

GENESIS SCHOOLS

DBA Pegasus School of
Liberal Arts and Sciences

For the Years Ended
August 31, 2018 and 2017

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GENESIS SCHOOLS (Charter Holder)
(Federal Employer Identification Number 75-2640636)
CDN 057-802

CERTIFICATE OF BOARD

We, the undersigned, certify that the attached annual Financial and Compliance Report of the above Genesis Schools (Charter Holder) was reviewed and () approved () disapproved for the year ended August 31, 2018, at a meeting of the governing body of the charter holder on the _____ day of _____, 2019.

Signature of Board Secretary

Signature of Board President

NOTE: If the governing body of the Charter Holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Genesis Schools
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Genesis Schools (Charter Holder) DBA Pegasus School of Liberal Arts and Sciences (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits 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 Genesis Schools (Charter Holder) DBA Pegasus School of Liberal Arts and Sciences as of August 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and required Texas Education Agency Supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018 on our consideration of Genesis Schools (Charter Holder) DBA Pegasus School of Liberal Arts and Sciences' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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* and should be considered in assessing the result of our audit.



Evans & Knauth, PLLC
Frisco, TX
December 21, 2018

FINANCIAL STATEMENTS

GENESIS SCHOOLS
Statement of Financial Position
August 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 722,978	\$ 558,754
Investments	64,677	64,677
Due from State	768,858	918,624
Receivables	29,112	-
Prepaid Expenses	-	6,223
Total Current Assets	1,585,625	1,548,278
Property & Equipment, Net	106,302	165,561
Total Assets	\$ 1,691,927	\$ 1,713,839
 LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 170,178	\$ 70,368
Accrued Wages	19,543	10,036
Total Current Liabilities	189,721	80,404
Total Liabilities	189,721	80,404
Net Assets:		
Unrestricted	907,060	852,367
Temporarily Restricted	595,146	781,068
Total Net Assets	1,502,206	1,633,435
Total Liabilities & Net Assets	\$ 1,691,927	\$ 1,713,839

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

GENESIS SCHOOLS
Statement of Activities
For the Years Ended August 31, 2018 and 2017

	Unrestricted	Temporarily Restricted	Totals	
			2018	2017
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 54,693	-	54,693	88,113
Total Local Support	<u>54,693</u>	<u>-</u>	<u>54,693</u>	<u>88,113</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	-	6,011,544	6,011,544	5,444,228
5820 State Program Revenues Distributed by Texas Education Agency	<u>-</u>	<u>60,956</u>	<u>60,956</u>	<u>3,963</u>
Total State Program Revenues	<u>-</u>	<u>6,072,500</u>	<u>6,072,500</u>	<u>5,448,191</u>
5920 Federal Program Revenues:				
ESEA, Title III, Part A	-	18,084	18,084	21,944
ESEA, Title I, Part A, IBP	-	305,914	305,914	249,518
IDEA, Part B, Formula	-	110,747	110,747	175,706
National School Lunch/Breakfast Program	-	436,796	436,796	376,437
ESEA, Title II, Part A	-	20,117	20,117	33,000
ESEA, Title IV	<u>-</u>	<u>9,598</u>	<u>9,598</u>	<u>-</u>
Total Federal Program Revenues	<u>-</u>	<u>901,256</u>	<u>901,256</u>	<u>856,605</u>
Net Assets Released from Restrictions:				
Restrictions Satisfied by Payments	<u>7,159,678</u>	<u>(7,159,678)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 7,214,371</u>	<u>(185,922)</u>	<u>7,028,449</u>	<u>6,392,909</u>

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

GENESIS SCHOOLS
Statement of Activities
For the Years Ended August 31, 2018 and 2017
continued

	Unrestricted	Temporarily Restricted	Totals	
			2018	2017
EXPENSES				
11 Instruction	\$ 3,163,233	-	3,163,233	2,972,622
12 Instructional Resources & Media Services	173	-	173	143
13 Curriculum Development & Instructional Staff Development	445,968	-	445,968	510,203
21 Instructional Leadership	157,887	-	157,887	49,749
23 School Leadership	451,154	-	451,154	469,885
31 Guidance, Counseling & Evaluation Services	102,176	-	102,176	92,375
33 Health Services	479	-	479	276
34 Student (Pupil) Transportation	112,435	-	112,435	99,845
35 Food Service	458,782	-	458,782	373,651
36 Co-curricular/Extracurricular Activities	95,622	-	95,622	88,892
41 General Administrative	613,005	-	613,005	610,711
51 Facilities Maintenance & Operations	1,359,825	-	1,359,825	1,421,045
52 Security and Monitoring Service	50,871	-	50,871	58,449
53 Data Processing Service	101,146	-	101,146	86,996
61 Community Services	46,922	-	46,922	45,212
Total Expenses	<u>7,159,678</u>	<u>-</u>	<u>7,159,678</u>	<u>6,880,054</u>
Change in Net Assets	54,693	(185,922)	(131,229)	(487,145)
Net Assets - Beginning of Year - As Restated	<u>852,367</u>	<u>781,068</u>	<u>1,633,435</u>	<u>2,120,580</u>
Net Assets - End of Year	<u>\$ 907,060</u>	<u>\$ 595,146</u>	<u>\$ 1,502,206</u>	<u>\$ 1,633,435</u>

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

GENESIS SCHOOLS
Statement of Cash Flows
For the Years Ended August 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Local Support	\$ 25,581	\$ 88,113
State Program Payments	6,067,212	5,396,507
Federal Program Payments	1,056,310	616,565
Payments to Vendors for Goods and Services Rendered	(2,825,795)	(2,625,992)
Payments to Charter School Personnel for Services Rendered	(4,159,084)	(4,148,291)
Net Cash Provided/(Used) by Operating Activities	164,224	(673,098)
Net Change in Cash & Cash Equivalents	164,224	(673,098)
Cash & Equivalents at Beginning of Year	558,754	1,231,852
Cash & Equivalents at End of Year	722,978	558,754

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:

Increase/(Decrease) in Net Assets	(131,229)	(487,145)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	59,259	59,259
(Increase)/Decrease in:		
Due from State	149,766	(291,724)
Receivables	(29,112)	-
Prepaid Expenses	6,223	95,120
Increase/(Decrease) in:		
Accounts Payable	99,810	(17,984)
Accrued Expenses	9,507	(30,624)
Net Cash Provided/(Used) by Operating Activities	\$ 164,224	\$ (673,098)

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

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Genesis Schools (the "Charter Holder") dba Pegasus School of Liberal Arts and Sciences (a non-profit corporation) were 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.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas in 1996 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter Holders.

Since the Charter Holder received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The Charter Holder is designed for the serious student, is an interdisciplinary public school serving grades kindergarten through twelve, and is located in downtown Dallas, Texas. The Charter Holder was formed on March 11, 1996. The Charter Holder operates under an open enrollment charter granted by the Texas State Board of Education. This charter was originally issued for a period of five years and is subject to review and renewal prior to the expiration date of the original charter. The Charter Holder renewed the original charter in 2012 for a period of ten years. The Charter Holder is part of the public charter school system of the State of Texas and is therefore entitled to distribution from the Texas Education Agency's ("TEA") available school fund. The Charter Holder does not have the authority to impose ad valorem taxes or to charge tuition.

Basis of Presentation

In order to comply with accounting principles generally accepted in the United States of America, the School must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standard Board as described in the AICPA Audit and Accounting Guide for not for profit organizations. The Audit Guide requires classification of the School's net assets and its revenues, expenses, gains, and losses based on the existence or absences of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently Restricted – Net assets required to be maintained in perpetuity with only the income to be used for the charter school's activities due to donor-imposed restrictions. The Charter Holder has no permanently restricted net assets.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The Charter Holder accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Cash & Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investment instruments with an original maturity of six months or less to be cash equivalents.

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets or the lease period of leasehold improvements, which range from three to twenty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

INVESTMENTS

Investments are stated at fair value and are as follows:

	<u>2018</u>	<u>2017</u>
Certificates of Deposit	<u>\$ 64,677</u>	<u>64,677</u>

Disclosures about Fair Value of Financial Instruments

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments – Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics or discounted cash flows. The School does not have, at August 31, 2018 or at any time during the year, any investments classified as Level 2 or Level 3.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

INVESTMENTS *(continued)*

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2018.

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 64,677	64,677		

DUE FROM STATE

As of August 31, 2018, and 2017, the Charter Holder had earned the following revenues which were not received until after the fiscal year end:

	2018	2017
State Foundation Program	\$ 535,231	547,179
Title I, Part A - Improving Basic Programs	154,069	249,518
IDEA - Part B, Formula	1,773	97,516
Child Nutrition Program	35,193	-
ESEA, Title II, Part A	11,376	19,731
ESEA Title III Part A - E.L.A.	4,382	4,680
ESEA Title IV	9,598	-
State Textbook Fund	17,236	-
Total	\$ 768,858	918,624

TEMPORARILY RESTRICTED ASSETS

The School reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

State Funded Educational Programs	\$ 6,258,422
Federally Funded Educational Programs	901,256
Total	7,159,678

Temporarily restricted assets as of August 31, 2018 are available for the following purposes:

State Funded Educational Programs	\$ 595,146
Total	\$ 595,146

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

CAPITAL ASSETS

Capital assets at August 31, 2018 and 2017 were as follows:

	2018	2017
Building Improvements	859,264	859,264
Equipment	106,523	106,523
Total Property & Equipment	965,787	965,787
Less: Accumulated Depreciation	(859,485)	(800,226)
Total Property & Equipment, Net	106,302	165,561

Depreciation expense for the years ended August 31, 2018 and 2017 was \$59,259 and \$59,259 respectively.

DEFINED BENEFIT PENSION PLANS

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 fiscal year ending August 31, 2018 were \$288,153 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.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

DEFINED BENEFIT PENSION PLANS *(continued)*

Pension Plan Fiduciary Net Position *(continued)*

The information provided in the Notes to the Financial Statements in the 2017 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan:

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

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 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rate for fiscal year 2017.

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 57,527	\$ 63,149

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).

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

DEFINED BENEFIT PENSION PLANS *(continued)*

Contributions *(continued)*

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.

When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Asset Valuation Method	5 Year Smoothed Market
Discount Rate	8.00%
Long-Term Expected Investment Rate of Return	8.00%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	3.50%
Inflation Rate	2.50%

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.

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

DEFINED BENEFIT PENSION PLANS *(continued)*

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 8.0%. 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.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18%	7.0%	1.0%
Non-U.S. Developed	13%	7.3%	0.8%
Emerging Markets	9%	8.1%	0.7%
Directional Hedge Funds	4%	5.4%	0.1%
Private Equity	13%	9.2%	1.1%
Stable Value			
U.S. Treasuries	11%	2.9%	0.1%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.1%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.1%
Energy & Natural Resources	3%	8.8%	0.2%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.3%
Inflation Expectation	-	-	2.2%
Alpha	-	-	1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

HEALTH CARE COVERAGE

During the year ended August 31, 2018, employees of the Charter Holder were covered by a health insurance plan (the "Plan"). The Charter Holder contributes \$150 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

COMMITMENTS & CONTINGENCIES

The Charter Holder receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Charter Holder have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

OPERATING LEASES

On May 11, 2018, The Charter Holder amended a lease with Brama Commerce Street, Ltd. for space known as the Manor House. The lease amendment extends the lease period an additional seven years and expires August 31, 2025. Annual lease commitments are as follows:

Period Ending August 31	Amount
2019	\$ 640,258
2020	647,731
2021	658,941
2022	670,438
2023	682,367
2024-2026	1,637,795
Total	<u>\$ 4,937,530</u>

On July 18, 2016, the Charter Holder renewed a lease agreement with the YMCA extending through August 31, 2021 with a total leased space of 27,920 square feet. Annual lease commitments are as follows:

Period Ending August 31	Amount
2019	\$ 413,688
2020	426,096
2021	438,876
Total	<u>\$ 1,278,660</u>

On February 19, 2016, the Charter Holder entered into a lease agreement with the EverBank Commercial Finance extending through February 28, 2021 for the use of four copy machines. Annual lease commitments are as follows:

Period Ending August 31	Amount
2019	\$ 26,064
2020	26,064
2021	13,032
Total	<u>\$ 65,160</u>

GENESIS SCHOOLS
Notes to Financial Statements
For the Years Ended August 31, 2018 and 2017

RELATED PARTY TRANSACTIONS

The Charter Holder has a Board member who is also CEO of Pegasus School of Liberal Arts and Sciences. The CEO also has a daughter that is employed by Pegasus as Assistant Superintendent and a son who is employed by Pegasus as part-time webmaster and special projects contact. The Pegasus Board of Directors believes that those individuals are compensated commensurate with their qualifications and experience.

The Charter Holder contracted with the Lannen Firm for legal services for the year ended August 31, 2018. The owner of the Lannen Firm is the spouse of a Board member (who is the Superintendent). The Superintendent filed an affidavit and abstention from voting form with the Board secretary in accordance with Local Government Code, Chapter 171, Subtitle C.

Each of the employees were employed by Pegasus prior to September 1, 2013 and each is considered to have been in continuous employment and is not prohibited from continuing employment by the school for purposes of Section 12.1055 {d} Texas Education Code.

CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school, Pegasus School of Liberal Arts and Sciences, and did not conduct any other charter or non-charter activities.

EVALUATION OF SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through December 21, 2018 the date which the financial statements were available to be issued.

T. E. A. REQUIRED SCHEDULES

GENESIS SCHOOLS
Schedule of Expenses
For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
EXPENSES		
6100 Payroll Cost	\$ 4,333,883	4,254,062
6200 Professional and Contracted Services	1,810,210	1,807,794
6300 Supplies and Materials	692,831	431,104
6400 Other Operating Costs	322,754	387,094
Total Expenses	<u>\$ 7,159,678</u>	<u>6,880,054</u>

GENESIS SCHOOLS
Statement of Capital Assets
As of August 31, 2018

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
CAPITAL ASSETS	-		-
1110 Cash	-	\$ 787,655	-
1520 Building and Improvements	-	859,264	-
1539 Furniture and Equipment	-	106,523	-
Total Capital Assets		\$ 1,753,442	

GENESIS SCHOOLS

Budgetary Comparison Schedule - General Fund
For the Year Ended August 31, 2018

	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final		
REVENUES				
Local Support:				
5740 Other Revenues from Local Sources	\$ 300	54,693	54,693	-
Total Local Support	<u>300</u>	<u>54,693</u>	<u>54,693</u>	<u>-</u>
State Program Revenues:				
5810 Foundation School Program Revenues	6,012,284	6,011,544	6,011,544	-
5820 State Program Revenues Distributed by Texas Education Agency	60,730	60,956	60,956	-
Total State Program Revenues	<u>6,073,014</u>	<u>6,072,500</u>	<u>6,072,500</u>	<u>-</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	798,461	901,256	901,256	-
Total Federal Program Revenues	<u>798,461</u>	<u>901,256</u>	<u>901,256</u>	<u>-</u>
Total Revenues	<u>6,871,775</u>	<u>7,028,449</u>	<u>7,028,449</u>	<u>-</u>
EXPENSES:				
Program Services:				
11 Instruction	3,245,520	3,163,233	3,163,233	-
12 Instructional Resources & Media Services	250	173	173	-
13 Curriculum Development & Instructional Staff Development	379,548	445,968	445,968	-
21 Instructional Leadership	52,316	157,887	157,887	-
23 School Leadership	452,711	451,154	451,154	-
31 Guidance, Counseling & Evaluation Services	52,003	102,176	102,176	-
33 Health Services	-	479	479	-
34 Student (Pupil) Transportation	188,589	112,435	112,435	-
35 Food Service	380,000	458,782	458,782	-
36 Co-curricular/Extracurricular Activities	44,153	95,622	95,622	-
41 General Administration	580,829	613,005	613,005	-
51 Plant Maintenance and Operations	1,360,736	1,359,825	1,359,825	-
52 Security & Monitoring Services	50,000	50,871	50,871	-
53 Data Processing Services	80,121	101,146	101,146	-
61 Community Services	4,999	46,922	46,922	-
Total Expenses	<u>6,871,775</u>	<u>7,159,678</u>	<u>7,159,678</u>	<u>-</u>
Change in Net Assets	-	(131,229)	(131,229)	-
Net Assets, Beginning of Year	<u>1,633,435</u>	<u>1,633,435</u>	<u>1,633,435</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 1,633,435</u>	<u>1,502,206</u>	<u>1,502,206</u>	<u>-</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



**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***

To the Board of Directors of
Genesis Schools (Charter Holder)
Dallas, 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 Genesis Schools (Charter Holder) (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Genesis Schools' 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 Genesis Schools' 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 Genesis Schools' 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 style and is positioned above a light gray rectangular background.

Evans & Knauth, PLLC
Frisco, TX
December 21, 2018



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

To the Board of Directors of
Genesis Schools (Charter Holder)
Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited Genesis Schools (Charter Holder)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Genesis Schools' major federal programs for the year ended August 31, 2018. Genesis Schools' 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 Genesis Schools' 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 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 Genesis Schools' 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 Genesis Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Genesis Schools 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, 2018.

Other Matters

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

Report on Internal Control Over Compliance

Management of Genesis Schools 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 Genesis Schools' 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 Genesis Schools' 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
Frisco, TX
December 21, 2018

GENESIS SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2018

I. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses are reported.
3. No issues of noncompliance material to the financial statements which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal controls over major federal award programs were disclosed during the audit. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Title 2 U.S. CFR Part 200, of the Uniform Guidance.
7. The programs tested as major programs were:
National School Lunch & Breakfast Program (CFDA 10.555 & 10.553)
8. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
9. Auditee was determined to be a low- risk auditee.

GENESIS SCHOOLS
Schedule of Status of Prior Findings
For the Year Ended August 31, 2018

<u>Program</u>	Status of Prior Year's Finding	<u>Noncompliance</u>
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- NONE -

GENESIS SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018

Grantor/Program Title	Federal CFDA Number	Pass Through Entity ID Number	Federal Expenditures
<u>Unites States Department of Education</u>			
<u>Passed Through Region X ESC:</u>			
ESEA, Title I, Part A, IBP	84.010A	S010A1630043	\$ 281,101
ESEA, Title II, Part A, Discr.	84.367A	S367A160041	20,117
ESEA, Title III, Part A, LEP	84.365A	16671001057802	18,084
ESEA, Title IV, Academic Enrichment	84.424		9,598
Total Passed Through Region X ESC			<u>328,900</u>
<u>Passed Through State Department of Education:</u>			
Title I - School Improvement	84.010A	610118	24,813
IDEA - Part B, Formula	84.027A	660018	110,747
Total Passed Through State Department of Education			<u>135,560</u>
Total United States Department of Education			<u>464,460</u>
<u>Unites States Department of Agriculture</u>			
<u>Passed Through State Department of Agriculture</u>			
National School Lunch	10.555	713018	328,224
Donated Commodities	10.555		30,052
School Breakfast Program	10.553	714018	78,520
Total Passed Through State Department of Agriculture			<u>436,796</u>
Total United States Department of Agriculture			<u>436,796</u>
Total Expenditures of Federal Awards			<u>\$ 901,256</u>

Standard Financial Accounting System

For all federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

GENESIS SCHOOLS

Notes to Schedule of Expenditures of Federal Awards For Year Ended August 31, 2018

1. For all federal programs, the School uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.

3. The School participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018, may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.