school (Foundation School for Autism), as well as school administrative services.

On July 1, 2014, the organization completed a charter management agreement with ResponsiveEd School Services to operate back-office functions. This agreement allows the organization to focus on providing a high quality education to its students.

B. Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter Schools Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To insure observance of limitations and restrictions placed on the use of resources available to the School, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified into funds according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focus on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with the Financial Accounting Standards Board.

The statement of financial position reports the amounts of each of three classes of net assets: temporarily restricted, unrestricted net assets and permanently restricted net assets (currently zero).

- Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor imposed stipulations that can be fulfilled and removed by actions of the School pursuant to those stipulations.

When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Policies (continued)

- Unrestricted net assets are the remaining part of the School's net assets that is neither permanently restricted nor temporarily restricted by donor imposed stipulations. Property and equipment are included in unrestricted net assets.
- Permanently restricted net assets result from contributions and other inflows of assets that are required to be maintained in perpetuity with only the income to be used for the School's activities due to donor-imposed restrictions.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents are comprised of cash on hand and in banks including highly liquid investments with original maturities of three months or less.

D. Fixed Assets and Depreciation

All assets acquired with a value of \$5,000 or greater are recorded as fixed assets and are valued at cost or estimated cost. Donated assets are reported at the fair market value at the time of acquisition. Depreciation of building improvements and equipment is provided over the estimated useful lives of the assets on a straight line basis.

E. Revenues

Each school's revenues from the State of Texas available school fund are earned based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

- Contributions with donor imposed restrictions are reported as restricted support. Restricted support increases temporarily restricted net assets.
- Contributions without donor imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

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

F. Donated Goods and Services

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in kind contributions and expenses of a like amount.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Sick Leave, Personal Leave and Vacation

All employees earn five days of paid sick leave annually. However, unused balances are not paid at termination. Therefore, there is no liability accrued on the financial statements. All employees earn two days of paid personal leave per year that is paid no later than the last paycheck of the school year. Therefore, there is no liability accrued on the financial statements. Accrued wages payable includes an accrual for accumulated liability for employee vacation time.

H. Estimates

In preparation of the financial statements and in conformity with generally accepted accounting principles, management's estimated useful lives of asset classes were used in the calculation of depreciation.

I. Functional Allocation of Expenses

The expense of the various programs and other activities has been presented on a functional basis in the statement of activities. Accordingly, certain expenses and supporting service costs have been allocated among the various programs.

J. Basis of Consolidation

The General Purpose financial statements are presented on an entity-wide consolidated basis including operations of the Organization not affiliated with any certain charter operation. Certain intercompany transactions are eliminated in the consolidation process because including them would make the overall financial statement presentation misleading.

2. INVENTORY

At August 31, 2015 the Organization had on hand curriculum inventory of original costs totaling \$449,928.

<u>Entity</u>	<u>Curriculum</u>
TCPA	\$ 45,945
Premier	23,719
501(c)(3)	<u>380,264</u>
Totals	<u>\$ 449,928</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

3. CAPITAL ASSETS

The Charters and 501(c)(3) had the following capital asset activity in 2015:

TCPA	Balance at 8/31/14	Additions	Retirements	Balance at 8/31/15
Land	\$ 7,261,293	2,727,680	-	\$ 9,988,973
Buildings & Improvements	23,236,592	9,601,384	(1,600,000)	31,237,976
Vehicles	107,004	-	(89,533)	17,471
Furniture & Equipment	1,447,312	1,731,030	-	3,178,342
Leasehold Improvements	716,972	83,713	-	800,685
Licenses & Media	380,539	-	-	380,539
Construction in Progress	946,377	13,101,585	-	14,047,962
Total Historical Cost	<u>34,096,089</u>	<u>27,245,392</u>	<u>(1,689,533)</u>	<u>59,651,948</u>
Less:				
Accumulated Depreciation	<u>(2,708,599)</u>	<u>(1,088,650)</u>	<u>41,589</u>	<u>(3,755,660)</u>
Total TCPA Capital Assets	<u>\$ 31,387,490</u>	<u>26,156,742</u>	<u>(1,647,944)</u>	<u>55,896,288</u>
Premier				
Land	\$ 753,073	-	-	753,073
Buildings & Improvements	3,356,158	250,856	-	3,607,014
Vehicles	6,303	-	-	6,303
Furniture & Equipment	2,160,161	335,730	-	2,495,891
Leasehold Improvements	802,369	8,060	-	810,429
Licenses & Media	204,716	-	-	204,716
Total Historical Cost	<u>7,282,780</u>	<u>594,646</u>	<u>-</u>	<u>7,877,426</u>
Less:				
Accumulated Depreciation	<u>(3,340,842)</u>	<u>(270,031)</u>	<u>-</u>	<u>(3,610,873)</u>
Total Premier Capital Assets	<u>\$ 3,941,938</u>	<u>324,615</u>	<u>-</u>	<u>4,266,553</u>
501(c)(3)				
Land	\$ 2,575,500	-	-	2,575,500
Buildings & Improvements	8,642,403	113,362	-	8,755,765
Vehicles	151,204	23,730	-	174,934
Furniture & Equipment	714,023	31,344	-	745,367
Licenses & Media	78,686	-	-	78,686
Total Historical Cost	<u>12,161,816</u>	<u>168,436</u>	<u>-</u>	<u>12,330,252</u>
Less:				
Accumulated Depreciation	<u>(573,336)</u>	<u>(415,031)</u>	<u>-</u>	<u>(988,367)</u>
Total 501(c)(3) Capital Assets	<u>\$ 11,588,480</u>	<u>(246,595)</u>	<u>-</u>	<u>11,341,885</u>
Grand Total Historical Cost	53,540,685	28,008,474	(1,689,533)	79,859,626
Grand Total Accum Depreciation	<u>(6,622,777)</u>	<u>(1,773,712)</u>	<u>41,589</u>	<u>(8,354,900)</u>
Grand Total Net Capital Assets	<u>\$ 46,917,908</u>	<u>26,234,762</u>	<u>(1,647,944)</u>	<u>\$ 71,504,726</u>

Depreciation expense for the year ended August 31, 2015 was \$1,773,712.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

4. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

Under provisions of State law, plan members are required to contribute 7.2% of their annual covered salary and the State of Texas contributes an amount equal to 6.8% of the Schools covered payroll. The Schools employees contributions to the System for the year ending August 31, 2015 were \$3,564,827 and were equal to the required State of Texas' contributions for the year.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Charter Schools are legally separate entities from the State and each other. Assets contributed by one Charter School may be used for the benefit of another Charter School. Unfunded pension obligations get passed along to other plan participants. There is no penalty for leaving the TRS system.

Pension Plan Fiduciary Net Position

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

The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

Total Plan Assets	\$ 157,261,707,241
Accumulated Benefit Obligations	\$ 159,496,075,886
Percentage of the Plan that is funded	83.25%

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

4. DEFINED BENEFIT PENSION PLAN *(continued)*

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	<u>2014</u>	<u>2015</u>
Member	6.4%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 470,005	\$ 1,120,986

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

4. DEFINED BENEFIT PENSION PLAN *(continued)*

Contributions *(continued)*

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Op
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8.00%
Long-Term Expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

* Includes Inflation of 3%

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

4. DEFINED BENEFIT PENSION PLAN *(continued)*

Actuarial Assumptions *(continued)*

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees were decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

4. DEFINED BENEFIT PENSION PLAN *(continued)*

Discount Rate *(continued)*

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy & Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha	-	-	1.0%
Total	<u>100%</u>	<u>-</u>	<u>8.7%</u>

* *The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

Employer Contributions

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 9/1/2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

The charter's contributions to the plan did not represent more than 5% of the total contributions to the plan.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

5. HEALTH CARE COVERAGE

Employees of the Organization are covered by a group insurance plan with TRS Active Care. The Organization pays the employee's premium (approximately \$250) and the employee pays the premiums for dependent coverage through payroll deductions through a Cafeteria Plan. See Note 6 for a summary of Section 125 Cafeteria Plan coverage.

6. SECTION 125 CAFETERIA PLAN

The Organization has adopted a "cafeteria plan" within the meaning of Section 125(a) of the Internal Revenue Code which allows employees to choose among certain "tax free" benefits in lieu of taxable compensation. The choices include medical insurance premium, dental and vision insurance premium, cancer insurance premium, disability insurance premium, voluntary term life insurance premium and accidental death & dismemberment (AD&D) insurance premium among others. The company pays \$25.88 towards the dental premium and \$2.08 toward the life premium and the AD&D premium. The employees' portion of the costs to provide any of these benefits are paid by the employees from payroll deductions.

7. DUE FROM STATE

At August 31, 2015, the Organization was to receive \$1,855,559 in entitlements as follows:

Foundation School Program	\$ 152,276
Federal Grant Revenue	<u>1,703,283</u>
Total Due From State	<u>\$ 1,855,559</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements For the Year Ended August 31, 2015

8. OPERATING LEASES

The following is a summary of operating lease obligations and terms for the year ended August 31, 2015:

				Expiration Date	Monthly Base Rent	Operating Expense	Total Monthly
Premier	American Youth Works - Austin II	Austin	Texas	6/30/2016	\$ 8,490		\$ 8,490
Vista	Austin - Mueller	Austin	Texas	6/30/2017	15,750		15,750
Premier	Austin-North	Austin	Texas	6/30/2017	19,534	6,544	26,078
Premier	Austin-South	Austin	Texas	7/31/2017	14,636	4,200	18,836
Vista	Beaumont	Beaumont	Texas	6/30/2016	9,932		9,932
Premier	Brownsville	Brownsville	Texas	6/30/2017	5,000		5,000
Premier	Brownwood-Early	Early	Texas	6/30/2016	2,100		2,100
Vista	Carrollton	Carrollton	Texas	6/30/2016	25,000		25,000
Vista	Clay Academy	Dallas	Texas	6/30/2020	20,400	408	20,808
Quest	Coppell	Carrollton	Texas	6/30/2016	13,499	3,000	16,499
Vista	Crockett	Crockett	Texas	6/30/2016	11,031		11,031
Vista	Dallas	Dallas	Texas	6/30/2016	12,000		12,000
Premier	Dayton	Dayton	Texas	6/30/2016	2,996		2,996
Premier	Del Rio	Del Rio	Texas	8/31/2016	6,500		6,500
Vista	Denton	Denton	Texas	7/31/2017	6,221	639	6,860
Vista	Desoto	Desoto	Texas	6/30/2016	12,000		12,000
Vista	Edinburg	Edinburg	Texas	6/30/2022	15,022		15,022
Premier	East El Paso	El Paso	Texas	6/30/2020	14,527	4,163	18,690
Premier	El Paso	El Paso	Texas	6/30/2018	8,963	2,172	11,135
Vista	Elgin	Elgin	Texas	6/30/2016	6,730		6,730
Premier	Fort Worth	Fort Worth	Texas	6/30/2021	9,427	3,090	12,517
Founders Classical	Founders Classical Academy of Dallas	Dallas	Texas	6/30/2018	2,500		2,500
Founders Classical	Founders Classical Academy of Mesquite	Mesquite	Texas	6/30/2018	2,500		2,500
Vista	Garland	Garland	Texas	6/30/2016	23,000		23,000
Premier	Granbury	Granbury	Texas	6/30/2017	9,750	1,873	11,623
Vista	Humble	Humble	Texas	6/30/2018	17,262		17,262
Vista	Huntsville	Huntsville	Texas	6/30/2016	15,274		15,274
Premier	Huntsville	Huntsville	Texas	6/30/2016	4,508		4,508
Premier	Irving-South	Irving	Texas	6/30/2016	6,076		6,076
iSchool	iSchool at Montgomery	The Woodlands	Texas	7/31/2021	31,073		31,073
iSchool	iSchool at University Park	Houston	Texas	6/30/2019	41,610		41,610
Vista	Jasper	Jasper	Texas	6/30/2018	13,496		13,496
Premier	Lubbock	Lubbock	Texas	6/30/2018	16,853		16,853
Premier	Midland	Midland	Texas	6/30/2023	11,780	4,912	16,692
Premier	Mission	Mission	Texas	6/30/2016	12,000	3,000	15,000
Premier	New Braunfels	New Braunfels	Texas	6/30/2016	7,703	2,707	10,410
Premier	Palmview	Palmview	Texas	6/30/2016	12,000		12,000
Vista	Pasadena	Pasadena	Texas	6/30/2019	22,350		22,350
Premier	Pharr / McAllen	Pharr	Texas	6/30/2018	8,102		8,102
Premier	Pflugerville	Pflugerville	Texas	6/30/2020	10,030		10,030
Vista	Richardson	Richardson	Texas	6/30/2017	3,546		3,546
Premier	Richardson	Richardson	Texas	6/30/2017	11,608		11,608
Premier	San Antonio	San Antonio	Texas	6/30/2023	12,965	2,805	15,769
Premier	San Juan	San Juan	Texas	6/30/2018	15,284		15,742
Foundation	The Foundation School of Autism	San Antonio	Texas	6/30/2016	6,670	3,849	10,519
Vista	The Woodlands	The Woodlands	Texas	6/30/2019	22,700		22,700
Vista	Tyler	Tyler	Texas	6/30/2017	20,160		20,160
Vista	Willis	Willis	Texas	6/30/2016	9,604		9,604
					<u>\$ 610,161</u>	<u>43,362</u>	<u>\$ 653,981</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

8. OPERATING LEASES (continued)

FUTURE MINIMUM LEASE PAYMENTS

Future minimum lease payments under the leases above are as follows:

8/31/2016	\$	7,421,432
8/31/2017		4,998,518
8/31/2018		3,603,042
8/31/2019		2,553,817
Thereafter		3,489,312
	\$	<u>22,066,121</u>

9. OTHER PAYABLES

The detail of Other Payables for the entities is as follows:

<u>Description</u>	<u>TCPA</u>	<u>Premier</u>	<u>501(c)(3)</u>	<u>Total</u>
Revenue Share K12	\$ 28,244,052	-	-	\$ 28,244,052
Other Misc Payables	-	-	14,537	14,537
Totals	<u>\$ 28,244,052</u>	<u>-</u>	<u>14,537</u>	<u>\$ 28,258,589</u>

10. COMMITMENTS AND CONTINGENCIES

The Organization receives funds through federal programs which are governed by various rules and regulations of the grantor. Expenses charged to the grant program are subject to audit and adjustment by the grantor agency. In the opinion of management, there are no contingent liabilities relating to compliance with rules and regulations governing the grants; therefore, no provision has been made in the accompanying financial statements for such contingencies.

11. ECONOMIC DEPENDENCY

During the year the Schools received the majority of its revenues from the Texas Education Agency and the Federal Government through a Charter Agreement. The loss of this Charter Agreement would have a material effect on the ability of the Schools to continue to provide the current level of services to its students.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

12. NOTES PAYABLE

On June 1, 2015, the School issued Series 2015A and 2015B Education Revenue Bonds with a par amount of \$52,150,000 and \$11,815,000 respectively. A portion of the proceeds were used to pay off all existing bank debt of TCPA and Premier at North Star Bank and Bank of America. The remaining proceeds are being used for the construction and updating of educational facilities. The bonds were issued at a premium of \$2,032,953 with an initial interest rate of 5% and 2% respectively, and a term of 30 years.

The Organization purchased a building in Lewisville, TX with an original mortgage amount of \$3,504,124. The monthly payment of \$28,306 includes interest at the rate of 5.25% with a term of fifteen years.

The Organization purchased land and a building at 700 Parker Square in Flower Mound, Texas for administrative use resulting in a mortgage of \$2,295,000 payable in monthly payments of \$18,541 including interest at 5.25% with a term of fifteen years.

The Organization purchased land and a building in on Hardin Road in Little Rock, Arkansas for possible future school use resulting in a mortgage of \$3,315,000 payable in monthly payments of \$26,649 including interest at 5.25% with a term of fifteen years.

Long Term Debt activity was as follows:

	Balance at 8/31/14	Additions	Retirements	Balance at 8/31/15	Current Portion
TCPA					
Bank of America (Amarillo)	\$ 128,287	-	(128,287)	-	-
NorthStar Bank (Lewisville)	2,074,826	-	(2,074,826)	-	-
NorthStar Bank (Waters Ridge)	3,834,835	-	(3,834,835)	-	-
NorthStar Bank (Amarillo)	4,007,153	-	(4,007,153)	-	-
NorthStar Bank (Lewisville)	2,821,895	-	(2,821,895)	-	-
NorthStar Bank (Leander)	2,886,627	-	(2,886,627)	-	-
NorthStar Bank (500 Parker Sq)	2,804,594	-	(2,804,594)	-	-
NorthStar Bank (Coppell)	2,563,000	-	(2,563,000)	-	-
Series 2015A Education Rev Bonds	-	52,150,000	-	52,150,000	-
Sub-Total	<u>\$ 21,121,217</u>	<u>52,150,000</u>	<u>(21,121,217)</u>	<u>52,150,000</u>	<u>-</u>
Premier					
Bank of America (Brownsville)	\$ 450,057	-	(450,057)	-	-
NorthStar Bank (Abilene)	704,928	-	(704,928)	-	-
NorthStar Bank (Laredo)	399,996	-	(399,996)	-	-
NorthStar Bank (Tyler)	328,758	-	(328,758)	-	-
NorthStar Bank (Waco)	428,069	-	(428,069)	-	-
Series 2015B Education Rev Bonds	-	11,815,000	-	11,815,000	-
Sub-Total	<u>\$ 2,311,808</u>	<u>11,815,000</u>	<u>(2,311,808)</u>	<u>11,815,000</u>	<u>-</u>
501(c)(3)					
NorthStar Bank (Lakeway)	\$ 3,319,729	-	(164,639)	3,155,090	178,274
NorthStar Bank (700 Parker Sq)	2,227,159	-	(108,813)	2,118,346	113,975
NorthStar Bank (Little Rock)	3,255,603	-	(151,408)	3,104,195	162,233
Sub-Total	<u>8,802,491</u>	<u>-</u>	<u>(424,860)</u>	<u>8,377,631</u>	<u>454,482</u>
Long Term Debt Totals	<u>\$ 32,235,516</u>	<u>63,965,000</u>	<u>(23,857,885)</u>	<u>72,342,631</u>	<u>454,482</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2015

Future debt requirements are as follows:

<u>August 31,</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 454,482	3,272,793	3,727,275
2017	478,925	3,248,350	3,727,275
2018	1,779,683	3,222,593	5,002,276
2019	1,861,825	4,984,000	6,845,825
2020	1,950,428	4,891,547	6,841,975
Thereafter	<u>65,817,288</u>	<u>77,621,780</u>	<u>143,439,068</u>
Total	<u>\$72,342,631</u>	<u>97,241,063</u>	<u>169,583,694</u>

12. TEMPORARILY RESTRICTED NET ASSETS

At August, 31 2015, the Organization had temporarily restricted net assets of \$35,606,272. These funds represent funds that are restricted as to their expendability in certain Federal, State and Local programs. The funds are not free to be expended in any way the Organization desires. The temporarily restricted funds at year end are as follows:

State Foundation Program	<u>\$ 35,606,272</u>
Total	<u>\$ 35,606,272</u>

13. CASH DEPOSIT RISK

The Organization's bank holds collateral to insure bank deposit balances of all state and federal funds that exceed Federal Deposit Insurance Corporation (FDIC) limits. At August 31, 2015, local fund deposit balances were fully covered by FDIC insurance and collateralization held by the bank.

14. SUBSEQUENT EVENTS

The School has evaluated subsequent events through January 7, 2016, the date which the financial statements were available to be issued.

15. ADMINISTRATIVE FEES

For the year ended August 31, 2015, TCPA paid \$2,235,355 and Premier paid \$828,832 in administrative fees to Responsive Education Solutions, Inc., the 501(c)(3) charter holder. These numbers have been eliminated from the combined Statement of Activities on pages 6 & 7. The Charters also paid administrative fees to Responsive Ed School Solutions. TCPA paid \$8,344,733 and Premier paid \$3,312,565. Responsive Ed School Solutions is a related 501(c)(3) that provides administrative services to the charter schools.

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COMBINING SCHEDULES

RESPONSIVE EDUCATION SOLUTIONS
Statement of Financial Position by Charter
August 31, 2015

	Texas College Preparatory Academies	Premier High Schools	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	25,072,177	13,572,901	38,645,078
Due from State	1,122,855	732,704	1,855,559
Other Receivables	28,782,031	7,601,103	36,383,134
Inventory	45,945	23,719	69,664
Prepaid Expenses	(1,938)	50,746	48,808
Total Current Assets	55,021,070	21,981,173	77,002,243
Property & Equipment:			
Land	9,988,973	753,073	10,742,046
Building & Improvements	31,237,976	3,607,014	34,844,990
Vehicles	17,471	6,303	23,774
Furniture & Equipment	3,178,342	2,495,891	5,674,233
Leasehold Improvements	800,685	810,429	1,611,114
Library Books & Media	380,539	204,716	585,255
Construction in Progress	14,047,962	-	14,047,962
Accumulated Depreciation	(3,755,660)	(3,610,873)	(7,366,533)
Total Property & Equipment	55,896,288	4,266,553	60,162,841
Other Assets:			
Other Assets	1,200,633	219,401	1,420,034
Total Other Assets	1,200,633	219,401	1,420,034
Total Assets	\$ 112,117,991	26,467,127	138,585,118

RESPONSIVE EDUCATION SOLUTIONS
Statement of Financial Position by Charter
August 31, 2015

	Texas College Preparatory Academies	Premier High Schools	Total
LIABILITIES & NET ASSETS			
Current Liabilities:			
Accounts Payable	1,365,769	323,787	1,689,556
Other Liabilities	28,244,052	-	28,244,052
Accrued Wages	1,501,282	538,015	2,039,297
Accrued Benefits Payable	483,140	252,608	735,748
Accrued Expenses	43,361	-	43,361
Retainage Payable	515,197	-	515,197
Current Portion of Long Term Debt	-	-	-
Deferred Revenue	-	-	-
Total Current Liabilities	<u>32,152,801</u>	<u>1,114,410</u>	<u>33,267,211</u>
Long-Term Liabilities:			
Bonds Payable	52,150,000	11,815,000	63,965,000
Premium on Bonds Payable	1,860,777	104,410	1,965,187
Total Long Term Liabilities	<u>54,010,777</u>	<u>11,919,410</u>	<u>65,930,187</u>
Net Assets:			
Unrestricted	3,184,806	596,642	3,781,448
Temporarily Restricted	22,769,607	12,836,665	35,606,272
Total Net Assets	<u>25,954,413</u>	<u>13,433,307</u>	<u>39,387,720</u>
Total Liabilities & Net Assets	<u>\$ 112,117,991</u>	<u>26,467,127</u>	<u>138,585,118</u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS
Statement of Activities by Charter
For the Year Ended August 31, 2015

	Texas College Preparatory Academies		
	Unrestricted	Temporarily Restricted	Total
REVENUE & OTHER SUPPORT			
Local Support:			
5742 Interest Income	114,522	-	114,522
5743 Rent Income	53,146	-	53,146
5744 Gifts & Bequests	43,824	-	43,824
5748 Curriculum Sales	-	-	-
5749 Other Revenue	944,212	-	944,212
5751 Food Service Fees	85,058	-	85,058
5755 Enterprising Services Revenue	5,759	-	5,759
5759 Cocurricular Enterprising Services	46,145	-	46,145
Total Local Support	1,292,666	-	1,292,666
State Program Revenues:			
5812 State Foundation Program	-	95,334,849	95,334,849
5829 Instructional Materials Allotment	-	787,658	787,658
5829 Breakfast Program Matching	-	5,115	5,115
Total State Program Revenues	-	96,127,622	96,127,622
Federal Program Revenues:			
5921 Breakfast Program	-	99,099	99,099
5922 National School Lunch	-	459,161	459,161
5929 Title I, Part A	-	1,327,384	1,327,384
5929 IDEA-Part B Formula	-	1,666,187	1,666,187
5929 Title II, Part A	-	331,953	331,953
5929 Title III, Part A, ELA	-	16,468	16,468
Total Federal Program Revenues	-	3,900,252	3,900,252
Net Assets Released from Restrictions	96,107,489	(96,107,489)	-
Total Revenue & Other Support	97,400,155	3,920,385	101,320,540

The notes to the financial statements are an integral part of this statement.

Premier High Schools			TOTAL		
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
24,458	-	24,458	138,980	-	138,980
-	-	-	53,146	-	53,146
23,223	-	23,223	67,047	-	67,047
-	-	-	-	-	-
189,425	-	189,425	1,133,637	-	1,133,637
8,383	-	8,383	93,441	-	93,441
3,074	-	3,074	8,833	-	8,833
-	-	-	46,145	-	46,145
<u>248,563</u>	<u>-</u>	<u>248,563</u>	<u>1,541,229</u>	<u>-</u>	<u>1,541,229</u>
-	27,534,899	27,534,899	-	122,869,748	122,869,748
-	241,975	241,975	-	1,029,633	1,029,633
-	3,144	3,144	-	8,259	8,259
<u>-</u>	<u>27,780,018</u>	<u>27,780,018</u>	<u>-</u>	<u>123,907,640</u>	<u>123,907,640</u>
-	152,221	152,221	-	251,320	251,320
-	407,583	407,583	-	866,744	866,744
-	1,111,803	1,111,803	-	2,439,187	2,439,187
-	385,076	385,076	-	2,051,263	2,051,263
-	136,892	136,892	-	468,845	468,845
-	87,391	87,391	-	103,859	103,859
<u>-</u>	<u>2,280,966</u>	<u>2,280,966</u>	<u>-</u>	<u>6,181,218</u>	<u>6,181,218</u>
<u>27,369,203</u>	<u>(27,369,203)</u>	<u>-</u>	<u>123,476,692</u>	<u>(123,476,692)</u>	<u>-</u>
<u>27,617,766</u>	<u>2,691,781</u>	<u>30,309,547</u>	<u>125,017,921</u>	<u>6,612,166</u>	<u>131,630,087</u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS
Statement of Activities by Charter
For the Year Ended August 31, 2015
continued

	Texas College Preparatory Academies		
	Unrestricted	Temporarily Restricted	Total
EXPENSES			
11 Instruction	67,651,407	-	67,651,407
12 Instructional Resources & Media Services	984	-	984
13 Curriculum Dev. & Instructional Staff Dev.	4,509,195	-	4,509,195
21 Instructional Leadership	2,466,864	-	2,466,864
23 School Leadership	6,730,853	-	6,730,853
31 Guidance, Counseling & Evaluation Services	465,128	-	465,128
32 Social Work Services	-	-	-
33 Health Services	217,373	-	217,373
34 Student (Pupil) Transportation	14,876	-	14,876
35 Food Services	949,137	-	949,137
36 Cocurricular/Extracurricular Activities	101,305	-	101,305
41 General Administration	4,213,256	-	4,213,256
51 Plant Maintenance & Operations	5,385,624	-	5,385,624
52 Security & Monitoring Services	30,696	-	30,696
53 Data Processing Services	1,831,524	-	1,831,524
61 Community Services	323,999	-	323,999
71 Debt Service	1,025,185	-	1,025,185
81 Fundraising	190,083	-	190,083
Total Expenses	96,107,489	-	96,107,489
Change in Net Assets	1,292,666	3,920,385	5,213,051
Net Assets, Beginning of Year	1,892,140	18,849,222	20,741,362
Net Assets, End of Year	<u>\$ 3,184,806</u>	<u>22,769,607</u>	<u>25,954,413</u>

The notes to the financial statements are an integral part of this statement.

Premier High Schools			TOTAL		
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
14,955,293	-	14,955,293	82,606,700	-	82,606,700
-	-	-	984	-	984
1,055,768	-	1,055,768	5,564,963	-	5,564,963
923,138	-	923,138	3,390,002	-	3,390,002
4,215,525	-	4,215,525	10,946,378	-	10,946,378
43,479	-	43,479	508,607	-	508,607
236	-	236	236	-	236
75,925	-	75,925	293,298	-	293,298
78,503	-	78,503	93,379	-	93,379
692,995	-	692,995	1,642,132	-	1,642,132
1,880	-	1,880	103,185	-	103,185
1,650,297	-	1,650,297	5,863,553	-	5,863,553
2,446,333	-	2,446,333	7,831,957	-	7,831,957
69,457	-	69,457	100,153	-	100,153
735,844	-	735,844	2,567,368	-	2,567,368
1,066	-	1,066	325,065	-	325,065
64,197	-	64,197	1,089,382	-	1,089,382
359,268	-	359,268	549,351	-	549,351
<u>27,369,204</u>	<u>-</u>	<u>27,369,204</u>	<u>123,476,693</u>	<u>-</u>	<u>123,476,693</u>
248,562	2,691,781	2,940,343	1,541,228	6,612,166	8,153,394
<u>348,080</u>	<u>10,144,884</u>	<u>10,492,964</u>	<u>2,240,220</u>	<u>28,994,106</u>	<u>31,234,326</u>
<u>596,642</u>	<u>12,836,665</u>	<u>13,433,307</u>	<u>3,781,448</u>	<u>35,606,272</u>	<u>39,387,720</u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS

Statement of Cash Flows by Charter

August 31, 2015

	TCPA	Premier High Schools	TOTAL
Cash Flows from Operating Activities:			
Cash from Local Sources	\$ 1,292,666	248,563	1,541,229
Cash from State Programs	96,127,622	27,780,018	123,907,640
Cash from Federal Programs	3,900,252	2,280,966	6,181,218
Cash Paid to Suppliers	(84,017,170)	(19,842,045)	(103,859,215)
Cash Paid to Employees	(38,857,260)	(14,349,120)	(53,206,380)
Cash Paid for Interest Expense	(1,076,986)	(66,823)	(1,143,809)
Net Cash Provided/(Used) by Operating Activities	<u>(22,630,876)</u>	<u>(3,948,441)</u>	<u>(26,579,317)</u>
Cash Flows from Investing Activities:			
Purchase of Capital Assets	(25,555,859)	(594,646)	(26,150,505)
Gain/(Loss) on Sale of Capital Assets	(41,589)	-	(41,589)
Net Cash Provided/(Used) by Investing Activities	<u>(25,597,448)</u>	<u>(594,646)</u>	<u>(26,192,094)</u>
Cash Flows from Financing Activities:			
Proceeds from New Debt	54,010,777	11,919,410	65,930,187
Payments on Debt	(21,121,217)	(2,311,808)	(23,433,025)
Net Cash Provided/(Used) by Financing Activities	<u>32,889,560</u>	<u>9,607,602</u>	<u>42,497,162</u>
Net Increase/(Decrease) in Cash	(15,338,764)	5,064,515	(10,274,249)
Cash at Beginning of Year	<u>40,410,941</u>	<u>8,508,386</u>	<u>48,919,327</u>
Cash at End of Year	<u>\$ 25,072,177</u>	<u>13,572,901</u>	<u>38,645,078</u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities			
Change in Net Assets	5,213,051	2,940,343	8,153,394
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities			
Depreciation	1,088,650	270,031	1,358,681
(Increase)/Decrease in Operating Assets			
Due from State	(574,814)	(541,244)	(1,116,058)
Other Receivables	(28,487,634)	(7,301,741)	(35,789,375)
Inventory	68,527	392,479	461,006
Prepaid Expenses	47,082	(47,454)	(372)
Other Assets	(1,042,249)	(49,596)	(1,091,845)
Increase/(Decrease) in Operating Liabilities			
Accounts Payable	(516,762)	(220,229)	(736,991)
Other Liabilities	(682,120)	(2,906)	(685,026)
Accrued Wages	1,501,282	538,015	2,039,297
Accrued Benefits Payable	195,553	73,861	269,414
Accrued Expenses	43,361	-	43,361
Retainage Payable	515,197	-	515,197
Net Adjustments	<u>(27,843,927)</u>	<u>(6,888,784)</u>	<u>(34,732,711)</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ (22,630,876)</u>	<u>(3,948,441)</u>	<u>(26,579,317)</u>

The notes to the financial statements are an integral part of this statement.

SUPPLEMENTARY SCHEDULES

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RESPONSIVE EDUCATION SOLUTIONS
Schedule of Expenses by Charter
For the Year Ended August 31, 2015

	Texas College Preparatory Academies	Premier High Schools	Total
EXPENSES & OTHER LOSSES			
6100 Payroll Costs	38,857,260	14,349,120	53,206,380
6200 Professional & Contracted Services	49,785,154	9,702,633	59,487,787
6300 Supplies & Materials	4,120,010	2,477,505	6,597,515
6400 Other Operating Costs	2,319,880	775,749	3,095,629
6500 Debt Expense	1,025,185	64,197	1,089,382
	<u>\$ 96,107,489</u>	<u>27,369,204</u>	<u>123,476,693</u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS
Schedule of Capital Assets by Charter
August 31, 2015

	Texas College Preparatory Academies			
	Local	Ownership Interest		Total
		State	Federal	Total
CAPITAL ASSETS				
1100 Cash	\$ -	25,072,177	-	25,072,177
1510 Land	-	9,988,973	-	9,988,973
1520 Buildings & Improvements	-	31,237,976	-	31,237,976
1521 Construction in Progress	-	14,047,962	-	14,047,962
1531 Vehicles	-	17,471	-	17,471
1539 Furniture & Equipment	-	3,178,342	-	3,178,342
1550 Leasehold Improvements	-	800,685	-	800,685
1569 Licenses & Media	-	380,539	-	380,539
Total Capital Assets	\$ -	84,724,125	-	84,724,125

The notes to the financial statements are an integral part of this statement.

Premier High Schools

Ownership Interest

<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
-	13,572,901	-	13,572,901
-	753,073	-	753,073
-	3,607,014	-	3,607,014
-	-	-	-
-	6,303	-	6,303
-	2,495,891	-	2,495,891
-	810,429	-	810,429
-	204,716	-	204,716
-	<u>21,450,327</u>	-	<u>21,450,327</u>

The notes to the financial statements are an integral part of this statement.

RESPONSIVE EDUCATION SOLUTIONS
Budgetary Comparison Schedule by Charter
For the Year Ended August 31, 2015

	Texas College Preparatory Academies			
	Budgeted Amounts		Actual Amounts	Variance Pos/(Neg) from Final Budget
	Original	Final		
REVENUE & OTHER SUPPORT				
Local Support:				
5740 Other Revenue from Local Sources	953,480	953,480	1,292,666	339,186
Total Local Revenue	953,480	953,480	1,292,666	339,186
State Program Revenue:				
5810 State Program Revenue	94,493,442	94,493,442	95,334,849	841,407
5820 State Program Revenue from TEA	4,000,000	4,000,000	792,773	(3,207,227)
Total State Revenue	98,493,442	98,493,442	96,127,622	(2,365,820)
Federal Program Revenue:				
5920 Federal Program Revenue	3,719,757	3,719,757	3,900,252	180,495
Total Federal Revenue	3,719,757	3,719,757	3,900,252	180,495
Total Revenue & Other Support	103,166,679	103,166,679	101,320,540	(1,846,139)
EXPENSES				
11 Instruction	74,850,745	67,660,108	67,651,407	8,701
12 Instructional Resources & Media	35,239	2,239	984	1,255
13 Curriculum & Instructional Staff Dev.	96,874	4,521,504	4,509,195	12,309
21 Instructional Leadership	145,161	2,482,210	2,466,864	15,346
23 School Leadership	10,674,439	6,733,291	6,730,853	2,438
31 Guidance, Counseling & Evaluation	68,465	467,548	465,128	2,420
32 Social Work	36,603	603	-	603
33 Health Services	176,129	218,129	217,373	756
34 Student (Pupil) Transportation	10,000	15,000	14,876	124
35 Food Services	792,380	949,961	949,137	824
36 Cocurricular/Extracurricular Activities	1,129,677	1,055,677	101,305	954,372
41 General Administration	135,274	4,218,532	4,213,256	5,276
51 Plant Maintenance & Operations	4,244,942	5,389,942	5,385,624	4,318
52 Security & Monitoring Services	42,287	31,287	30,696	591
53 Data Processing Services	10,000	1,835,980	1,831,524	4,456
61 Community Services	35,239	327,914	323,999	3,915
71 Debt Service	1,506,617	1,027,617	1,025,185	2,432
81 Fundraising	10,000	192,527	190,083	2,444
Total Expenses	94,000,071	97,130,069	96,107,489	1,022,580
Change in Net Assets	9,166,608	6,036,610	5,213,051	(823,559)
Net Assets, Beginning of Year	20,741,362	20,741,362	20,741,362	-
Net Assets, End of Year	<u>\$ 29,907,970</u>	<u>26,777,972</u>	<u>25,954,413</u>	

The notes to the financial statements are an integral part of this statement.

Premier High Schools

Budgeted Amounts		Actual Amounts	Variance
Original	Final		Pos/(Neg) from Final Budget
224,250	224,250	248,563	24,313
<u>224,250</u>	<u>224,250</u>	<u>248,563</u>	<u>24,313</u>
27,285,870	27,285,870	27,534,899	249,029
978,727	978,727	245,119	(733,608)
<u>28,264,597</u>	<u>28,264,597</u>	<u>27,780,018</u>	<u>(484,579)</u>
2,047,904	2,047,904	2,280,966	233,062
<u>2,047,904</u>	<u>2,047,904</u>	<u>2,280,966</u>	<u>233,062</u>
30,536,751	30,536,751	30,309,547	(227,204)
17,446,760	15,070,929	14,955,293	115,636
34,464	34,464	-	34,464
55,215	1,060,214	1,055,768	4,446
56,128	1,106,911	923,138	183,773
6,333,917	4,967,258	4,215,525	751,733
10,000	50,000	43,479	6,521
35,890	35,890	236	35,654
76,559	76,560	75,925	635
114,839	114,838	78,503	36,335
671,935	761,838	692,995	68,843
257,823	257,823	1,880	255,943
130,727	1,681,067	1,650,297	30,770
3,488,163	2,488,163	2,446,333	41,830
40,169	70,169	69,457	712
10,000	783,246	735,844	47,402
34,464	34,464	1,066	33,398
235,308	85,309	64,197	21,112
10,000	363,223	359,268	3,955
<u>29,042,361</u>	<u>29,042,366</u>	<u>27,369,204</u>	<u>1,673,162</u>
1,494,390	1,494,385	2,940,343	(1,900,366)
<u>10,492,964</u>	<u>10,492,964</u>	<u>10,492,964</u>	<u>-</u>
<u><u>11,987,354</u></u>	<u><u>11,987,349</u></u>	<u><u>13,433,307</u></u>	

The notes to the financial statements are an integral part of this statement.

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COMPLIANCE AND INTERNAL CONTROL

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CERTIFIED PUBLIC ACCOUNTANTS
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FRISCO, TEXAS 75034
972-335-9754/FAX 972-335-9758

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Responsive Education Solutions
Lewisville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Responsive Education Solutions (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Responsive Education Solutions' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Responsive Education Solutions' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Responsive Education Solutions' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
Frisco, TX
January 7, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Responsive Education Solutions
Lewisville, Texas

Report on Compliance for Each Major Federal Program

We have audited Responsive Education Solutions' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Responsive Education Solutions' major federal programs for the year ended August 31, 2015. Responsive Education Solutions' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Responsive Education Solutions' 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Responsive Education Solutions' 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 Responsive Education Solutions' compliance.

Opinion on Each Major Federal Program

In our opinion, Responsive Education Solutions 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, 2015.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control Over Compliance

Management of Responsive Education Solutions 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 Responsive Education Solutions' 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 OMB Circular A-133, 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 Responsive Education Solutions' 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 a 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
Frisco, TX
January 7, 2016

RESPONSIVE EDUCATION SOLUTIONS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued:	Unmodified
Internal Control Over Financial Reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of Auditor's Report Issued on Compliance for Major Programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of Major Programs: CFDA 84.010A Title I, Part A CFDA 84.027A IDEA B, Special Education Grants	
Dollar Threshold Used to Distinguish Between Type A and Type B Programs:	\$300,000
Auditee Qualified as Low-Risk Auditee?	Yes

RESPONSIVE EDUCATION SOLUTIONS
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2015

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT of EDUCATION			
Passed Through State Department of Education			
Title I, Part A Program	84.010A	S010A120043	2,439,187
IDEA-B Program	84.027A	H027A120008	2,051,263
Title III, Part A, LEP	84.365A	S365A120043	103,859
Title II, Part A Program	84.367A	S367A120041	<u>468,845</u>
Total U.S. Department of Education			<u><u>5,063,154</u></u>
U.S. DEPARTMENT of AGRICULTURE			
Passed Through State Department of Agriculture			
School Breakfast/National School Lunch Programs 10.553 & 10.555		2013IN109946	<u>1,118,064</u>
Total U.S. Department of Agriculture			<u><u>1,118,064</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 6,181,218</u></u>