

**RESPONSIVE EDUCATION  
SOLUTIONS**

Consolidated Financial Report for the 10-Months Ended

June 30, 2018

**RESPONSIVE EDUCATION SOLUTIONS**  
Annual Financial Report  
For the Ten Months Ended June 30, 2018

**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**

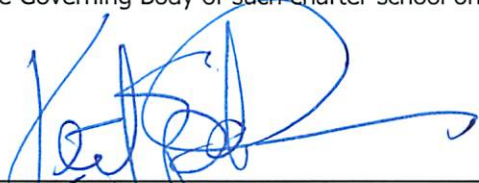
TEXAS COLLEGE PREPARATORY ACADEMIES  
DISTRICT NUMBER: 221801

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 ten months ended June 30, 2018, at a meeting of the Governing Body of such charter school on the 9<sup>th</sup> day of November, 2018.



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Signature of Board Secretary



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Signature of Board President

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

# EVANS & KNAUTH, PLLC

CERTIFIED PUBLIC ACCOUNTANTS  
4433 PUNJAB WAY, SUITE 102  
FRISCO, TEXAS 75033  
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 June 30, 2018, and the related statements of activities, and cash flows for the ten months 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 June 30, 2018, 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 opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and audit Requirements for Federal Awards*, and is also not a required part of the basic 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 October 18, 2018, 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 & Knauth, PLLC*

Evans & Knauth, PLLC  
Frisco, TX  
October 24, 2018

## FINANCIAL STATEMENTS

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## RESPONSIVE EDUCATION SOLUTIONS

### Statement of Financial Position

June 30, 2018

#### ASSETS

##### Current Assets:

Cash and Cash Equivalents	\$ 57,978,820
Due from State	25,509,021
Other Receivables	33,972,433
Inventory	230,119
Prepaid Expenses	<u>733,628</u>
Total Current Assets	<u>118,424,021</u>

##### Property & Equipment:

Land	27,635,349
Buildings & Improvements	109,066,594
Vehicles	198,708
Furniture & Equipment	7,286,698
Leasehold Improvements	1,530,697
Library Books & Media	288,864
Construction in Progress	22,637,236
Accumulated Depreciation	<u>(13,349,316)</u>
Total Net Property & Equipment	<u>155,294,830</u>

##### Other Assets:

Other Assets	<u>2,341,487</u>
Total Other Assets	<u>2,341,487</u>

TOTAL ASSETS \$ 276,060,338

#### LIABILITIES & NET ASSETS

##### Current Liabilities:

Accounts Payable	\$ 541,579
Other Payables	20,868,410
Accrued Wages & Other Benefits Payable	8,431,817
Accrued Expenses	8,958,180
Due to State	-
Current Portion of Long Term Debt	3,173,074
Deferred Revenues	<u>-</u>
Total Current Liabilities	<u>41,973,060</u>

##### Long-Term Liabilities:

Notes Payable	12,730,991
Bonds Payable	124,050,000
Premium on Bonds Payable	<u>5,725,579</u>
Total Long-Term Liabilities	<u>142,506,570</u>

##### Net Assets:

Unrestricted	29,906,880
Temporarily Restricted	<u>61,673,828</u>
Total Net Assets	<u>91,580,708</u>

TOTAL LIABILITIES & NET ASSETS \$ 276,060,338

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



**RESPONSIVE EDUCATION SOLUTIONS**

Statement of Activities

For the Ten Months Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE &amp; OTHER SUPPORT</b>			
Local Support:			
Revenue from Local Sources	5,887,449	-	5,887,449
Total Local Support	<u>5,887,449</u>	<u>-</u>	<u>5,887,449</u>
<b>State Program Revenues</b>			
State Foundation Program	-	162,071,437	162,071,437
Other State Aid	-	264,487	264,487
Total State Program Revenues	<u>-</u>	<u>162,335,924</u>	<u>162,335,924</u>
<b>Federal Program Revenues</b>			
Breakfast Program	-	423,141	423,141
National School Lunch	-	1,628,523	1,628,523
Title I, Part A	-	3,126,210	3,126,210
IDEA-Part B Formula	-	2,801,118	2,801,118
IDEA-Part B Preschool	-	19,633	19,633
Title II, Part A	-	335,918	335,918
Title III, Part A, ELA	-	275,313	275,313
Other Federal Programs	-	40,859	40,859
Total Federal Program Revenues	<u>-</u>	<u>8,650,715</u>	<u>8,650,715</u>
Net Assets Released from Restrictions	156,904,634	(156,904,634)	-
Total Revenue & Other Support	<u>\$ 162,792,083</u>	<u>14,082,006</u>	<u>176,874,089</u>

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

**RESPONSIVE EDUCATION SOLUTIONS**

Statement of Activities

For the Ten Months Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
<b>EXPENSES</b>			
Program Services:			
11 Instruction	104,529,343	-	104,529,343
12 Instructional Resources & Media Svcs	948	-	948
13 Curriculum Dev. & Instr Staff Dev.	2,572,131	-	2,572,131
21 Instructional Leadership	3,736,385	-	3,736,385
23 School Leadership	12,634,419	-	12,634,419
Support Services:			
31 Guidance, Counseling & Eval Svcs	529,326	-	529,326
32 Social Work Services	-	-	-
33 Health Services	699,976	-	699,976
34 Student (Pupil) Transportation	44,233	-	44,233
35 Food Services	2,934,874	-	2,934,874
36 Cocurricular/Extracurricular Activities	383,773	-	383,773
41 General Administration	7,706,760	-	7,706,760
51 Plant Maintenance & Operations	9,660,636	-	9,660,636
52 Security & Monitoring Services	212,407	-	212,407
53 Data Processing Services	3,459,968	-	3,459,968
61 Community Services	373,244	-	373,244
71 Debt Service	4,538,283	-	4,538,283
81 Fundraising	1,909,810	-	1,909,810
Total Expenses	<u>155,926,515</u>	<u>-</u>	<u>155,926,515</u>
Change in Net Assets	6,865,568	14,082,006	20,947,574
Net Assets, Beginning of Year	<u>23,041,312</u>	<u>47,591,822</u>	<u>70,633,134</u>
Net Assets, End of Year	<u>\$ 29,906,880</u>	<u>61,673,828</u>	<u>91,580,708</u>

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

**RESPONSIVE EDUCATION SOLUTIONS**

## Statement of Cash Flows

For the Ten Months Ended June 30, 2018

Cash Flows from Operating Activities:	
Cash from Local Sources	\$ 7,351,510
Cash from State Programs	153,794,914
Cash from Federal Programs	8,650,715
Cash Paid to Suppliers	(52,238,143)
Cash Paid to Employees	(83,433,194)
Cash Paid for Interest Expense	(3,025,469)
Net Cash Provided/(Used) by Operating Activities	<u>31,100,334</u>
Cash Flows from Investing Activities:	
Purchase of Property & Equipment	<u>(33,357,028)</u>
Net Cash Provided/(Used) by Investing Activities	<u>(33,357,028)</u>
Cash Flows from Financing Activities:	
Proceeds from New Debt	-
Principal Payments on Debt	<u>(534,998)</u>
Net Cash Provided/(Used) by Financing Activities	<u>(534,998)</u>
Net Increase/(Decrease) in Cash	(2,791,692)
Cash at Beginning of Year	<u>60,770,512</u>
Cash at End of Year	<u>\$ 57,978,820</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities</b>	
Change in Net Assets	\$ 20,947,574
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:	
Depreciation	3,383,900
(Increase)/Decrease in Operating Assets	
Due from State	(8,541,010)
Inventory	88,542
Prepaid Expenses	(662,112)
Other Receivables	22,596,902
Other Assets	111,385
Increase/(Decrease) in Operating Liabilities	
Accounts Payable	(3,250,255)
Other Payables	(3,804,774)
Accrued Wages and Benefits Payable	4,461,035
Deferred Revenue	(10,529,979)
Accrued Expenses	6,472,532
Bond Premium	(173,406)
Net Adjustments	<u>10,152,760</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 31,100,334</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 Ten Months Ended June 30, 2018

## 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 and Arkansas through the following agencies: The Texas Education Agency – Office of the Commissioner, and the Arkansas Department of Education Charter Authorizing Panel.

The Organization provides curricula and operates schools for students in grades K-5 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 (Classical Academies, grades K-12; Texas Virtual Academy, grades 3-12; ResponsiveEd Virtual Academy, grades 3-12), an autism school (Foundation School for Autism), as well as school administrative services.

The Organization has approved a fiscal year end change, effective for the 2017-2018 fiscal year, the year-end changed from August 31<sup>st</sup> to June 30<sup>th</sup>.

### 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 Ten Months Ended June 30, 2018

### 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 Ten Months Ended June 30, 2018

### 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

On June 30, 2018, the Organization had on hand curriculum inventory of original costs totaling \$230,119.

<u>Entity</u>	<u>Curriculum</u>
501(c)(3)	<u>230,119</u>
Totals	<u>\$ 230,119</u>

**RESPONSIVE EDUCATION SOLUTIONS**

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

**3. CAPITAL ASSETS**

The Charters and 501(c)(3) had the following capital asset activity in 2018:

<b>TCPA</b>	Balance at 8/31/17	Additions	Retirements	Balance at 6/30/18
Land	\$ 16,883,267	5,850,855	(1,041,660)	\$ 21,692,462
Buildings & Improvements	60,816,574	27,474,704	(4,557,671)	83,733,607
Vehicles	17,471	-	-	17,471
Furniture & Equipment	5,528,646	-	(542,035)	4,986,611
Leasehold Improvements	1,090,052	-	(320,077)	769,975
Licenses & Media	380,539	-	(170,361)	210,178
Construction in Progress	22,659,281	22,255,166	(22,424,878)	22,489,569
Total Historical Cost	107,375,830	55,580,725	(29,056,682)	133,899,873
Less:				
Accumulated Depreciation	(7,877,110)	(2,444,860)	1,761,860	(8,560,110)
Total TCPA Capital Assets	\$ 99,498,720	53,135,865	(27,294,822)	125,339,763
<b>Premier</b>				
Land	\$ 1,475,727	-	-	1,475,727
Buildings & Improvements	5,993,871	448,497	-	6,442,368
Vehicles	6,303	-	-	6,303
Furniture & Equipment	3,469,306	-	(1,982,115)	1,487,191
Leasehold Improvements	1,113,578	28,700	(381,556)	760,722
Licenses & Media	204,716	-	(204,716)	-
Construction in Progress	442,997	153,167	(448,497)	147,667
Total Historical Cost	12,706,498	630,364	(3,016,884)	10,319,978
Less:				
Accumulated Depreciation	(4,493,227)	(442,886)	2,568,387	(2,367,726)
Total Premier Capital Assets	\$ 8,213,271	187,478	(448,497)	7,952,252
<b>501(c)(3)</b>				
Land	\$ 3,425,500	1,041,660	-	4,467,160
Buildings & Improvements	15,043,196	3,847,423	-	18,890,619
Vehicles	174,934	-	-	174,934
Furniture & Equipment	812,895	-	-	812,895
Licenses & Media	78,686	-	-	78,686
Total Historical Cost	19,535,211	4,889,083	-	24,424,294
Less:				
Accumulated Depreciation	(1,925,326)	(496,154)	-	(2,421,480)
Total 501(c)(3) Capital Assets	\$ 17,609,885	4,392,929	-	22,002,814
Grand Total Historical Cost	139,617,539	61,100,172	(32,073,566)	168,644,145
Grand Total Accum Depreciation	(14,295,663)	(3,383,900)	4,330,247	(13,349,316)
Grand Total Net Capital Assets	\$ 125,321,876	57,716,272	(27,743,319)	\$ 155,294,829

Depreciation expense for the year ended June 30, 2018 was \$3,383,900.



## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 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 7.7% of their annual covered salary and the State of Texas contributes an amount equal to 6.8% of the Schools covered payroll. The Schools employee contributions to the System for the year ending June 30, 2018 were \$5,744,045 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 2017 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

Total Plan Assets	\$	146,282,044,842
Accumulated Benefit Obligations	\$	181,752,796,715
Percentage of the Plan that is funded		80.48%

## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 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 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 2,063,913	\$ 1,852,496

## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Asset Valuation Method	5 Year Smoothed Market
Discount Rate	8%
Long-Term Expected Investment Rate of Return	8%
Salary Increases	3.5% - 9.5%
Payroll Growth Rate	2.50%
Inflation Rate	2.50%

## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 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, 2014 and adopted on September 24, 2015.

#### 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 Ten Months Ended June 30, 2018

### 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, 2017 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-	-	2.2%
Alpha	-	-	1.0%
<b>Total</b>	<u>100.0%</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.*

**RESPONSIVE EDUCATION SOLUTIONS**

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

**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 \$300) 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 \$23.03 towards the dental premium and \$1.92 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 June 30, 2018, the Organization was to receive \$25,509,021 in entitlements as follows:

Federal Grant Revenue	\$ 1,226,074
State Revenue	<u>24,282,947</u>
Total Due From State	<u>\$ 25,509,021</u>

## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 8. OPERATING LEASES

The following is a summary of operating lease obligations and terms for the year ended June 30, 2018:

Campus	Lease Term		Monthly Rent
Arlington	07/18/17	08/31/20	31,679
American Youth Works - Austin II	09/15/14	06/30/19	4,466
Austin - Mueller	07/01/12	06/30/19	22,015
Austin-North	08/01/08	06/30/20	31,216
Austin-South	07/23/02	07/31/22	19,836
Austin TASA Office	01/01/16	12/31/18	818
Beaumont	08/15/11	06/30/19	11,109
Clay Academy	07/01/10	06/30/20	21,649
Crockett	07/01/10	06/30/20	12,278
Dayton	07/01/13	06/30/19	2,820
Denton	08/01/14	07/31/22	12,155
Edinburg	07/01/12	06/30/22	12,615
East El Paso	08/19/15	06/30/20	18,627
West El Paso	07/01/08	06/30/23	11,135
Fort Worth	06/16/08	06/30/21	12,517
Founders Classical Academy of Dallas	07/01/15	06/30/20	19,009
Founders Classical Academy of Mesquite	07/01/15	06/30/20	38,111
Garland	07/01/14	06/30/19	23,275
Granbury	02/01/10	06/30/20	12,016
Houston-Cornerstone	07/01/16	06/30/19	5,922
Houston-Fallbrook	07/01/16	06/30/19	20,995
Humble	07/01/13	06/30/20	23,639
Huntsville	08/01/06	06/30/19	20,888
Huntsville	08/01/06	06/30/19	3,808
Irving-South	07/01/12	06/30/20	6,538
iSchool at Montgomery	08/01/13	07/31/21	31,073
iSchool at University Park	08/22/11	06/30/19	41,610
Jasper	07/01/09	06/30/21	9,716
Lubbock	08/01/09	06/30/21	14,831
Midland	07/01/13	06/30/23	16,061
Mission	03/21/05	06/30/19	12,240
New Braunfels	11/01/09	06/30/20	8,088
Palmview	07/01/09	06/30/19	14,477
Pasadena	07/15/13	06/30/19	19,328
Pharr / McAllen	07/01/09	06/30/19	8,471
Pflugerville	07/15/15	06/30/20	10,620
Richardson	07/01/14	06/30/19	10,104
San Angelo	03/05/18	06/30/23	6,900
San Antonio East	07/01/15	06/30/23	17,298
San Antonio West	08/01/17	06/30/24	16,025
San Juan	08/01/08	06/30/21	16,215
The Foundation School of Autism	02/01/11	06/30/20	10,950
Texarkana	07/01/16	06/30/21	11,871
The Woodlands	08/15/10	06/30/19	30,030
Willis	06/01/08	06/30/19	10,780
			\$ 717,921

## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 8. OPERATING LEASES *(continued)*

#### Future Minimum Lease Payments

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

06/30/19	\$	8,766,377
06/30/20		5,955,683
06/30/21		3,120,291
06/30/22		1,909,071
Thereafter		2,066,341
Total	\$	<u>21,817,763</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	\$ 10,703,746	9,999,057	-	\$ 20,702,803
Other Misc Payables	211	-	165,396	165,607
Totals	<u>\$ 10,703,957</u>	<u>9,999,057</u>	<u>165,396</u>	<u>\$ 20,868,410</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 Ten Months Ended June 30, 2018

### 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.

On August 1, 2016, the School issued Series 2016 Education Revenue Bonds with a par amount of \$63,820,000. The proceeds are being used for the construction and updating of educational facilities. The bonds were issued at a premium of \$4,209,649 with an initial interest rate of 5% 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 or 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 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.

On December 8, 2016, the Organization purchased land and a building on Melissa Drive in Bentonville, Arkansas resulting in a mortgage of \$6,602,500 payable in monthly payments of \$36,699 including interest at 4.50% with a term of twenty-five years.

Long Term Debt activity for the year ended June 30, 2018 was as follows:

<b>TCPA</b>	Balance at 8/31/17	Additions	Retirements	Balance at 6/30/18	Current Portion
Series 2015A Education Rev Bonds	\$ 52,150,000	-	-	52,150,000	1,015,000
Series 2015B Education Rev Bonds	11,815,000	-	-	11,815,000	260,000
Series 2016 Education Rev Bonds	62,575,000	-	-	62,575,000	1,215,000
Sub-Total	126,540,000	-	-	126,540,000	2,490,000
Premium on Bonds Payable	5,898,985	-	(173,406)	5,725,579	-
Total TCPA	132,438,985	-	(173,406)	132,265,579	2,490,000
<b>501(c)(3)</b>					
Independent Bank (Lakeway)	\$ 2,798,475	-	(161,675)	2,636,800	206,149
Independent Bank (700 Parker Sq)	1,888,030	-	(104,047)	1,783,983	131,958
Independent Bank (Little Rock)	2,778,055	-	(144,934)	2,633,121	187,568
Bank of Arkansas (Bentonville)	6,484,503	-	(124,342)	6,360,161	157,399
Total 501c3	13,949,063	-	(534,998)	13,414,065	683,074
<b>Long Term Debt Totals</b>	<b>\$ 146,388,048</b>	<b>-</b>	<b>(708,404)</b>	<b>145,679,644</b>	<b>3,173,074</b>

## RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements  
For the Ten Months Ended June 30, 2018

### 12. NOTES PAYABLE (continued)

Future debt requirements are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,173,074	5,556,256	8,729,330
2020	3,288,577	5,491,253	8,779,830
2021	3,410,931	5,367,748	8,778,679
2022	3,540,236	5,238,894	8,779,130
2023	3,716,593	5,065,887	8,782,480
2024-2028	21,535,638	22,418,014	43,953,652
2029-2033	22,433,333	17,478,168	39,911,501
2034-2038	25,427,237	12,681,269	38,108,506
2039-2043	31,338,446	7,323,902	38,662,348
2044-2047	22,090,000	1,783,150	23,873,150
Total	<u>\$ 139,954,065</u>	<u>88,404,541</u>	<u>228,358,606</u>

### 13. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018, the Organization had temporarily restricted net assets of \$61,673,828. 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>\$ 61,673,828</u>
Total	<u>\$ 61,673,828</u>

### 14. 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 June 30, 2018, local fund deposit balances were fully covered by FDIC insurance and collateralization held by the bank.

### 15. SUBSEQUENT EVENTS

The School has evaluated subsequent events through October 24, 2018, the date which the financial statements were available to be issued.

### 16. ADMINISTRATIVE FEES

For the year ended June 30, 2018, TCPA paid \$14,278,617 and Premier paid \$6,444,263 in administrative fees to Responsive Education Solutions, Inc., the 501(c)(3) charter holder. The fees are unrestricted in nature to the 501(c)(3). These numbers have been eliminated from the combined Statement of Activities on pages 6 & 7.

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## COMBINING SCHEDULES

**RESPONSIVE EDUCATION SOLUTIONS**

Statement of Financial Position by Charter

June 30, 2018

	Texas College Preparatory Academies	Premier High Schools	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 28,769,820	\$ 18,716,557	47,486,377
Due from State	16,659,597	8,849,424	25,509,021
Other Receivables	33,800,619	100	33,800,719
Inventory	-	-	-
Prepaid Expenses	387,985	342,267	730,252
Total Current Assets	<u>79,618,021</u>	<u>27,908,348</u>	<u>107,526,369</u>
Property & Equipment:			
Land	21,692,462	1,475,727	23,168,189
Building & Improvements	83,733,607	6,442,368	90,175,975
Vehicles	17,471	6,303	23,774
Furniture & Equipment	4,986,611	1,487,191	6,473,802
Leasehold Improvements	769,975	760,722	1,530,697
Library Books & Media	210,178	-	210,178
Construction in Progress	22,489,569	147,667	22,637,236
Accumulated Depreciation	<u>(8,560,110)</u>	<u>(2,367,726)</u>	<u>(10,927,836)</u>
Total Property & Equipment	<u>125,339,763</u>	<u>7,952,252</u>	<u>133,292,015</u>
Other Assets:			
Other Assets	2,083,991	246,701	2,330,692
Total Other Assets	<u>2,083,991</u>	<u>246,701</u>	<u>2,330,692</u>
Total Assets	<u>\$ 207,041,775</u>	<u>36,107,301</u>	<u>243,149,076</u>

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

**RESPONSIVE EDUCATION SOLUTIONS**

## Statement of Financial Position by Charter

June 30, 2018

	Texas College Preparatory Academies	Premier High Schools	Total
<b>LIABILITIES &amp; NET ASSETS</b>			
Current Liabilities:			
Accounts Payable	\$ 290,834	81,231	372,065
Other Payables	10,703,957	9,999,057	20,703,014
Accrued Wages Payable	5,680,819	1,871,707	7,552,526
Accrued Benefits Payable	327,082	119,702	446,784
Accrued Expenses	8,362,082	101,578	8,463,660
Current Portion of Long Term Debt	2,490,000		2,490,000
Deferred Revenue			-
Total Current Liabilities	<u>27,854,774</u>	<u>12,173,275</u>	<u>40,028,049</u>
Long-Term Liabilities:			
Bonds Payable	124,050,000	-	124,050,000
Premium on Bonds Payable	5,725,579	-	5,725,579
Total Long Term Liabilities	<u>129,775,579</u>	<u>-</u>	<u>129,775,579</u>
Net Assets:			
Unrestricted	9,442,811	2,228,809	11,671,620
Temporarily Restricted	39,968,611	21,705,217	61,673,828
Total Net Assets	<u>49,411,422</u>	<u>23,934,026</u>	<u>73,345,448</u>
Total Liabilities & Net Assets	<u>\$ 207,041,775</u>	<u>36,107,301</u>	<u>243,149,076</u>

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

**RESPONSIVE EDUCATION SOLUTIONS**  
Statement of Activities by Charter  
For the Ten Months Ended June 30, 2018

	Texas College Preparatory Academies		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUE &amp; OTHER SUPPORT</b>			
Local Support:			
5742 Interest Income	\$ 471,201	-	471,201
5743 Rent Income	459,874	-	459,874
5744 Gifts & Bequests	104,120	-	104,120
5747 ERate Refund	94,685	-	94,685
5748 Curriculum Sales	-	-	-
5749 Other Revenue	765,651	-	765,651
5751 Food Service Fees	43,574	-	43,574
5753 Cocurricular Activities	29,190	-	29,190
5755 Enterprising Services Revenue	82,881	-	82,881
5759 Cocurricular Enterprising Services	94,642	-	94,642
5769 Miscellaneous Revenues	489,081	-	489,081
Total Local Support	<u>2,634,899</u>	<u>-</u>	<u>2,634,899</u>
State Program Revenues:			
5811 Per Capita Apportionment		2,851,865	2,851,865
5812 State Foundation Program	-	102,571,164	102,571,164
5829 Instructional Materials Allotment	-	122,945	122,945
Total State Program Revenues	<u>-</u>	<u>105,545,974</u>	<u>105,545,974</u>
Federal Program Revenues:			
5921 Breakfast Program	-	276,524	276,524
5922 National School Lunch	-	1,233,538	1,233,538
5929 Title I, Part A	-	2,244,576	2,244,576
5929 IDEA-Part B Formula	-	1,802,275	1,802,275
5929 IDEA-Part B Preschool	-	19,633	19,633
5929 Title II, Part A	-	219,649	219,649
5929 Public Charter Schools	-	-	-
5929 Title III, Part A, ELA	-	129,879	129,879
5929 Other Federal Programs	-	40,859	40,859
Total Federal Program Revenues	<u>-</u>	<u>5,966,933</u>	<u>5,966,933</u>
Net Assets Released from Restrictions	<u>102,204,684</u>	<u>(102,204,684)</u>	<u>-</u>
Total Revenue & Other Support	<u>104,839,583</u>	<u>9,308,223</u>	<u>114,147,806</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
62,440	-	62,440	533,641	-	533,641
-	-	-	459,874	-	459,874
4,164	-	4,164	108,284	-	108,284
66,684	-	66,684	161,369	-	161,369
-	-	-	-	-	-
44,331	-	44,331	809,982	-	809,982
11,607	-	11,607	55,181	-	55,181
140	-	140	29,330	-	29,330
2,533	-	2,533	85,414	-	85,414
-	-	-	94,642	-	94,642
161,547	-	161,547	650,628	-	650,628
<u>353,446</u>	<u>-</u>	<u>353,446</u>	<u>2,988,345</u>	<u>-</u>	<u>2,988,345</u>
-	1,321,122	1,321,122	-	4,172,987	4,172,987
-	55,327,286	55,327,286	-	157,898,450	157,898,450
-	141,542	141,542	-	264,487	264,487
-	56,789,950	56,789,950	-	162,335,924	162,335,924
-	146,617	146,617	-	423,141	423,141
-	394,985	394,985	-	1,628,523	1,628,523
-	881,634	881,634	-	3,126,210	3,126,210
-	998,843	998,843	-	2,801,118	2,801,118
-	-	-	-	19,633	19,633
-	116,269	116,269	-	335,918	335,918
-	-	-	-	-	-
-	145,434	145,434	-	275,313	275,313
-	-	-	-	40,859	40,859
-	2,683,782	2,683,782	-	8,650,715	8,650,715
<u>54,699,950</u>	<u>(54,699,950)</u>	<u>-</u>	<u>156,904,634</u>	<u>(156,904,634)</u>	<u>-</u>
<u>55,053,396</u>	<u>4,773,783</u>	<u>59,827,179</u>	<u>159,892,979</u>	<u>14,082,006</u>	<u>173,974,985</u>

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



**RESPONSIVE EDUCATION SOLUTIONS**

Statement of Activities by Charter

For the Ten Months Ended June 30, 2018

*continued*

	Texas College Preparatory Academies		
	Unrestricted	Temporarily Restricted	Total
<b>EXPENSES</b>			
11 Instruction	\$ 66,412,855	-	66,412,855
12 Instructional Resources & Media Services	948	-	948
13 Curriculum Dev. & Instructional Staff Dev.	3,880,422	-	3,880,422
21 Instructional Leadership	2,261,070	-	2,261,070
23 School Leadership	8,106,331	-	8,106,331
31 Guidance, Counseling & Evaluation Services	227,284	-	227,284
32 Social Work Services	-	-	-
33 Health Services	557,703	-	557,703
34 Student (Pupil) Transportation	413	-	413
35 Food Services	2,327,042	-	2,327,042
36 Cocurricular/Extracurricular Activities	379,555	-	379,555
41 General Administration	5,373,588	-	5,373,588
51 Plant Maintenance & Operations	6,607,915	-	6,607,915
52 Security & Monitoring Services	124,477	-	124,477
53 Data Processing Services	1,629,892	-	1,629,892
61 Community Services	349,926	-	349,926
71 Debt Service	3,812,751	-	3,812,751
81 Fundraising	390,667	-	390,667
Total Expenses	102,442,838	-	102,442,838
Change in Net Assets	2,396,745	9,308,223	11,704,968
Net Assets, Beginning of Year	7,046,066	30,660,388	37,706,454
Net Assets, End of Year	\$ 9,442,811	39,968,611	49,411,422

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
37,777,586	-	37,777,586	104,190,441	-	104,190,441
-	-	-	948	-	948
2,280,884	-	2,280,884	6,161,306	-	6,161,306
1,777,844	-	1,777,844	4,038,914	-	4,038,914
4,582,749	-	4,582,749	12,689,080	-	12,689,080
155,194	-	155,194	382,478	-	382,478
-	-	-	-	-	-
60,438	-	60,438	618,141	-	618,141
43,820	-	43,820	44,233	-	44,233
959,650	-	959,650	3,286,692	-	3,286,692
4,218	-	4,218	383,773	-	383,773
2,414,622	-	2,414,622	7,788,210	-	7,788,210
3,093,298	-	3,093,298	9,701,213	-	9,701,213
84,757	-	84,757	209,234	-	209,234
731,936	-	731,936	2,361,828	-	2,361,828
23,318	-	23,318	373,244	-	373,244
138,703	-	138,703	3,951,454	-	3,951,454
463,545	-	463,545	854,212	-	854,212
<u>54,592,562</u>	<u>-</u>	<u>54,592,562</u>	<u>157,035,400</u>	<u>-</u>	<u>157,035,400</u>
460,834	4,773,783	5,234,617	2,857,579	14,082,006	16,939,585
<u>1,767,975</u>	<u>16,931,434</u>	<u>18,699,409</u>	<u>8,814,041</u>	<u>47,591,822</u>	<u>56,405,863</u>
<u>2,228,809</u>	<u>21,705,217</u>	<u>23,934,026</u>	<u>11,671,620</u>	<u>61,673,828</u>	<u>73,345,448</u>

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

**RESPONSIVE EDUCATION SOLUTIONS**

Statement of Cash Flows by Charter

June 30, 2018

	Texas College Preparatory Academies	Premier High Schools	TOTAL
Cash Flows from Operating Activities:			
Cash from Local Sources	\$ 2,634,899	353,446	2,988,345
Cash from State Programs	97,927,368	55,867,546	153,794,914
Cash from Federal Programs	5,966,933	2,683,782	8,650,715
Cash Paid to Suppliers	(26,558,197)	(37,509,490)	(64,067,687)
Cash Paid to Employees	(51,737,653)	(19,720,532)	(71,458,185)
Cash Paid for Interest Expense	(2,457,734)	-	(2,457,734)
Net Cash Provided/(Used) by Operating Activities	<u>25,775,616</u>	<u>1,674,753</u>	<u>27,450,369</u>
Cash Flows from Investing Activities:			
Purchase of Capital Assets	(28,285,903)	(182,042)	(28,467,945)
Gain on Sale of Capital Assets	-	-	-
Net Cash Provided/(Used) by Investing Activities	<u>(28,285,903)</u>	<u>(182,042)</u>	<u>(28,467,945)</u>
Cash Flows from Financing Activities:			
Proceeds from New Debt	-	-	-
Payments on Debt	-	-	-
Net Cash Provided/(Used) by Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase/(Decrease) in Cash	(2,510,287)	1,492,711	(1,017,576)
Cash at Beginning of Year	<u>31,280,107</u>	<u>17,223,846</u>	<u>48,503,953</u>
Cash at End of Year	<u>\$ 28,769,820</u>	<u>18,716,557</u>	<u>47,486,377</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities</b>			
Change in Net Assets	\$ 11,704,968	5,234,617	16,939,585
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:			
Depreciation	2,444,860	442,886	2,887,746
(Increase)/Decrease in Operating Assets			
Due from State	(7,618,606)	(922,404)	(8,541,010)
Inventory	6,437	15,157	21,594
Prepaid Expenses	(362,685)	(296,051)	(658,736)
Other Receivables	22,083,750	7,600	22,091,350
Other Assets	89,458	21,443	110,901
Increase/(Decrease) in Operating Liabilities			
Accounts Payable	(2,415,461)	(545,404)	(2,960,865)
Other Payables	(5,771,938)	2,916,861	(2,855,077)
Accrued Wages and Benefits Payable	3,487,875	1,120,503	4,608,378
Retainage Payable	-	-	-
Accrued Expenses	6,409,771	100,117	6,509,888
Deferred Revenue	(4,109,407)	(6,420,572)	(10,529,979)
Bond Premium	(173,406)	-	(173,406)
Net Adjustments	<u>14,070,648</u>	<u>(3,559,864)</u>	<u>10,510,784</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 25,775,616</u>	<u>1,674,753</u>	<u>27,450,369</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 Ten Months Ended June 30, 2018

	Texas College Preparatory Academies	Premier High Schools	Total
<b>EXPENSES &amp; OTHER LOSSES</b>			
6100 Payroll Costs	\$ 51,737,653	19,720,532	\$ 71,458,185
6200 Professional & Contracted Services	37,103,493	31,512,798	68,616,291
6300 Supplies & Materials	5,577,675	2,092,323	7,669,998
6400 Other Operating Costs	4,080,088	1,266,909	5,346,997
6500 Debt Expense	3,943,929	-	3,943,929
	<u>\$ 102,442,838</u>	<u>54,592,562</u>	<u>\$ 157,035,400</u>

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

**RESPONSIVE EDUCATION SOLUTIONS**

Schedule of Capital Assets by Charter

June 30, 2018

	Texas College Preparatory Academies			
	Ownership Interest			Total
	Local	State	Federal	
<b>CAPITAL ASSETS</b>				
1100 Cash	\$ 9,442,811	19,327,009	-	28,769,820
1510 Land	-	21,692,462	-	21,692,462
1520 Buildings & Improvements	-	83,733,607	-	83,733,607
1521 Construction in Progress	-	22,489,569	-	22,489,569
1531 Vehicles	-	17,471	-	17,471
1539 Furniture & Equipment	-	4,986,611	-	4,986,611
1550 Leasehold Improvements	-	769,975	-	769,975
1569 Licenses & Media	-	210,178	-	210,178
Total Capital Assets	<u>\$ 9,442,811</u>	<u>153,226,882</u>	<u>-</u>	<u>162,669,693</u>

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>
2,228,809	16,487,748	-	18,716,557
-	1,475,727	-	1,475,727
-	6,442,368	-	6,442,368
-	147,667	-	147,667
-	6,303	-	6,303
-	1,487,191	-	1,487,191
-	760,722	-	760,722
-	-	-	-
<u>2,228,809</u>	<u>26,807,726</u>	<u>-</u>	<u>29,036,535</u>

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



**RESPONSIVE EDUCATION SOLUTIONS**  
 Budgetary Comparison Schedule by Charter  
 For the Ten Months Ended June 30, 2018

	Texas College Preparatory Academies			
	Budgeted Amounts		Actual Amounts	Variance Pos/(Neg) from Final Budget
	Original	Final		
<b>REVENUE &amp; OTHER SUPPORT</b>				
Local Support:				
5700 Other Revenue from Local Sources	1,239,057	1,239,057	2,634,899	1,395,842
Total Local Revenue	<u>1,239,057</u>	<u>1,239,057</u>	<u>2,634,899</u>	<u>1,395,842</u>
State Program Revenue:				
5800 State Program Revenue	99,122,848	128,979,758	105,545,974	(23,433,784)
Total State Revenue	<u>99,122,848</u>	<u>128,979,758</u>	<u>105,545,974</u>	<u>(23,433,784)</u>
Federal Program Revenue:				
5900 Federal Program Revenue	5,925,191	7,582,918	5,966,933	(1,615,985)
Total Federal Revenue	<u>5,925,191</u>	<u>7,582,918</u>	<u>5,966,933</u>	<u>(1,615,985)</u>
Total Revenue & Other Support	<u>106,287,096</u>	<u>137,801,733</u>	<u>114,147,806</u>	<u>(23,653,927)</u>
<b>EXPENSES</b>				
11 Instruction	59,201,397	83,819,630	66,412,855	17,406,775
12 Instructional Resources & Media	37,800	36,800	948	35,852
13 Curriculum & Instructional Staff Dev.	3,830,012	4,424,402	3,880,422	543,980
21 Instructional Leadership	2,220,277	2,515,293	2,261,070	254,223
23 School Leadership	10,436,477	11,620,890	8,106,331	3,514,559
31 Guidance, Counseling & Evaluation	147,211	269,058	227,284	41,774
32 Social Work	37,800	37,800	-	37,800
33 Health Services	1,582,449	1,539,967	557,703	982,264
34 Student (Pupil) Transportation	15,750	413	413	-
35 Food Services	1,434,225	2,362,300	2,327,042	35,258
36 Cocurricular/Extracurricular Activities	272,329	879,178	379,555	499,623
41 General Administration	5,358,627	6,037,538	5,373,588	663,950
51 Plant Maintenance & Operations	10,167,620	10,292,139	6,607,915	3,684,224
52 Security & Monitoring Services	44,100	155,449	124,477	30,972
53 Data Processing Services	1,656,934	1,866,036	1,629,892	236,144
61 Community Services	393,203	394,203	349,926	44,277
71 Debt Service	4,861,802	4,861,802	3,812,751	1,049,051
81 Fundraising	214,077	430,964	390,667	40,297
Total Expenses	<u>101,912,090</u>	<u>131,543,861</u>	<u>102,442,838</u>	<u>29,101,023</u>
Change in Net Assets	4,375,006	6,257,872	11,704,968	5,447,096
Net Assets, Beginning of Year			<u>37,706,454</u>	<u>(37,706,454)</u>
Net Assets, End of Year	<u>\$ 4,375,006</u>	<u>6,257,872</u>	<u>49,411,422</u>	<u>(32,259,358)</u>

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

Premier High Schools

Budgeted Amounts		Actual Amounts	Variance Pos/(Neg) from Final Budget
Original	Final		
-	-	353,446	353,446
-	-	353,446	353,446
74,388,234	70,101,598	56,789,950	(13,311,648)
74,388,234	70,101,598	56,789,950	(13,311,648)
3,085,165	3,889,379	2,683,782	(1,205,597)
3,085,165	3,889,379	2,683,782	(1,205,597)
77,473,399	73,990,977	59,827,179	(14,163,798)
52,603,107	49,557,872	37,777,586	11,780,286
36,750	36,800	-	36,800
2,044,959	2,304,037	2,280,884	23,153
1,336,451	1,792,116	1,777,844	14,272
5,316,507	5,577,901	4,582,749	995,152
38,620	155,194	155,194	(0)
36,750	36,140	-	36,140
132,979	128,758	60,438	68,320
138,140	143,923	43,820	100,103
896,522	1,079,364	959,650	119,714
29,236	69,396	4,218	65,178
2,989,834	2,908,038	2,414,622	493,416
5,595,302	5,545,982	3,093,298	2,452,684
83,391	155,962	84,757	71,205
924,483	898,881	731,936	166,945
86,989	92,039	23,318	68,721
299,832	299,832	138,703	161,129
361,208	537,312	463,545	73,767
72,951,060	71,319,546	54,592,562	16,726,984
4,522,339	2,671,431	5,234,617	(30,890,782)
-	-	18,699,409	(18,699,409)
4,522,339	2,671,431	23,934,026	(49,590,191)

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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# EVANS & KNAUTH, PLLC

CERTIFIED PUBLIC ACCOUNTANTS  
4433 PUNJAB WAY, SUITE 102  
FRISCO, TEXAS 75033  
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 June 30, 2018, 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 October 24, 2018.

### **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.

A handwritten signature in black ink that reads "Evans & Knauth, PLLC". The signature is written in a cursive, slightly slanted style.

Evans & Knauth, PLLC  
Frisco, TX  
October 24, 2018

# EVANS & KNAUTH, PLLC

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on each of Responsive Education Solutions' major federal programs for the ten months ended June 30, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 ten months ended June 30, 2018.

#### ***Other Matters***

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal program is not modified with respect to these matters.



## Report on Internal Control over Compliance

Management of the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Evans & Knauth, PLLC*

Evans & Knauth, PLLC  
Frisco, TX  
October 24, 2018

**RESPONSIVE EDUCATION SOLUTIONS**  
 Schedule of Findings and Questioned Costs  
 For the Ten Months Ended June 30, 2018

**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 Uniform Guidance	No
Identification of Major Programs:	
Title I, Part A	CFDA 84.010A
Title III, English Language Acquisition	CFDA 84.365A
Dollar Threshold Used to Distinguish Between Type A and Type B Programs:	\$750,000
Auditee Qualified as Low-Risk Auditee?	Yes

**RESPONSIVE EDUCATION SOLUTIONS**  
Schedule of Expenditures of Federal Awards  
For the Ten Months Ended June 30, 2018

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Passed Through State Department of Education</b>			
Title I, Part A Program	84.010A	S010A170043	3,126,210
IDEA-B Formula	84.027A	H027A170008	2,801,118
IDEA-B Preschool	84.173A	H173A170004	19,633
Title III, Part A, LEP	84.365A	S365A170043	275,313
Title II, Part A Program	84.367A	S367A170041	335,918
Title IV, Part A, Subpart 1	84.424A	S424A170045	37,298
LEP Summer School	84.369A	S369A160045	<u>3,561</u>
<b>Total U.S. Department of Education</b>			<u>6,599,051</u>
<b>U.S. DEPARTMENT of AGRICULTURE</b>			
<b>Passed Through State Department of Agriculture</b>			
School Breakfast/National School Lunch Programs	10.553 & 10.555	2018IN109946	<u>2,051,664</u>
<b>Total U.S. Department of Agriculture</b>			<u>2,051,664</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 8,650,715</u></u>