

**RESPONSIVE EDUCATION
SOLUTIONS**

Consolidated Financial Report for the Year Ended

June 30, 2019

RESPONSIVE EDUCATION SOLUTIONS
Annual Financial Report
For the Year Ended June 30, 2019

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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 June 30, 2019, at a meeting of the Governing Body of such charter school on the ____ day of _____, 2019.

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
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, 2019, 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 June 30, 2019, 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 November 5, 2019, 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
November 5, 2019

FINANCIAL STATEMENTS

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RESPONSIVE EDUCATION SOLUTIONS

Statement of Financial Position

June 30, 2019

ASSETS**Current Assets:**

Cash and Cash Equivalents	\$ 65,949,818
Due from State	26,247,869
Other Receivables	2,033,346
Inventory	198,234
Prepaid Expenses	<u>162,722</u>
Total Current Assets	<u>94,591,989</u>

Property & Equipment:

Land	26,333,386
Buildings & Improvements	146,044,702
Vehicles	228,619
Furniture & Equipment	9,192,564
Leasehold Improvements	1,812,197
Library Books & Media	288,864
Construction in Progress	21,209,579
Accumulated Depreciation	<u>(17,695,106)</u>
Total Net Property & Equipment	<u>187,414,805</u>

Other Assets:

Other Assets	<u>2,753,512</u>
Total Other Assets	<u>2,753,512</u>

TOTAL ASSETS \$ 284,760,306

LIABILITIES & NET ASSETS**Current Liabilities:**

Accounts Payable	\$ 5,831,165
Other Payables	146,017
Accrued Wages & Other Benefits Payable	7,039,280
Accrued Expenses	5,101,894
Current Portion of Long Term Debt	3,093,669
Deferred Revenues	<u>3,239</u>
Total Current Liabilities	<u>21,215,264</u>

Long-Term Liabilities:

Notes Payable	25,225,681
Bonds Payable	121,480,000
Premium on Bonds Payable	<u>5,517,492</u>
Total Long-Term Liabilities	<u>152,223,173</u>

Net Assets:

Unrestricted	97,933,988
Temporarily Restricted	<u>13,387,881</u>
Total Net Assets	<u>111,321,869</u>

TOTAL LIABILITIES & NET ASSETS \$ 284,760,306

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities

For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE & OTHER SUPPORT			
Local Support:			
Revenue from Local Sources	\$ 7,790,911	-	7,790,911
Total Local Support	<u>7,790,911</u>	<u>-</u>	<u>7,790,911</u>
State Program Revenues			
State Foundation Program	-	151,634,701	151,634,701
Other State Aid	-	954,979	954,979
Total State Program Revenues	<u>-</u>	<u>152,589,680</u>	<u>152,589,680</u>
Federal Program Revenues			
Breakfast Program	-	380,716	380,716
National School Lunch	-	1,565,944	1,565,944
Title I, Part A	-	4,133,857	4,133,857
IDEA-Part B Formula	-	2,901,265	2,901,265
IDEA-Part B Preschool	-	29,855	29,855
IDEA-Part B Discretionary	-	31,556	31,556
Title II, Part A	-	1,062,042	1,062,042
Title III, Part A, ELA	-	219,643	219,643
Title IV	-	123,717	123,717
US Dept of Education	-	53,983	53,983
Total Federal Program Revenues	<u>-</u>	<u>10,502,578</u>	<u>10,502,578</u>
Net Assets Released from Restrictions	<u>149,704,377</u>	<u>(149,704,377)</u>	<u>-</u>
Total Revenue & Other Support	<u>\$ 157,495,288</u>	<u>13,387,882</u>	<u>170,883,170</u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities

For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
EXPENSES			
Program Services:			
11 Instruction	\$ 83,146,510	-	83,146,510
12 Instructional Resources & Media Svcs	2,142	-	2,142
13 Curriculum Dev. & Instr Staff Dev.	3,833,526	-	3,833,526
21 Instructional Leadership	5,515,068	-	5,515,068
23 School Leadership	16,362,032	-	16,362,032
	-		
Support Services:			
31 Guidance, Counseling & Eval Svcs	1,053,057	-	1,053,057
32 Social Work Services	-	-	-
33 Health Services	918,718	-	918,718
34 Student (Pupil) Transportation	45,435	-	45,435
35 Food Services	3,027,534	-	3,027,534
36 Cocurricular/Extracurricular Activities	1,200,277	-	1,200,277
41 General Administration	9,547,320	-	9,547,320
51 Plant Maintenance & Operations	13,989,965	-	13,989,965
52 Security & Monitoring Services	240,179	-	240,179
53 Data Processing Services	4,525,548	-	4,525,548
61 Community Services	414,052	-	414,052
71 Debt Service	5,506,919	-	5,506,919
81 Fundraising	3,044,859	-	3,044,859
	-		
Total Expenses	<u>152,373,141</u>	<u>-</u>	<u>152,373,141</u>
Change in Net Assets	5,122,147	13,387,882	18,510,028
Net Assets, Beginning of Year	91,580,708	-	91,580,708
Prior period adjustment	1,231,133	-	1,231,133
Net Assets, End of Year	<u>\$ 97,933,988</u>	<u>13,387,882</u>	<u>111,321,869</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 June 30, 2019

Cash Flows from Operating Activities:	
Cash from Local Sources	\$ 7,790,911
Cash from State Programs	151,897,632
Cash from Federal Programs	10,455,778
Cash Paid to Suppliers	(28,721,652)
Cash Paid to Employees	(100,422,312)
Gain on sale of assets	(472,542)
Cash Paid for Interest	<u>(5,684,988)</u>
Net Cash Provided/(Used) by Operating Activities	<u>34,842,827</u>
Cash Flows from Investing Activities:	
Purchase of Property & Equipment	(40,439,574)
Sale of Capital Assets	<u>3,722,463</u>
Net Cash Provided/(Used) by Investing Activities	<u>(36,717,111)</u>
Cash Flows from Financing Activities:	
Proceeds from New Debt	15,460,807
Principal Payments on Debt	<u>(5,615,523)</u>
Net Cash Provided/(Used) by Financing Activities	<u>9,845,284</u>
Net Increase/(Decrease) in Cash	7,971,000
Cash at Beginning of Year	<u>57,978,817</u>
Cash at End of Year	<u><u>\$ 65,949,818</u></u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities	
Change in Net Assets (after transfers and prior per adj)	\$ 19,741,161
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:	
Depreciation	4,645,055
(Increase)/Decrease in Operating Assets	
Due from State	(738,848)
Inventory	31,885
Prepaid Expenses	570,906
Other Receivables	31,939,088
Other Assets	(412,025)
Increase/(Decrease) in Operating Liabilities	
Accounts Payable	5,289,585
Other Payables	(20,722,393)
Accrued Wages and Benefits Payable	(1,887,057)
Deferred Revenue	3,239
Accrued Expenses	(3,409,682)
Bond Premium	(208,087)
Net Adjustments	<u>15,101,666</u>
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ 34,842,827</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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; ResponsiveEd Virtual Academy, grades 3-12), an autism school (Foundation School for Autism), as well as school administrative services.

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 June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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.

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.

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 June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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.

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.

INVENTORY

On June 30, 2019, the Organization had on hand curriculum inventory of original costs totaling \$198,234.

<u>Entity</u>	<u>Curriculum</u>
501(c)(3)	<u>198,234</u>
Totals	<u>\$ 198,234</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

CAPITAL ASSETS

The Charters and 501(c)(3) had the following capital asset activity in 2019:

TCPA	Balance at 6/30/18	Additions	Retirements	Balance at 6/30/19
Land	\$ 21,692,462	69,039		\$ 21,761,501
Buildings & Improvements	83,733,607	38,736,112		122,469,718
Vehicles	17,471	-		17,471
Furniture & Equipment	4,986,611	1,399,253		6,385,864
Leasehold Improvements	769,975	-		769,975
Licenses & Media	210,178	-		210,178
Construction in Progress	<u>22,489,569</u>	<u>36,433,195</u>	<u>(37,720,478)</u>	<u>21,202,286</u>
Total Historical Cost	<u>133,899,873</u>	<u>76,637,599</u>	<u>(37,720,478)</u>	<u>172,816,993</u>
Less:				
Accumulated Depreciation	<u>(8,560,110)</u>	<u>(3,560,380)</u>	<u>-</u>	<u>(12,120,490)</u>
Total T CPA Capital Assets	<u>\$ 125,339,763</u>	<u>73,077,219</u>	<u>(37,720,478)</u>	<u>160,696,503</u>
Premier				
Land	\$ 1,475,727	118,998	-	1,594,725
Buildings & Improvements	6,442,368	285,121		6,727,489
Vehicles	6,303	-	(6,303)	-
Furniture & Equipment	1,487,191	477,046	-	1,964,237
Leasehold Improvements	760,722	281,500	-	1,042,222
Licenses & Media	-	-		-
Construction in Progress	<u>147,667</u>	<u>71,126</u>	<u>(211,500)</u>	<u>7,293</u>
Total Historical Cost	<u>10,319,978</u>	<u>1,233,791</u>	<u>(217,803)</u>	<u>11,335,966</u>
Less:				
Accumulated Depreciation	<u>(2,367,726)</u>	<u>(590,051)</u>	<u>6,303</u>	<u>(2,951,474)</u>
Total Premier Capital Assets	<u>\$ 7,952,252</u>	<u>643,740</u>	<u>(211,500)</u>	<u>8,384,492</u>
501(c)(3)				
Land	\$ 4,467,160	-	(1,490,000)	2,977,160
Buildings & Improvements	18,890,619	434,563	(2,477,687)	16,847,495
Vehicles	174,934	36,214	-	211,148
Furniture & Equipment	812,895	29,568	-	842,463
Licenses & Media	<u>78,686</u>	<u>-</u>	<u>-</u>	<u>78,686</u>
Total Historical Cost	<u>24,424,294</u>	<u>500,345</u>	<u>(3,967,687)</u>	<u>20,956,952</u>
Less:				
Accumulated Depreciation	<u>(2,421,480)</u>	<u>(494,624)</u>	<u>292,962</u>	<u>(2,623,142)</u>
Total 501(c)(3) Capital Assets	<u>\$ 22,002,814</u>	<u>5,721</u>	<u>(3,674,725)</u>	<u>18,333,810</u>
Grand Total Historical Cost	168,644,145	78,371,735	(41,905,968)	205,109,911
Grand Total Accum Depreciation	<u>(13,349,316)</u>	<u>(4,645,055)</u>	<u>299,265</u>	<u>(17,695,106)</u>
Grand Total Net Capital Assets	<u>\$ 155,294,829</u>	<u>73,726,680</u>	<u>(41,606,703)</u>	<u>\$ 187,414,805</u>

Depreciation expense for the year ended June 30, 2019 was \$1,084,675.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2019 were \$7,194,531 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 2018 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

Total Plan Assets	\$	154,050,930,573
Accumulated Benefit Obligations	\$	200,216,305,827
Percentage of the Plan that is funded		76.94%

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

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 2017 and 2018.

	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 1,852,496	\$ 3,076,559

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Asset Valuation Method	5 Year Smoothed Market
Discount Rate	6.91%
Long-Term Expected Investment Rate of Return	7.25%
Salary Increases	3.05% - 9.05%
Payroll Growth Rate	2.50%
Inflation Rate	2.30%

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

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 June 30, 2019

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, 2018 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.	18.00%	5.70%	1.04%
Non-U.S. Developed	13.00%	6.90%	0.90%
Emerging Markets	9.00%	8.95%	0.80%
Directional Hedge Funds	4.00%	3.53%	0.14%
Private Equity	13.00%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11.00%	1.11%	0.12%
Absolute Return	0.00%	0.00%	0.00%
Stable Value Hedge Funds	4.00%	3.09%	0.12%
Cash	1.00%	-30.00%	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	70.00%	0.02%
Real Assets	14.00%	5.21%	0.73%
Energy & Natural Resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	3.70%	0.18%
Inflation Expectation	0.00%	0.00%	2.30%
Alpha	0.00%	0.00%	-0.79%
Total	<u>100.00%</u>	<u>0.00%</u>	<u>7.25%</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 June 30, 2019

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 \$325) 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.

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 \$23.04 towards the dental premium and \$2.10 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.

DUE FROM STATE

At June 30, 2019, the Organization was to receive \$26,247,869 in entitlements as follows:

Federal Grant Revenue	\$ 1,433,907
State Revenue	<u>24,813,962</u>
Total Due From State	<u>\$ 26,247,869</u>

LITIGATION

At the close of the fiscal year on June 30, 2019, there were two separate issues surrounding threatened and/or pending litigation.

First issue is with a software vendor in which ResponsiveEd claims the vendor is in breach of contract for failing to deliver a working system. Both parties are currently discussing a work-out arrangement. In the event of an unfavorable outcome, ResponsiveEd would be obligated for the remainder of the contract in the amount of \$239,075 which the school has refused to pay.

Second issue is with a construction vendor in which ResponsiveEd claims billing irregularities by the vendor. The vendor has billed out final retainage in the amount of \$266,000 but the school claims it should only be \$123,000. The vendor has asserted breach of contract and the school has asserted a counterclaim for offset and fraud. The parties were unable to settle the dispute through mediation and are actively pursuing arbitration. In the event of an unfavorable outcome, ResponsiveEd would likely have to pay \$266,000 plus interest and possibly attorney's fees.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

OPERATING LEASES

The following is a summary of operating lease obligations and terms for the year ended June 30, 2019:

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	06/30/21	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	01/01/19	12/31/19	1,275
Beaumont	08/15/11	06/30/21	11,109
Brownwood-Early	07/01/12	06/30/19	2,100
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	06/30/21	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	06/30/20	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	06/30/20	30,030
Willis	06/01/08	06/30/19	10,780
			\$ 718,378

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

OPERATING LEASES *(continued)*

Future Minimum Lease Payments

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

06/30/20	6,860,856
06/30/21	3,360,452
06/30/22	1,007,863
Thereafter	<u>3,202,883</u>
Total	<u>\$ 14,432,054</u>

OTHER PAYABLES

The detail of Other Payables are for various items and are miscellaneous in nature.

<u>Description</u>	<u>TCPA</u>	<u>Premier</u>	<u>501(c)(3)</u>	<u>Total</u>
Other Misc Payables	7,993	-	138,024	146,017
Totals	<u>\$ 7,993</u>	<u>-</u>	<u>138,024</u>	<u>\$ 146,017</u>

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.

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.

PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to net assets in the amount of \$1,231,133 to correct a payroll timing issue from the 6/30/18 annual report.

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

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. This property was sold during the fiscal year ending 6/30/19.

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.

On October 26, 2018, a line of credit was obtained, it has an aggregate amount not to exceed \$81,500,000, and will mature December 1, 2021. Advances are limited to once per month and must be a minimum of \$100,000. Funds are NOT to be used for working capital, but only for the construction, renovation, or acquisition of new educational facilities. Interest payments (at a rate equal to the index rate (LIBOR + 1.25%) are due monthly, commencing June 1, 2019.

Long Term Debt activity for the year ended June 30, 2019 was as follows:

	Balance at 6/30/18	Additions	Retirements	Balance at 6/30/19	Current Portion
TCPA					
Series 2015A Education Rev Bonds	\$ 52,150,000	-	(1,015,000)	51,135,000	1,065,000
Series 2015B Education Rev Bonds	11,815,000	-	(260,000)	11,555,000	265,000
Series 2016 Education Rev Bonds	62,575,000	-	(1,215,000)	61,360,000	1,240,000
Line of Credit	-	15,460,807	-	15,460,807	-
Sub-Total	<u>126,540,000</u>	<u>15,460,807</u>	<u>(2,490,000)</u>	<u>139,510,807</u>	<u>2,570,000</u>
Premium on Bonds Payable	5,725,579	-	(208,087)	5,517,492	-
Total TCPA	132,265,579	15,460,807	(2,698,087)	145,028,299	2,570,000
501(c)(3)					
Independent Bank (Lakeway)	\$ 2,636,800	-	(203,762)	2,433,038	217,443
Independent Bank (700 Parker Sq)	1,783,983	-	(131,243)	1,652,740	139,350
Independent Bank (Little Rock)	2,633,121	-	(2,633,121)	-	-
Bank of Arkansas (Bentonville)	6,360,161	-	(157,397)	6,202,764	166,876
Total 501c3	<u>13,414,065</u>	<u>-</u>	<u>(3,125,523)</u>	<u>10,288,542</u>	<u>523,669</u>
Long Term Debt Totals	<u>\$ 145,679,644</u>	<u>15,460,807</u>	<u>(5,823,610)</u>	<u>155,316,841</u>	<u>3,093,669</u>

RESPONSIVE EDUCATION SOLUTIONS

Notes to Financial Statements
For the Year Ended June 30, 2019

NOTES PAYABLE (continued)

Future debt requirements are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	3,090,754	5,272,665	8,363,419
2021	18,663,277	5,155,598	23,818,875
2022	3,320,564	5,014,280	8,334,844
2023	3,485,106	4,847,013	8,332,119
2024-2028	20,181,331	21,430,282	41,611,613
2029-2033	22,202,634	16,674,637	38,877,271
2034-2038	25,427,237	11,767,831	37,195,068
2039-2043	31,338,446	6,274,552	37,612,998
2044-2047	22,090,000	1,082,550	23,172,550
Total	<u>\$ 149,799,349</u>	<u>77,519,408</u>	<u>227,318,757</u>

TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2019, the Organization had temporarily restricted net assets of \$13,387,881. 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>\$ 13,387,881</u>
Total	<u>\$ 13,387,881</u>

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, 2019, local fund deposit balances were fully covered by FDIC insurance and collateralization held by the bank.

SUBSEQUENT EVENTS

The School has evaluated subsequent events through November 5, 2019, the date which the financial statements were available to be issued.

ADMINISTRATIVE FEES

For the year ended June 30, 2019, TCPA paid \$15,618,702 and Premier paid \$6,887,824 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 Entity

June 30, 2019

	Texas College Preparatory Academies	Premier High Schools	501(c)(3)	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 31,610,441	\$ 19,255,481	\$ 15,083,896	65,949,818
Due from State	19,083,489	7,117,580	46,800	26,247,869
Other Receivables	1,798,155	5,973	229,218	2,033,346
Inventory	-	-	198,234	198,234
Prepaid Expenses	-	-	162,722	162,722
Total Current Assets	<u>52,492,085</u>	<u>26,379,034</u>	<u>15,720,870</u>	<u>94,591,989</u>
Property & Equipment:				
Land	21,761,501	1,594,725	2,977,160	26,333,386
Building & Improvements	122,469,719	6,727,489	16,847,494	146,044,702
Vehicles	17,471	-	211,148	228,619
Furniture & Equipment	6,385,863	1,964,237	842,464	9,192,564
Leasehold Improvements	769,975	1,042,222	-	1,812,197
Library Books & Media	210,178	-	78,686	288,864
Construction in Progress	21,202,286	7,293	-	21,209,579
Accumulated Depreciation	<u>(12,120,490)</u>	<u>(2,951,474)</u>	<u>(2,623,142)</u>	<u>(17,695,106)</u>
Total Property & Equipment	<u>160,696,503</u>	<u>8,384,492</u>	<u>18,333,810</u>	<u>187,414,805</u>
Other Assets:				
Other Assets	<u>2,459,846</u>	<u>260,317</u>	<u>33,349</u>	<u>2,753,512</u>
Total Other Assets	<u>2,459,846</u>	<u>260,317</u>	<u>33,349</u>	<u>2,753,512</u>
Total Assets	<u>\$ 215,648,434</u>	<u>35,023,843</u>	<u>34,088,029</u>	<u>284,760,306</u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities by Entity
For the Year Ended June 30, 2019

	Texas College Preparatory Academies		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE & OTHER SUPPORT			
Local Support:			
5742 Interest Income	\$ 880,942	-	880,942
5743 Rent Income	163,201	-	163,201
5744 Gifts & Bequests	625,589	-	625,589
5747 ERate Refund	70,654	-	70,654
5748 Curriculum Sales	-	-	-
5749 Other Revenue	1,085,794	-	1,085,794
5751 Food Service Fees	53,199	-	53,199
5753 Cocurricular Activities	53,154	-	53,154
5755 Enterprising Services Revenue	177,967	-	177,967
5759 Cocurricular Enterprising Services	137,924	-	137,924
5769 Miscellaneous Revenues	347,550	-	347,550
Total Local Support	<u>3,595,975</u>	<u>-</u>	<u>3,595,975</u>
State Program Revenues:			
5811 Per Capita Apportionment	-	5,776,366	5,776,366
5812 State Foundation Program	-	99,196,947	99,196,947
5829 Instructional Materials Allotment	-	763,977	763,977
Total State Program Revenues	<u>-</u>	<u>105,737,290</u>	<u>105,737,290</u>
Federal Program Revenues:			
5921 Breakfast Program	-	246,390	246,390
5922 National School Lunch	-	1,154,314	1,154,314
5929 Title I, Part A	-	2,808,691	2,808,691
5929 IDEA-Part B Formula	-	1,896,192	1,896,192
5929 IDEA-Part B Preschool	-	29,855	29,855
5929 IDEA-Part B Discretionary	-	19,951	19,951
5929 Title II, Part A	-	673,687	673,687
5929 Public Charter Schools	-	-	-
5929 Title III, Part A, ELA	-	55,102	55,102
5929 Title IV	-	31,315	31,315
5929 US Dept of Education	-	7,183	7,183
Total Federal Program Revenues	<u>-</u>	<u>6,922,680</u>	<u>6,922,680</u>
Net Assets Released from Restrictions	<u>107,560,246</u>	<u>(107,560,246)</u>	<u>-</u>
Total Revenue & Other Support	<u>111,156,221</u>	<u>5,099,724</u>	<u>116,255,945</u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities by Entity
For the Year Ended June 30, 2019

Premier High Schools			501(c)(3)		
Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
\$ 268,285	-	268,285	162,776	-	162,776
-	-	-	1,967,322	-	1,967,322
3,295	-	3,295	10,027	-	10,027
60,212	-	60,212	216,897	-	216,897
-	-	-	272,844	-	272,844
201,662	-	201,662	23,510,395	-	23,510,395
14,125	-	14,125	-	-	-
-	-	-	-	-	-
6,175	-	6,175	-	-	-
-	-	-	-	-	-
7,448	-	7,448	-	-	-
<u>561,202</u>	<u>-</u>	<u>561,202</u>	<u>26,140,261</u>	<u>-</u>	<u>26,140,261</u>
-	2,825,022	2,825,022	-	-	-
-	43,836,366	43,836,366	-	-	-
-	191,002	191,002	-	-	-
-	<u>46,852,390</u>	<u>46,852,390</u>	-	-	-
-	134,326	134,326	-	-	-
-	411,630	411,630	-	-	-
-	1,325,166	1,325,166	-	-	-
-	1,005,073	1,005,073	-	-	-
-	-	-	-	-	-
-	11,605	11,605	-	-	-
-	388,355	388,355	-	-	-
-	-	-	-	-	-
-	164,541	164,541	-	-	-
-	92,402	92,402	-	-	-
-	-	-	-	46,800	46,800
-	<u>3,533,098</u>	<u>3,533,098</u>	-	<u>46,800</u>	<u>46,800</u>
<u>42,144,131</u>	<u>(42,144,131)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>42,705,333</u>	<u>8,241,357</u>	<u>50,946,690</u>	<u>26,140,261</u>	<u>46,800</u>	<u>26,187,061</u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities by Entity
For the Year Ended June 30, 2019

	TOTAL		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE & OTHER SUPPORT			
Local Support:			
5742 Interest Income	1,312,003	-	1,312,003
5743 Rent Income	2,130,523	-	2,130,523
5744 Gifts & Bequests	638,911	-	638,911
5747 ERate Refund	347,763	-	347,763
5748 Curriculum Sales	272,844	-	272,844
5749 Other Revenue	24,797,851	-	24,797,851
5751 Food Service Fees	67,324	-	67,324
5753 Cocurricular Activities	53,154	-	53,154
5755 Enterprising Services Revenue	184,142	-	184,142
5759 Cocurricular Enterprising Services	137,924	-	137,924
5769 Miscellaneous Revenues	354,998	-	354,998
Total Local Support	<u>30,297,437</u>	<u>-</u>	<u>30,297,437</u>
State Program Revenues:			
5811 Per Capita Apportionment	-	8,601,388	8,601,388
5812 State Foundation Program	-	143,033,313	143,033,313
5829 Instructional Materials Allotment	-	954,979	954,979
Total State Program Revenues	<u>-</u>	<u>152,589,680</u>	<u>152,589,680</u>
Federal Program Revenues:			
5921 Breakfast Program	-	380,716	380,716
5922 National School Lunch	-	1,565,944	1,565,944
5929 Title I, Part A	-	4,133,857	4,133,857
5929 IDEA-Part B Formula	-	2,901,265	2,901,265
5929 IDEA-Part B Preschool	-	29,855	29,855
5929 IDEA-Part B Discretionary	-	31,556	31,556
5929 Title II, Part A	-	1,062,042	1,062,042
5929 Public Charter Schools	-	-	-
5929 Title III, Part A, ELA	-	219,643	219,643
5929 Title IV	-	123,717	123,717
5929 US Dept of Education	-	53,983	53,983
Total Federal Program Revenues	<u>-</u>	<u>10,502,578</u>	<u>10,502,578</u>
Net Assets Released from Restrictions	<u>149,704,377</u>	<u>(149,704,377)</u>	<u>-</u>
Total Revenue & Other Support	<u>180,001,814</u>	<u>13,387,882</u>	<u>193,389,696</u>

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

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RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities by Entity
For the Year Ended June 30, 2019

continued

	Texas College Preparatory Academies		
	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES			
11 Instruction	\$ 60,651,148	-	60,651,148
12 Instructional Resources & Media Services	2,142	-	2,142
13 Curriculum Dev. & Instructional Staff Dev.	4,537,642	-	4,537,642
21 Instructional Leadership	2,634,275	-	2,634,275
23 School Leadership	10,392,043	-	10,392,043
31 Guidance, Counseling & Evaluation Services	407,097	-	407,097
33 Health Services	773,335	-	773,335
34 Student (Pupil) Transportation	80	-	80
35 Food Services	2,265,174	-	2,265,174
36 Cocurricular/Extracurricular Activities	1,182,929	-	1,182,929
41 General Administration	6,124,199	-	6,124,199
51 Plant Maintenance & Operations	10,190,414	-	10,190,414
52 Security & Monitoring Services	185,512	-	185,512
53 Data Processing Services	1,830,109	-	1,830,109
61 Community Services	406,744	-	406,744
71 Debt Service	4,527,111	-	4,527,111
81 Fundraising	707,717	-	707,717
Total Expenses	<u>106,817,671</u>	<u>-</u>	<u>106,817,671</u>
Change in Net Assets	4,338,550	5,099,724	9,438,274
Transfers In	882,533		882,533
Transfers Out	(2,514,175)		(2,514,175)
Prior Period Adjustment	915,069		915,069
Net Assets, Beginning of Year	<u>49,411,422</u>	<u>-</u>	<u>49,411,422</u>
Net Assets, End of Year	<u>\$ 53,033,399</u>	<u>5,099,724</u>	<u>58,133,123</u>

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

Premier High Schools			501(c)(3)		
Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
\$ 21,977,490	-	21,977,490	517,872	-	517,872
-	-	-	-	-	-
3,116,320	-	3,116,320	970,047	-	970,047
1,665,004	-	1,665,004	4,168,734	-	4,168,734
5,894,213	-	5,894,213	764,575	-	764,575
349,931	-	349,931	296,029	-	296,029
52,040	-	52,040	93,343	-	93,343
45,355	-	45,355	-	-	-
829,480	-	829,480	122,551	-	122,551
17,348	-	17,348	-	-	-
2,571,260	-	2,571,260	9,250,543	-	9,250,543
3,941,975	-	3,941,975	2,754,974	-	2,754,974
51,371	-	51,371	3,296	-	3,296
887,194	-	887,194	4,396,793	-	4,396,793
6,460	-	6,460	848	-	848
202,322	-	202,322	777,486	-	777,486
933,457	-	933,457	1,403,685	-	1,403,685
<u>42,541,220</u>	<u>-</u>	<u>42,541,220</u>	<u>25,520,776</u>	<u>-</u>	<u>25,520,776</u>
164,113	8,241,357	8,405,470	619,485	46,800	666,285
1,211,854	-	1,211,854	1,757,169	-	1,757,169
(1,211,854)	-	(1,211,854)	(125,527)	-	(125,527)
316,064	-	316,064	-	-	-
<u>23,934,026</u>	<u>-</u>	<u>23,934,026</u>	<u>18,235,260</u>	<u>-</u>	<u>18,235,260</u>
<u>\$ 24,414,203</u>	<u>8,241,357</u>	<u>32,655,560</u>	<u>20,486,387</u>	<u>46,800</u>	<u>20,533,187</u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Activities by Entity

For the Year Ended June 30, 2019

continued

	TOTAL		
	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES			
11 Instruction	\$ 83,146,510	-	83,146,510
12 Instructional Resources & Media Services	2,142	-	2,142
13 Curriculum Dev. & Instructional Staff Dev.	8,624,009	-	8,624,009
21 Instructional Leadership	8,468,013	-	8,468,013
23 School Leadership	17,050,831	-	17,050,831
31 Guidance, Counseling & Evaluation Services	1,053,057	-	1,053,057
33 Health Services	918,718	-	918,718
34 Student (Pupil) Transportation	45,435	-	45,435
35 Food Services	3,217,205	-	3,217,205
36 Cocurricular/Extracurricular Activities	1,200,277	-	1,200,277
41 General Administration	17,946,002	-	17,946,002
51 Plant Maintenance & Operations	16,887,363	-	16,887,363
52 Security & Monitoring Services	240,179	-	240,179
53 Data Processing Services	7,114,096	-	7,114,096
61 Community Services	414,052	-	414,052
71 Debt Service	5,506,919	-	5,506,919
81 Fundraising	3,044,859	-	3,044,859
Total Expenses	<u>174,879,667</u>	<u>-</u>	<u>174,879,667</u>
 Change in Net Assets	 5,122,147	 13,387,881	 18,510,028
 Transfers In	 3,851,556	 -	 3,851,556
Transfers Out	(3,851,556)	-	(3,851,556)
Prior Period Adjustment	1,231,133	-	1,231,133
Net Assets, Beginning of Year	<u>91,580,708</u>	<u>-</u>	<u>91,580,708</u>
 Net Assets, End of Year	 <u>\$ 97,933,988</u>	 <u>13,387,881</u>	 <u>111,321,869</u>

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

RESPONSIVE EDUCATION SOLUTIONS

Statement of Cash Flows by Entity

For the Year Ended June 30, 2019

	Texas College Preparatory Academies	Premier High Schools	501(c)(3)	TOTAL
Cash Flows from Operating Activities:				
Cash from Local Sources	\$ 3,595,975	561,202	26,140,261	30,297,437
Cash from State Programs	103,313,398	48,584,234	-	151,897,632
Cash from Federal Programs	6,922,680	3,533,098	-	10,455,778
Cash Paid to Suppliers	(20,842,870)	(28,029,166)	(2,356,142)	(51,228,178)
Cash Paid to Employees	(59,473,786)	(22,886,014)	(18,062,512)	(100,422,312)
Gain on sale of Assets	-	-	(472,542)	(472,542)
Cash Paid for Interest	(4,728,459)	(202,322)	(754,207)	(5,684,988)
Net Cash Provided/(Used) by Operating Activities	<u>28,786,938</u>	<u>1,561,032</u>	<u>4,494,858</u>	<u>34,842,827</u>
Cash Flows from Investing Activities:				
Purchase of Capital Assets	(38,917,121)	(1,022,108)	(500,345)	(40,439,574)
Sale of Capital Assets	-	-	3,722,463	3,722,463
Net Cash Provided/(Used) by Investing Activities	<u>(38,917,121)</u>	<u>(1,022,108)</u>	<u>3,222,118</u>	<u>(36,717,111)</u>
Cash Flows from Financing Activities:				
Proceeds from New Debt	15,460,807	-	-	15,460,807
Payments on Debt	(2,490,000)	-	(3,125,523)	(5,615,523)
Net Cash Provided/(Used) by Financing Activities	<u>12,970,807</u>	<u>-</u>	<u>(3,125,523)</u>	<u>9,845,284</u>
Net Increase/(Decrease) in Cash	2,840,624	538,924	4,591,453	7,971,000
Cash at Beginning of Year	<u>28,769,817</u>	<u>18,716,557</u>	<u>10,492,443</u>	<u>57,978,817</u>
Cash at End of Year	<u>\$ 31,610,441</u>	<u>19,255,481</u>	<u>15,083,896</u>	<u>65,949,818</u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities				
Change in Net Assets (after transfers and prior per adj)	\$ 8,721,701	\$ 8,721,534	\$ 2,297,927	19,741,161
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:				
Depreciation	3,560,380	590,051	494,624	4,645,055
(Increase)/Decrease in Operating Assets				
Due from State	(2,423,892)	1,731,844	(46,800)	(738,848)
Inventory	-	-	31,885	31,885
Prepaid Expenses	387,985	342,267	(159,346)	570,906
Other Receivables	32,002,465	(5,873)	(57,504)	31,939,088
Other Assets	(375,855)	(13,616)	(22,554)	(412,025)
Increase/(Decrease) in Operating Liabilities				
Accounts Payable	4,068,248	513,413	707,924	5,289,585
Other Payables	(10,695,961)	(9,999,060)	(27,372)	(20,722,393)
Accrued Wages and Benefits Payable	(2,323,508)	(533,061)	969,512	(1,887,057)
Retainage Payable	-	-	-	-
Accrued Expenses	(3,926,538)	213,533	303,323	(3,409,682)
Deferred Revenue	-	-	3,239	3,239
Bond Premium	(208,087)	-	-	(208,087)
Net Adjustments	<u>20,065,237</u>	<u>(7,160,502)</u>	<u>2,196,931</u>	<u>15,101,666</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 28,786,938</u>	<u>1,561,032</u>	<u>4,494,858</u>	<u>34,842,827</u>

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

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REQUIRED TEA SCHEDULES

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RESPONSIVE EDUCATION SOLUTIONS

Schedule of Expenses by Charter
For the Year Ended June 30, 2019

	Texas College Preparatory Academies	Premier High Schools	Total
EXPENSES & OTHER LOSSES			
6100 Payroll Costs	\$ 59,473,786	22,886,014	\$ 82,359,800
6200 Professional & Contracted Services	30,332,236	14,647,967	44,980,203
6300 Supplies & Materials	5,907,072	2,538,559	8,445,631
6400 Other Operating Costs	6,577,466	2,266,358	8,843,824
6500 Debt Expense	4,527,111	202,322	4,729,433
	<u>\$ 106,817,671</u>	<u>42,541,220</u>	<u>\$ 149,358,891</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, 2019

	Texas College Preparatory Academies			
	Ownership Interest			
	Local	State	Federal	Total
CAPITAL ASSETS				
1100 Cash	\$ -	31,610,441	-	31,610,441
1510 Land	-	21,761,501	-	21,761,501
1520 Buildings & Improvements	-	122,469,719	-	122,469,719
1521 Construction in Progress	-	21,202,286	-	21,202,286
1531 Vehicles	-	17,471	-	17,471
1539 Furniture & Equipment	-	6,385,863	-	6,385,863
1550 Leasehold Improvements	-	769,975	-	769,975
1569 Licenses & Media	-	210,178	-	210,178
Total Capital Assets	<u>\$ -</u>	<u>204,427,434</u>	<u>-</u>	<u>204,427,434</u>

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

Premier High Schools

Ownership Interest

Local	State	Federal	Total
-	19,255,481	-	19,255,481
-	1,594,725	-	1,594,725
-	6,727,489	-	6,727,489
-	7,293	-	7,293
-	-	-	-
-	1,964,237	-	1,964,237
-	1,042,222	-	1,042,222
-	-	-	-
-	<u>30,591,447</u>	-	<u>30,591,447</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 June 30, 2019

Texas College Preparatory Academies

	Budgeted Amounts		Actual Amounts	Variance Pos/(Neg) from Final Budget
	Original	Final		
	REVENUE & OTHER SUPPORT			
Local Support:				
5700 Revenue from Local Sources	2,516,968	6,755,873	3,595,975	(3,159,898)
Total Local Revenue	<u>2,516,968</u>	<u>6,755,873</u>	<u>3,595,975</u>	<u>(3,159,898)</u>
State Program Revenue:				
5800 State Program Revenue	135,879,045	113,238,079	105,737,290	(7,500,789)
Total State Revenue	<u>135,879,045</u>	<u>113,238,079</u>	<u>105,737,290</u>	<u>(7,500,789)</u>
Federal Program Revenue:				
5900 Federal Program Revenue	10,181,415	10,095,593	6,922,680	(3,172,913)
Total Federal Revenue	<u>10,181,415</u>	<u>10,095,593</u>	<u>6,922,680</u>	<u>(3,172,913)</u>
Total Revenue & Other Support	<u>148,577,428</u>	<u>130,089,545</u>	<u>116,255,945</u>	<u>(13,833,600)</u>
EXPENSES				
11 Instruction	86,307,117	71,945,657	60,651,148	11,294,509
12 Instructional Resources & Media	39,900	41,900	2,142	39,758
13 Curriculum & Instructional Staff Dev.	5,357,165	4,817,353	4,537,642	279,711
21 Instructional Leadership	3,388,334	2,809,506	2,634,275	175,231
23 School Leadership	12,418,556	13,152,738	10,392,043	2,760,695
31 Guidance, Counseling & Evaluation	366,608	459,437	407,097	52,340
32 Social Work	39,900	39,900	-	39,900
33 Health Services	1,431,793	1,369,875	773,335	596,540
34 Student (Pupil) Transportation	72,083	15,715	80	15,635
35 Food Services	2,273,407	2,317,853	2,265,174	52,679
36 Cocurricular/Extracurricular Activities	808,620	1,385,462	1,182,929	202,533
41 General Administration	7,164,009	6,423,412	6,124,199	299,213
51 Plant Maintenance & Operations	10,532,544	10,639,570	10,190,414	449,156
52 Security & Monitoring Services	73,740	415,747	185,512	230,235
53 Data Processing Services	2,158,576	1,929,188	1,830,109	99,079
61 Community Services	740,804	687,093	406,744	280,349
71 Debt Service	3,844,629	4,527,111	4,527,111	-
81 Fundraising	425,379	1,014,703	707,717	306,986
Total Expenses	<u>137,443,164</u>	<u>123,992,220</u>	<u>106,817,671</u>	<u>17,174,549</u>
Change in Net Assets	11,134,264	6,097,325	9,438,274	3,340,949
Transfers In	-	-	882,533	(882,533)
Transfers Out	-	-	(2,514,175)	2,514,175
Prior Period Adjustment	-	-	915,069	(915,069)
Net Assets, Beginning of Year	<u>49,411,422</u>	<u>49,411,422</u>	<u>49,411,422</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 60,545,686</u>	<u>55,508,747</u>	<u>58,133,123</u>	<u>4,057,522</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		
131,169	1,199,732	561,202	(638,530)
<u>131,169</u>	<u>1,199,732</u>	<u>561,202</u>	<u>(638,530)</u>
61,820,185	49,881,076	46,852,390	(3,028,686)
<u>61,820,185</u>	<u>49,881,076</u>	<u>46,852,390</u>	<u>(3,028,686)</u>
5,594,960	5,901,522	3,533,098	(2,368,424)
<u>5,594,960</u>	<u>5,901,522</u>	<u>3,533,098</u>	<u>(2,368,424)</u>
<u>67,546,314</u>	<u>56,982,330</u>	<u>50,946,690</u>	<u>(6,035,640)</u>
42,768,865	27,881,909	21,977,490	5,904,419
39,900	38,850	-	38,850
2,036,170	3,533,552	3,116,320	417,232
2,641,167	2,246,699	1,665,004	581,695
5,695,032	6,463,305	5,894,213	569,092
93,516	412,588	349,931	62,657
39,900	38,850	-	38,850
93,722	83,986	52,040	31,946
58,686	65,476	45,355	20,121
949,484	966,974	829,480	137,494
132,565	95,017	17,348	77,669
2,679,218	2,740,986	2,571,260	169,726
4,423,272	4,574,101	3,941,975	632,126
47,880	346,895	51,371	295,524
816,751	887,194	887,194	-
73,257	49,633	6,460	43,173
261,379	252,571	202,322	50,249
486,824	1,150,676	933,457	217,219
<u>63,337,588</u>	<u>51,829,262</u>	<u>42,541,220</u>	<u>9,288,042</u>
4,208,726	5,153,068	8,405,470	(15,323,682)
-	-	1,211,854	(1,211,854)
-	-	(1,211,854)	1,211,854
		316,064	(316,064)
<u>23,934,026</u>	<u>23,934,026</u>	<u>23,934,026</u>	<u>-</u>
<u>28,142,752</u>	<u>29,087,094</u>	<u>32,655,560</u>	<u>(15,639,746)</u>

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

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COMPLIANCE AND INTERNAL CONTROL

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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, 2019, 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 November 5, 2019.

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
November 5, 2019

EVANS & KNAUTH, PLLC

CERTIFIED PUBLIC ACCOUNTANTS
4433 PUNJAB WAY, SUITE 102
FRISCO, TEXAS 75033
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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 June 30, 2019. 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 June 30, 2019.

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
November 5, 2019

RESPONSIVE EDUCATION SOLUTIONS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

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:	
National School Breakfast/Lunch Programs	10.553 & 10.555
Title II, Part A Program	84.376A
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 June 30, 2019

	<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	S010A180043	4,133,857
IDEA-B Formula	84.027A	H027A180008	2,901,265
IDEA-B Preschool	84.173A	H173A180004	29,855
IDEA-B Discretionary	84.373A	H027A180008	31,556
Title II, Part A Program	84.367A	S367A180041	1,062,042
Title III, Part A, LEP	84.365A	S365A180043	219,643
Title IV, Part A, Subpart 1	84.424A	S424A180045	123,717
US Dept of Education	84.282M		<u>53,983</u>
Total U.S. Department of Education			<u><u>8,555,918</u></u>
U.S. DEPARTMENT of AGRICULTURE			
Passed Through State Department of Agriculture			
School Breakfast/National School Lunch Programs	10.553 & 10.555	2018IN109946	<u>1,946,660</u>
Total U.S. Department of Agriculture			<u><u>1,946,660</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 10,502,578</u></u>