

**RESPONSIVE EDUCATION
SOLUTIONS**

Consolidated Financial Report for the Year Ended

August 31, 2017

RESPONSIVE EDUCATION SOLUTIONS

Annual Financial Report
For the Year Ended August 31, 2017

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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, 2017, at a meeting of the Governing Body of such charter school on the ____ day of _____, 2018.

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 & KNAUTH, 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, 2017, 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, 2017, 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 January 9, 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
January 9, 2018

FINANCIAL STATEMENTS

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RESPONSIVE EDUCATION SOLUTIONS

Statement of Financial Position

August 31, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 60,770,512
Due from State	16,968,011
Other Receivables	56,569,335
Inventory	318,661
Prepaid Expenses	<u>71,516</u>
Total Current Assets	<u>134,698,035</u>

Property & Equipment:

Land	21,784,494
Buildings & Improvements	81,853,642
Vehicles	198,708
Furniture & Equipment	9,810,848
Leasehold Improvements	2,203,630
Library Books & Media	663,941
Construction in Progress	23,102,278
Accumulated Depreciation	<u>(14,295,663)</u>
Total Net Property & Equipment	<u>125,321,878</u>

Other Assets:

Other Assets	<u>2,452,872</u>
Total Other Assets	<u>2,452,872</u>

TOTAL ASSETS \$ 262,472,785

LIABILITIES & NET ASSETS

Current Liabilities:

Accounts Payable	\$ 3,791,834
Other Payables	24,673,180
Accrued Wages & Other Benefits Payable	3,969,786
Accrued Expenses	2,486,824
Due to State	-
Current Portion of Long Term Debt	3,145,276
Deferred Revenues	<u>10,529,979</u>
Total Current Liabilities	<u>48,596,879</u>

Long-Term Liabilities:

Notes Payable	13,293,787
Bonds Payable	124,050,000
Premium on Bonds Payable	<u>5,898,985</u>
Total Long-Term Liabilities	<u>143,242,772</u>

Net Assets:

Unrestricted	23,041,312
Temporarily Restricted	<u>47,591,822</u>
Total Net Assets	<u>70,633,134</u>

TOTAL LIABILITIES & NET ASSETS \$ 262,472,785

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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE & OTHER SUPPORT			
Local Support:			
Revenue from Local Sources	6,333,424	-	6,333,424
Total Local Support	<u>6,333,424</u>	<u>-</u>	<u>6,333,424</u>
State Program Revenues			
State Foundation Program	-	162,079,354	162,079,354
Other State Aid	-	2,329,437	2,329,437
Total State Program Revenues	<u>-</u>	<u>164,408,791</u>	<u>164,408,791</u>
Federal Program Revenues			
Breakfast Program	-	360,776	360,776
National School Lunch	-	1,451,489	1,451,489
Title I, Part A	-	3,067,611	3,067,611
IDEA-Part B Formula	-	2,789,906	2,789,906
IDEA-Part B Preschool		22,621	22,621
Title II, Part A	-	540,579	540,579
Title V, Part B, Public Charter Schools	-	374,388	374,388
Title III, Part A, ELA	-	157,668	157,668
Total Federal Program Revenues	<u>-</u>	<u>8,765,038</u>	<u>8,765,038</u>
Net Assets Released from Restrictions	162,259,186	(162,259,186)	-
Total Revenue & Other Support	<u>\$ 168,592,610</u>	<u>10,914,643</u>	<u>179,507,253</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
EXPENSES			
Program Services:			
11 Instruction	105,237,702	-	105,237,702
12 Instructional Resources & Media Svcs	18,349	-	18,349
13 Curriculum Dev. & Instr Staff Dev.	3,337,364	-	3,337,364
21 Instructional Leadership	3,793,335	-	3,793,335
23 School Leadership	15,734,903	-	15,734,903
Support Services:			
31 Guidance, Counseling & Eval Svcs	489,656	-	489,656
32 Social Work Services	10	-	10
33 Health Services	641,340	-	641,340
34 Student (Pupil) Transportation	55,890	-	55,890
35 Food Services	2,845,244	-	2,845,244
36 Cocurricular/Extracurricular Activities	340,143	-	340,143
41 General Administration	6,545,130	-	6,545,130
51 Plant Maintenance & Operations	9,416,998	-	9,416,998
52 Security & Monitoring Services	204,506	-	204,506
53 Data Processing Services	2,264,884	-	2,264,884
61 Community Services	321,307	-	321,307
71 Debt Service	5,386,456	-	5,386,456
81 Fundraising	1,671,573	-	1,671,573
	-	-	-
Total Expenses	<u>158,304,790</u>	<u>-</u>	<u>158,304,790</u>
Change in Net Assets	10,287,820	10,914,643	21,202,463
Net Assets, Beginning of Year	<u>12,753,492</u>	<u>36,677,179</u>	<u>49,430,671</u>
Net Assets, End of Year	<u>\$ 23,041,312</u>	<u>47,591,822</u>	<u>70,633,134</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, 2017

Cash Flows from Operating Activities:	
Cash from Local Sources	\$ 6,333,425
Cash from State Programs	150,024,776
Cash from Federal Programs	8,765,038
Cash Paid to Suppliers	(52,044,586)
Cash Paid to Employees	(85,805,957)
Cash Paid for Interest Expense	(5,507,104)
Net Cash Provided/(Used) by Operating Activities	<u>21,765,592</u>
Cash Flows from Investing Activities:	
Purchase of Property & Equipment	(32,869,965)
Net Cash Provided/(Used) by Investing Activities	<u>(32,869,965)</u>
Cash Flows from Financing Activities:	
Proceeds from New Debt	6,602,500
Principal Payments on Debt	(1,832,654)
Net Cash Provided/(Used) by Financing Activities	<u>4,769,846</u>
Net Increase/(Decrease) in Cash	(6,334,527)
Cash at Beginning of Year	<u>67,105,039</u>
Cash at End of Year	<u>\$ 60,770,512</u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities	
Change in Net Assets	\$ 21,202,463
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:	
Depreciation	3,341,147
(Increase)/Decrease in Operating Assets	
Due from State	(14,384,015)
Inventory	258,530
Prepaid Expenses	10,839
Other Receivables	7,971,433
Other Assets	55,226
Increase/(Decrease) in Operating Liabilities	
Accounts Payable	1,125,970
Other Payables	(2,440,824)
Accrued Wages and Benefits Payable	(73,666)
Accrued Expenses	(4,380,266)
Bond Premium	(208,086)
Net Adjustments	<u>563,129</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 21,765,592</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, 2017

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 will change from August 31st to June 30th.

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, 2017

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, 2017

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 August 31, 2017, the Organization had on hand curriculum inventory of original costs totaling \$318,661.

<u>Entity</u>	<u>Curriculum</u>
TCPA	\$ 6,437
Premier	15,157
501(c)(3)	<u>297,067</u>
Totals	<u>\$ 318,661</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

3. CAPITAL ASSETS

The Charters and 501(c)(3) had the following capital asset activity in 2017:

	Balance at 8/31/16	Additions	Retirements	Balance at 8/31/17
<u>TCPA</u>				
Land	\$ 16,797,513	85,754	-	\$ 16,883,267
Buildings & Improvements	51,132,954	9,683,620	-	60,816,573
Vehicles	17,471	-	-	17,471
Furniture & Equipment	4,353,975	1,174,671	-	5,528,646
Leasehold Improvements	1,037,219	52,833	-	1,090,052
Licenses & Media	380,539	-	-	380,539
Construction in Progress	<u>9,262,496</u>	<u>22,396,358</u>	<u>(8,999,573)</u>	<u>22,659,281</u>
Total Historical Cost	<u>82,982,167</u>	<u>33,393,236</u>	<u>(8,999,573)</u>	<u>107,375,829</u>
Less:				
Accumulated Depreciation	<u>(5,546,906)</u>	<u>(2,330,204)</u>	<u>-</u>	<u>(7,877,110)</u>
Total T CPA Capital Assets	<u>\$ 77,435,261</u>	<u>31,063,032</u>	<u>(8,999,573)</u>	<u>99,498,719</u>
<u>Premier</u>				
Land	\$ 1,394,909	80,818	-	1,475,727
Buildings & Improvements	5,676,652	317,219	-	5,993,873
Vehicles	6,303	-	-	6,303
Furniture & Equipment	3,221,360	247,946	-	3,469,306
Leasehold Improvements	864,612	248,966	-	1,113,578
Licenses & Media	204,716	-	-	204,716
Construction in Progress	<u>43,417</u>	<u>399,580</u>	<u>-</u>	<u>442,997</u>
Total Historical Cost	<u>11,411,969</u>	<u>1,294,529</u>	<u>-</u>	<u>12,706,500</u>
Less:				
Accumulated Depreciation	<u>(3,997,478)</u>	<u>(495,749)</u>	<u>-</u>	<u>(4,493,227)</u>
Total Premier Capital Assets	<u>\$ 7,414,491</u>	<u>798,780</u>	<u>-</u>	<u>8,213,273</u>
<u>501(c)(3)</u>				
Land	\$ 2,575,500	850,000	-	3,425,500
Buildings & Improvements	8,755,765	6,287,431	-	15,043,196
Vehicles	174,934	-	-	174,934
Furniture & Equipment	768,554	44,342	-	812,896
Licenses & Media	<u>78,686</u>	<u>-</u>	<u>-</u>	<u>78,686</u>
Total Historical Cost	<u>12,353,439</u>	<u>7,181,773</u>	<u>-</u>	<u>19,535,212</u>
Less:				
Accumulated Depreciation	<u>(1,410,132)</u>	<u>(515,194)</u>	<u>-</u>	<u>(1,925,326)</u>
Total 501(c)(3) Capital Assets	<u>\$ 10,943,307</u>	<u>6,666,579</u>	<u>-</u>	<u>17,609,886</u>
Grand Total Historical Cost	106,747,575	41,869,538	(8,999,573)	139,617,541
Grand Total Accum Depreciation	<u>(10,954,516)</u>	<u>(3,341,147)</u>	<u>-</u>	<u>(14,295,663)</u>
Grand Total Net Capital Assets	<u>\$ 95,793,059</u>	<u>38,528,391</u>	<u>(8,999,573)</u>	<u>\$ 125,321,878</u>

Depreciation expense for the year ended August 31, 2017 was \$3,341,147.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

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 employees contributions to the System for the year ending August 31, 2017 were \$5,621,231 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 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

Total Plan Assets	\$	138,786,120,728
Accumulated Benefit Obligations	\$	174,238,726,802
Percentage of the Plan that is funded		79.65%

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

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. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 575,978	\$ 2,063,913

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
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 Year Ended August 31, 2017

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 Year Ended August 31, 2017

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, 2016 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%	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%
Stable Value			
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%
Real Return			
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%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-	-	2%
Alpha	-	-	1%
Total	<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 Year Ended August 31, 2017

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 \$275) 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 August 31, 2017, the Organization was to receive \$16,968,011 in entitlements as follows:

Federal Grant Revenue	\$ 780,129
State Revenue	<u>16,187,882</u>
Total Due From State	<u>\$ 16,968,011</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

8. OPERATING LEASES

The following is a summary of operating lease obligations and terms for the year ended August 31, 2017:

Campus	Lease Term	Monthly Rent
Arlington	08/31/20	\$ 31,638
American Youth Works - Austin II	09/15/14 06/30/18	4,711
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	18,836
Austin TASA Office	01/01/16 12/31/17	775
Beaumont	08/15/11 06/30/18	11,239
Brownwood-Early	07/01/12 06/30/18	2,100
Carrollton	07/01/08 06/30/18	25,200
Clay Academy	07/01/10 06/30/20	21,649
Crockett	07/01/10 06/30/18	11,809
Dayton	07/01/13 06/30/18	2,316
Denton	08/01/14 07/31/22	12,155
Edinburg	07/01/12 06/30/22	12,668
East El Paso	08/19/15 06/30/20	18,627
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	20,904
Founders Classical Academy of Mesquite	07/01/15 06/30/20	30,553
Garland	07/01/14 06/30/18	24,385
Granbury	02/01/10 06/30/19	12,016
Houston-Cornerstone	07/01/16 06/30/19	7,703
Houston-Fallbrook	07/01/16 06/30/19	24,944
Humble	07/01/13 06/30/18	23,212
Huntsville	08/01/06 06/30/18	19,747
Huntsville	08/01/06 06/30/18	2,723
Irving-South	07/01/12 06/30/18	5,054
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	11,382
Lubbock	08/01/09 06/30/18	16,853
Midland	07/01/13 06/30/23	18,836
Mission	03/21/05 06/30/18	16,697
New Braunfels	11/01/09 06/30/18	10,464
Palmview	07/01/09 06/30/18	13,845
Pasadena	07/15/13 06/30/19	20,430
Pharr / McAllen	07/01/09 06/30/18	8,471
Pflugerville	07/15/15 06/30/20	10,620
Richardson	07/01/14 06/30/18	12,157
San Antonio East	07/01/15 06/30/23	17,298
San Antonio West	07/01/15 06/30/24	16,025
San Juan	08/01/08 06/30/18	16,215
The Foundation School of Autism	02/01/11 06/30/20	10,866
Texarkana	07/01/16 06/30/21	11,871
The Woodlands	08/15/10 06/30/19	23,208
Willis	06/01/08 06/30/18	10,353
		\$ 740,119

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

8. OPERATING LEASES *(continued)*

Future Minimum Lease Payments

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

8/31/2018	\$	7,450,019
8/31/2019		5,891,121
8/31/2020		4,068,015
8/31/2021		2,148,814
Thereafter		2,297,314
	\$	<u>21,855,282</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	\$ 16,475,894	7,082,193	-	\$ 23,558,087
Other Misc Payables	-	-	1,115,093	1,115,093
Totals	<u>\$ 16,475,894</u>	<u>7,082,193</u>	<u>1,115,093</u>	<u>\$ 24,673,180</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, 2017

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 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 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 August 31, 2017 was as follows:

	Balance at 8/31/16	Additions	Retirements	Balance at 8/31/17	Current Portion
TCPA					
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	63,820,000	-	(1,245,000)	62,575,000	1,215,000
Premium on Bonds Payable	6,107,071	-	(208,086)	5,898,985	-
Sub-Total	<u>\$ 133,892,071</u>	<u>-</u>	<u>(1,453,086)</u>	<u>132,438,985</u>	<u>2,490,000</u>
501(c)(3)					
NorthStar Bank (Lakeway)	\$ 2,981,527	-	(183,052)	2,798,475	197,454
NorthStar Bank (700 Parker Sq)	2,006,315	-	(118,285)	1,888,030	126,362
NorthStar Bank (Little Rock)	2,946,375	-	(168,320)	2,778,055	179,773
Bank of Arkansas (Bentonville)	-	6,602,500	(117,997)	6,484,503	151,687
Sub-Total	<u>7,934,217</u>	<u>6,602,500</u>	<u>(587,654)</u>	<u>13,949,063</u>	<u>655,276</u>
Long Term Debt Totals	<u>\$ 141,826,288</u>	<u>6,602,500</u>	<u>(2,040,740)</u>	<u>146,388,048</u>	<u>3,145,276</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended August 31, 2017

12. NOTES PAYABLE *(continued)*

Future debt requirements are as follows:

<u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	3,145,276	5,584,055	8,729,331
2019	3,259,328	5,520,502	8,779,830
2020	3,380,157	5,398,523	8,778,680
2021	3,507,856	5,271,274	8,779,130
2022	3,682,524	5,099,957	8,782,481
2023-2027	21,339,016	22,616,988	43,956,004
2028-2032	23,075,320	17,557,655	40,632,975
2033-2037	25,365,824	12,752,681	38,118,505
2038-2042	31,643,762	7,381,029	39,024,791
2043-2046	22,090,000	1,783,150	23,873,150
Total	<u>\$ 140,489,063</u>	<u>88,965,814</u>	<u>229,454,877</u>

13. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2017, the Organization had temporarily restricted net assets of \$47,591,822. 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>\$ 47,591,822</u>
Total	<u>\$ 47,591,822</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 August 31, 2017, 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 January 9, 2018, the date which the financial statements were available to be issued.

16. ADMINISTRATIVE FEES

For the year ended August 31, 2017, TCPA paid \$13,277,932 and Premier paid \$6,088,277 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.

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COMBINING SCHEDULES

RESPONSIVE EDUCATION SOLUTIONS
Statement of Financial Position by Charter
August 31, 2017

	<u>Texas College Preparatory Academies</u>	<u>Premier High Schools</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 31,280,107	17,223,846	48,503,953
Due from State	9,040,991	7,927,020	16,968,011
Other Receivables	55,884,369	7,700	55,892,069
Inventory	6,437	15,157	21,594
Prepaid Expenses	25,300	46,216	71,516
Total Current Assets	<u>96,237,204</u>	<u>25,219,939</u>	<u>121,457,143</u>
Property & Equipment:			
Land	16,883,267	1,475,727	18,358,994
Building & Improvements	60,816,573	5,993,873	66,810,446
Vehicles	17,471	6,303	23,774
Furniture & Equipment	5,528,646	3,469,306	8,997,952
Leasehold Improvements	1,090,052	1,113,578	2,203,630
Library Books & Media	380,539	204,716	585,255
Construction in Progress	22,659,281	442,997	23,102,278
Accumulated Depreciation	(7,877,110)	(4,493,227)	(12,370,337)
Total Property & Equipment	<u>99,498,719</u>	<u>8,213,273</u>	<u>107,711,992</u>
Other Assets:			
Other Assets	2,173,449	268,144	2,441,593
Total Other Assets	<u>2,173,449</u>	<u>268,144</u>	<u>2,441,593</u>
Total Assets	<u><u>\$ 197,909,372</u></u>	<u><u>33,701,356</u></u>	<u><u>231,610,728</u></u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Financial Position by Charter

August 31, 2017

	Texas College Preparatory Academies	Premier High Schools	Total
LIABILITIES & NET ASSETS			
Current Liabilities:			
Accounts Payable	\$ 2,706,295	626,635	3,332,930
Other Payables	16,475,894	7,082,193	23,558,087
Accrued Wages Payable	2,191,061	752,091	2,943,152
Accrued Benefits Payable	328,965	118,815	447,780
Accrued Expenses	1,952,311	1,641	1,953,952
Current Portion of Long Term Debt	2,490,000	-	2,490,000
Deferred Revenue	4,109,407	6,420,572	10,529,979
Total Current Liabilities	<u>30,253,933</u>	<u>15,001,947</u>	<u>45,255,880</u>
Long-Term Liabilities:			
Bonds Payable	124,050,000	-	124,050,000
Premium on Bonds Payable	<u>5,898,985</u>	<u>-</u>	<u>5,898,985</u>
Total Long Term Liabilities	<u>129,948,985</u>	<u>-</u>	<u>129,948,985</u>
Net Assets:			
Unrestricted	7,046,066	1,767,975	8,814,041
Temporarily Restricted	<u>30,660,388</u>	<u>16,931,434</u>	<u>47,591,822</u>
Total Net Assets	<u>37,706,454</u>	<u>18,699,409</u>	<u>56,405,863</u>
Total Liabilities & Net Assets	<u>\$ 197,909,372</u>	<u>33,701,356</u>	<u>231,610,728</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, 2017

	Texas College Preparatory Academies		
	Unrestricted	Temporarily Restricted	Total
REVENUE & OTHER SUPPORT			
Local Support:			
5742 Interest Income	\$ 434,815	-	434,815
5743 Rent Income	388,471	-	388,471
5744 Gifts & Bequests	106,009	-	106,009
5747 ERate Refund	183,802	-	183,802
5748 Curriculum Sales	25,873	-	25,873
5749 Other Revenue	779,877	-	779,877
5751 Food Service Fees	115,055	-	115,055
5755 Enterprising Services Revenue	77,619	-	77,619
5759 Cocurricular Enterprising Services	50,154	-	50,154
5769 Miscellaneous Revenues	377	-	377
Total Local Support	2,162,052	-	2,162,052
State Program Revenues:			
5811 Per Capita Apportionment		4,893,951	4,893,951
5812 State Foundation Program	-	105,187,883	105,187,883
5829 Instructional Materials Allotment	-	1,781,839	1,781,839
Total State Program Revenues	-	111,863,673	111,863,673
Federal Program Revenues:			
5921 Breakfast Program	-	219,205	219,205
5922 National School Lunch	-	1,083,248	1,083,248
5929 Title I, Part A	-	2,070,163	2,070,163
5929 IDEA-Part B Formula	-	1,879,379	1,879,379
5929 IDEA-Part B Preschool	-	22,621	22,621
5929 Title II, Part A	-	446,819	446,819
5929 Public Charter Schools	-	-	-
5929 Title III, Part A, ELA	-	102,513	102,513
Total Federal Program Revenues	-	5,823,948	5,823,948
Net Assets Released from Restrictions	111,037,642	(111,037,642)	-
Total Revenue & Other Support	113,199,694	6,649,979	119,849,673

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
38,955	-	38,955	473,770	-	473,770
-	-	-	388,471	-	388,471
1,002	-	1,002	107,011	-	107,011
136,167	-	136,167	319,969	-	319,969
130	-	130	26,003	-	26,003
59,244	-	59,244	839,121	-	839,121
20,630	-	20,630	135,685	-	135,685
4,182	-	4,182	81,801	-	81,801
182	-	182	50,336	-	50,336
136	-	136	513	-	513
<u>260,628</u>	<u>-</u>	<u>260,628</u>	<u>2,422,680</u>	<u>-</u>	<u>2,422,680</u>
-	2,337,790	2,337,790	-	7,231,741	7,231,741
-	49,659,730	49,659,730	-	154,847,613	154,847,613
-	547,598	547,598	-	2,329,437	2,329,437
-	52,545,118	52,545,118	-	164,408,791	164,408,791
-	141,571	141,571	-	360,776	360,776
-	368,241	368,241	-	1,451,489	1,451,489
-	997,448	997,448	-	3,067,611	3,067,611
-	910,527	910,527	-	2,789,906	2,789,906
-	-	-	-	22,621	22,621
-	93,760	93,760	-	540,579	540,579
-	374,388	374,388	-	374,388	374,388
-	55,155	55,155	-	157,668	157,668
-	2,941,090	2,941,090	-	8,765,038	8,765,038
<u>51,221,544</u>	<u>(51,221,544)</u>	<u>-</u>	<u>162,259,186</u>	<u>(162,259,186)</u>	<u>-</u>
<u>51,482,172</u>	<u>4,264,664</u>	<u>55,746,836</u>	<u>164,681,866</u>	<u>10,914,643</u>	<u>175,596,509</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, 2017

continued

	Texas College Preparatory Academies		
	Unrestricted	Temporarily Restricted	Total
EXPENSES			
11 Instruction	\$ 71,382,478	-	71,382,478
12 Instructional Resources & Media Services	9,943	-	9,943
13 Curriculum Dev. & Instructional Staff Dev.	4,377,002	-	4,377,002
21 Instructional Leadership	3,287,694	-	3,287,694
23 School Leadership	9,923,876	-	9,923,876
31 Guidance, Counseling & Evaluation Services	458,553	-	458,553
32 Social Work Services	-	-	-
33 Health Services	487,672	-	487,672
34 Student (Pupil) Transportation	-	-	-
35 Food Services	1,909,381	-	1,909,381
36 Cocurricular/Extracurricular Activities	332,149	-	332,149
41 General Administration	5,463,262	-	5,463,262
51 Plant Maintenance & Operations	6,497,743	-	6,497,743
52 Security & Monitoring Services	102,471	-	102,471
53 Data Processing Services	1,552,981	-	1,552,981
61 Community Services	298,783	-	298,783
71 Debt Service	4,750,233	-	4,750,233
81 Fundraising	203,421	-	203,421
Total Expenses	<u>111,037,642</u>	<u>-</u>	<u>111,037,642</u>
Change in Net Assets	2,162,052	6,649,979	8,812,031
Net Assets, Beginning of Year	<u>4,884,014</u>	<u>24,010,409</u>	<u>28,894,423</u>
Net Assets, End of Year	<u>\$ 7,046,066</u>	<u>30,660,388</u>	<u>37,706,454</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
33,049,810	-	33,049,810	104,432,288	-	104,432,288
8,406	-	8,406	18,349	-	18,349
2,443,779	-	2,443,779	6,820,781	-	6,820,781
1,829,154	-	1,829,154	5,116,848	-	5,116,848
5,737,500	-	5,737,500	15,661,376	-	15,661,376
30,852	-	30,852	489,405	-	489,405
10	-	10	10	-	10
60,630	-	60,630	548,302	-	548,302
55,890	-	55,890	55,890	-	55,890
794,223	-	794,223	2,703,604	-	2,703,604
7,994	-	7,994	340,143	-	340,143
2,413,488	-	2,413,488	7,876,750	-	7,876,750
3,411,879	-	3,411,879	9,909,622	-	9,909,622
96,067	-	96,067	198,538	-	198,538
710,781	-	710,781	2,263,762	-	2,263,762
22,524	-	22,524	321,307	-	321,307
-	-	-	4,750,233	-	4,750,233
548,557	-	548,557	751,978	-	751,978
<u>51,221,544</u>	<u>-</u>	<u>51,221,544</u>	<u>162,259,186</u>	<u>-</u>	<u>162,259,186</u>
260,628	4,264,664	4,525,292	2,422,680	10,914,643	13,337,323
<u>1,507,347</u>	<u>12,666,770</u>	<u>14,174,117</u>	<u>6,391,361</u>	<u>36,677,179</u>	<u>43,068,540</u>
<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>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Cash Flows by Charter

August 31, 2017

	Texas College Preparatory Academies	Premier High Schools	TOTAL
Cash Flows from Operating Activities:			
Cash from Local Sources	\$ 2,162,052	260,628	2,422,680
Cash from State Programs	104,581,177	45,443,599	150,024,776
Cash from Federal Programs	5,823,948	2,941,090	8,765,038
Cash Paid to Suppliers	(44,021,528)	(19,561,443)	(63,582,971)
Cash Paid to Employees	(56,388,572)	(20,262,221)	(76,650,793)
Cash Paid for Interest Expense	(4,884,170)	-	(4,884,170)
Net Cash Provided/(Used) by Operating Activities	<u>7,272,907</u>	<u>8,821,653</u>	<u>16,094,560</u>
Cash Flows from Investing Activities:			
Purchase of Capital Assets	(24,393,663)	(1,294,529)	(25,688,192)
Gain on Sale of Capital Assets	-	-	-
Net Cash Provided/(Used) by Investing Activities	<u>(24,393,663)</u>	<u>(1,294,529)</u>	<u>(25,688,192)</u>
Cash Flows from Financing Activities:			
Proceeds from New Debt	11,815,000	-	11,815,000
Payments on Debt	(1,245,000)	(11,815,000)	(13,060,000)
Net Cash Provided/(Used) by Financing Activities	<u>10,570,000</u>	<u>(11,815,000)</u>	<u>(1,245,000)</u>
Net Increase/(Decrease) in Cash	(6,550,756)	(4,287,876)	(10,838,632)
Cash at Beginning of Year	<u>37,830,863</u>	<u>21,511,722</u>	<u>59,342,585</u>
Cash at End of Year	<u>\$ 31,280,107</u>	<u>17,223,846</u>	<u>48,503,953</u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities			
Change in Net Assets	\$ 8,812,031	4,525,292	13,337,323
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:			
Depreciation	2,330,204	495,749	2,825,953
(Increase)/Decrease in Operating Assets			
Due from State	(7,282,496)	(7,101,519)	(14,384,015)
Inventory	9,497	(12,048)	(2,551)
Prepaid Expenses	(8,843)	13,316	4,473
Other Receivables	2,062,602	5,299,271	7,361,873
Other Assets	66,146	(35,615)	30,531
Increase/(Decrease) in Operating Liabilities			
Accounts Payable	702,598	489,077	1,191,675
Other Payables	(3,989,629)	448,249	(3,541,380)
Accrued Wages and Benefits Payable	(549,812)	(335,651)	(885,463)
Retainage Payable	-	-	-
Accrued Expenses	1,118,478	(41,092)	1,077,386
Deferred Revenue	4,109,407	5,177,434	9,286,841
Bond Premium	(107,276)	(100,810)	(208,086)
Net Adjustments	<u>(1,539,124)</u>	<u>4,296,361</u>	<u>2,757,237</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 7,272,907</u>	<u>8,821,653</u>	<u>16,094,560</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, 2017

	Texas College Preparatory Academies	Premier High Schools	Total
EXPENSES & OTHER LOSSES			
6100 Payroll Costs	\$ 56,388,572	20,262,221	\$ 76,650,793
6200 Professional & Contracted Services	40,895,139	26,910,311	67,805,450
6300 Supplies & Materials	5,111,511	2,498,190	7,609,701
6400 Other Operating Costs	3,891,388	1,550,822	5,442,210
6500 Debt Expense	4,751,032	-	4,751,032
	<u>\$ 111,037,642</u>	<u>51,221,544</u>	<u>\$ 162,259,186</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, 2017

	Texas College Preparatory Academies			
		Ownership Interest		
CAPITAL ASSETS	<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1100 Cash	\$ -	31,280,107	-	31,280,107
1510 Land	-	16,883,267	-	16,883,267
1520 Buildings & Improvements	-	60,816,573	-	60,816,573
1521 Construction in Progress	-	22,659,281	-	22,659,281
1531 Vehicles	-	17,471	-	17,471
1539 Furniture & Equipment	-	5,528,646	-	5,528,646
1550 Leasehold Improvements	-	1,090,052	-	1,090,052
1569 Licenses & Media	-	380,539	-	380,539
Total Capital Assets	<u>\$ -</u>	<u>138,655,936</u>	<u>-</u>	<u>138,655,936</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>
-	17,223,846	-	17,223,846
-	1,475,727	-	1,475,727
-	5,993,873	-	5,993,873
-	442,997	-	442,997
-	6,303	-	6,303
-	3,469,306	-	3,469,306
-	1,113,578	-	1,113,578
-	204,716	-	204,716
-	<u>29,930,346</u>	-	<u>29,930,346</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, 2017

Texas College Preparatory Academies

	Budgeted Amounts		Actual Amounts	Variance Pos/(Neg) from Final Budget
	Original	Final		
	REVENUE & OTHER SUPPORT			
Local Support:				
5700 Other Revenue from Local Sources	668,507	668,507	2,162,052	1,493,545
Total Local Revenue	<u>668,507</u>	<u>668,507</u>	<u>2,162,052</u>	<u>1,493,545</u>
State Program Revenue:				
5800 State Program Revenue	112,985,101	113,013,873	111,863,673	(1,150,200)
Total State Revenue	<u>112,985,101</u>	<u>113,013,873</u>	<u>111,863,673</u>	<u>(1,150,200)</u>
Federal Program Revenue:				
5900 Federal Program Revenue	5,975,786	6,494,359	5,823,948	(670,411)
Total Federal Revenue	<u>5,975,786</u>	<u>6,494,359</u>	<u>5,823,948</u>	<u>(670,411)</u>
Total Revenue & Other Support	<u>119,629,394</u>	<u>120,176,739</u>	<u>119,849,673</u>	<u>(327,066)</u>
EXPENSES				
11 Instruction	76,229,569	76,107,690	71,382,478	4,725,212
12 Instructional Resources & Media	36,750	36,750	9,943	26,807
13 Curriculum & Instructional Staff Dev.	5,057,479	5,308,248	4,377,002	931,246
21 Instructional Leadership	2,753,313	3,288,695	3,287,694	1,001
23 School Leadership	9,769,302	9,925,026	9,923,876	1,150
31 Guidance, Counseling & Evaluation	139,597	538,023	458,553	79,470
32 Social Work	38,010	38,010	-	38,010
33 Health Services	428,533	487,683	487,672	11
34 Student (Pupil) Transportation	-	-	-	-
35 Food Services	1,448,092	1,910,381	1,909,381	1,000
36 Cocurricular/Extracurricular Activities	439,947	697,236	332,149	365,087
41 General Administration	5,422,997	5,464,113	5,463,262	851
51 Plant Maintenance & Operations	8,814,631	7,679,190	6,497,743	1,181,447
52 Security & Monitoring Services	45,108	111,587	102,471	9,116
53 Data Processing Services	1,816,699	1,816,699	1,552,981	263,718
61 Community Services	582,337	395,957	298,783	97,174
71 Debt Service	5,279,190	5,279,190	4,750,233	528,957
81 Fundraising	297,250	310,025	203,421	106,604
Total Expenses	<u>118,598,804</u>	<u>119,394,503</u>	<u>111,037,642</u>	<u>8,356,861</u>
Change in Net Assets	1,030,590	782,236	8,812,031	8,029,795
Net Assets, Beginning of Year	<u>28,894,423</u>	<u>28,894,423</u>	<u>28,894,423</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 29,925,013</u>	<u>29,676,659</u>	<u>37,706,454</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		
194	194	260,628	260,434
194	194	260,628	260,434
50,728,858	50,728,858	52,545,118	1,816,260
50,728,858	50,728,858	52,545,118	1,816,260
3,623,595	4,183,664	2,941,090	(1,242,574)
3,623,595	4,183,664	2,941,090	(1,242,574)
54,352,647	54,912,716	55,746,836	834,120
32,531,329	33,050,012	33,049,810	202
35,700	35,700	8,406	27,294
2,418,278	2,450,398	2,443,779	6,619
1,249,630	1,830,154	1,829,154	1,000
5,711,865	5,742,576	5,737,500	5,076
53,352	109,702	30,852	78,850
36,960	36,960	10	36,950
107,545	107,545	60,630	46,915
115,227	115,227	55,890	59,337
1,014,537	1,014,537	794,223	220,314
47,420	40,139	7,994	32,145
2,395,841	2,420,841	2,413,488	7,353
4,038,811	3,412,880	3,411,879	1,001
43,512	102,680	96,067	6,613
746,144	746,144	710,781	35,363
44,938	45,410	22,524	22,886
402,696	124,119	-	124,119
652,314	718,867	548,557	170,310
51,646,099	52,103,891	51,221,544	882,347
2,706,548	2,808,825	4,525,292	(48,227)
14,174,117	14,174,117	14,174,117	-
16,880,665	16,982,942	18,699,409	

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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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, 2017, 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 9, 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.

Evans & Knauth, PLLC

Evans & Knauth, PLLC
Frisco, TX
January 9, 2018

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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 year ended August 31, 2017. 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 year ended August 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Responsive Education Solutions' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Responsive Education Solutions' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
January 9, 2018

RESPONSIVE EDUCATION SOLUTIONS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2017

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:	
IDEA-B Cluster	CFDA 84.027, 84.173
Title II, Part A Program	CFDA 84.367
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 Year Ended August 31, 2017

	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Passed Through State Department of Education			
Title I, Part A Program	84.010A	S010A120043	3,067,611
IDEA-B Formula	84.027A	H027A120008	2,789,906
IDEA-B Preschool	84.173A	H173A160004	22,621
Title III, Part A, LEP	84.365A	S365A120043	157,668
Title II, Part A Program	84.367A	S367A120041	540,579
Title V, Part B, Public Charter Schools	84.365A	U282A100016	<u>374,388</u>
Total U.S. Department of Education			<u><u>6,952,773</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>1,812,265</u>
Total U.S. Department of Agriculture			<u><u>1,812,265</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 8,765,038</u></u>