

Promesa Public Schools, Inc.

Report of Independent Auditor and
Annual Financial Report

June 30, 2018 and 2017



Promesa Public Schools, Inc.
June 30, 2018 and 2017
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Report of Independent Auditor

To the Board of Directors of
Promesa Public Schools, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Promesa Public Schools, Inc. (the “Organization”), which comprise the statements of financial position as of June 30, 2018 and 2017, and the 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 Promesa Public Schools, Inc. as of June 30, 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 Matter – Other Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*Uniform Guidance*), 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matter – Additional Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses, capital assets and budgetary comparison information on pages 21 - 23 are presented for purposes of additional analysis and are 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, except for the information in the budgetary comparison pertaining to specific budgetary amounts, 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, except for the information in the budgetary comparison pertaining to specific budgetary amounts, the information is fairly stated in all material respects in relation to the financial statements as a whole. Information contained in the budgetary comparison supplemental schedule pertaining to specific budgetary amounts was not subjected to the auditing procedures applied in the audit of the financial statements or any other additional procedures and, therefore, we do not express an opinion on that information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018 on our consideration of Promesa Public Schools Inc.'s 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 the 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 Promesa Public Schools Inc.'s internal control over financial reporting and compliance.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

November 8, 2018
Austin, Texas

Promesa Public Schools, Inc.
Statements of Financial Position
As of June 30, 2018 and 2017

	Assets	
	2018	2017
Cash and cash equivalents	\$ 621,383	\$ 472,271
Due from governments	1,020,005	1,188,344
Other receivables	13,854	1,008
Inventories	8,095	-
Prepaid expenses	34,550	37,207
Total current assets	1,697,887	1,698,830
Capital assets, net	13,785	34,224
Total assets	\$ 1,711,672	\$ 1,733,054
Liabilities and Net Assets		
Accounts payable	\$ 325,159	\$ 289,985
Payroll liabilities	407,624	473,761
Other accrued liabilities	42,295	44,876
Total liabilities	775,078	808,622
Net assets		
Without donor restrictions	65,263	66,622
With donor restrictions	871,331	857,810
Total net assets	936,594	924,432
Total liabilities and net assets	\$ 1,711,672	\$ 1,733,054

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			2017		
	Net assets without donor restrictions	Net assets with donor restrictions	Total	Net assets without donor restrictions	Net assets with donor restrictions	Total
Revenue and Other Support						
Local support:						
Revenues from Local Sources	\$ 180,304	\$ 346,552	\$ 526,856	\$ 112,616	\$ 109,036	\$ 221,652
Revenue from Cocurricular, Enterprising Service or Activities	28,203	1,636	29,839	40,902	12,855	53,757
Total local support	208,507	348,188	556,695	153,518	121,891	275,409
State program revenues:						
Per Capita and Foundation School Program Act Revenues	-	5,709,289	5,709,289	-	5,967,397	5,967,397
State Program Revenues Distributed by TEA	-	46,088	46,088	-	70,928	70,928
Total state program revenues	-	5,755,377	5,755,377	-	6,038,325	6,038,325
Federal program revenues:						
Title I, Part A-Improving Basic Programs	-	338,845	338,845	-	340,282	340,282
Title I, 1003 (A)-Priority and Focus School Grant	-	4,946	4,946	-	79,571	79,571
Title II, Part A-Supporting Effective Instructions	-	37,933	37,933	-	81,974	81,974
Title III, Part A - LEP	-	8,372	8,372	-	10,069	10,069
IDEA-B Formula	-	197,724	197,724	-	162,692	162,692
Texas 21st Century Community Learning Centers	-	518,204	518,204	-	466,874	466,874
2018-2020 Public Charter School Program Start-Up Grant	-	27,365	27,365	-	-	-
Title IV, Part A	-	5,761	5,761	-	-	-
National School Lunch Program (NSLP)	-	241,450	241,450	-	238,512	238,512
School Breakfast Program (SBP)	-	47,496	47,496	-	33,349	33,349
RISE	-	1,333	1,333	-	129,089	129,089
Community "DREAM-Link"	-	-	-	-	44,465	44,465
LEAD	-	125,458	125,458	-	350,629	350,629
Total federal program revenues	-	1,554,887	1,554,887	-	1,937,506	1,937,506
Net assets released from restrictions:						
Restrictions satisfied by expenditures	7,644,931	(7,644,931)	-	8,030,579	(8,030,579)	-
Total revenues and other support	7,853,438	13,521	7,866,959	8,184,097	67,143	8,251,240
Expenses						
Program Services:						
Instruction	3,284,112	-	3,284,112	3,357,848	-	3,357,848
Instructional Resources and Media Services	64,750	-	64,750	56,096	-	56,096
Curriculum Development and Instructional Staff Development	141,583	-	141,583	329,790	-	329,790
Instructional Leadership	65,223	-	65,223	98,448	-	98,448
School Leadership	380,679	-	380,679	382,747	-	382,747
Guidance, Counseling and Evaluation Service	293,446	-	293,446	366,626	-	366,626
Social Work Services	69,407	-	69,407	68,493	-	68,493
Health Services	46	-	46	-	-	-
Student Transportation	488,935	-	488,935	429,493	-	429,493
Food Services	312,369	-	312,369	353,741	-	353,741
Extracurricular Activities	127,285	-	127,285	133,927	-	133,927
Facilities Maintenance and Operations	1,697,959	-	1,697,959	1,670,041	-	1,670,041
Security and Monitoring Services	68,461	-	68,461	59,264	-	59,264
Data Processing Services	47,284	-	47,284	71,095	-	71,095
Community Services	207,914	-	207,914	109,327	-	109,327
Support Services:						
General Administration	605,344	-	605,344	701,068	-	701,068
Total expenses	7,854,797	-	7,854,797	8,188,004	-	8,188,004
Change in net assets	(1,359)	13,521	12,162	(3,907)	67,143	63,236
Net assets at beginning of year	66,622	857,810	924,432	70,529	790,667	861,196
Net assets at end of year	\$ 65,263	\$ 871,331	\$ 936,594	\$ 66,622	\$ 857,810	\$ 924,432

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
Statement of Functional Expenses
Year ended June 30, 2018

	Program Services								
	<u>Instruction</u>	<u>Instructional Resources and Media Services</u>	<u>Curriculum Development and Instructional Staff Development</u>	<u>Instructional Leadership</u>	<u>School Leadership</u>	<u>Guidance, Counseling and Evaluation Service</u>	<u>Social Work Services</u>	<u>Health Services</u>	<u>Student Transportation</u>
Expenses									
Salaries	\$ 2,407,931	\$ 55,737	\$ 44,595	\$ 58,208	\$ 314,334	\$ 216,996	\$ 55,823	\$ -	\$ 1,937
Employee benefits	294,203	5,505	618	5,918	35,081	27,369	9,432	-	125
Payroll taxes	66,609	1,089	3,265	1,097	6,424	4,625	1,087	-	28
Total salaries and fringe benefits	<u>2,768,743</u>	<u>62,331</u>	<u>48,478</u>	<u>65,223</u>	<u>355,839</u>	<u>248,990</u>	<u>66,342</u>	<u>-</u>	<u>2,090</u>
Supplies and materials	161,723	2,419	2,545	-	7,011	11,191	-	46	-
Student transportation	17,648	-	-	-	-	-	-	-	486,845
Student food service	-	-	-	-	-	-	-	-	-
Professional and contractual services	182,798	-	65,669	-	14,038	32,419	2,975	-	-
Travel	54,707	-	20,566	-	1,132	-	-	-	-
Building lease	-	-	-	-	-	-	-	-	-
Maintenance and repair - building	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Copier rental	39,337	-	-	-	-	-	-	-	-
Postage	10,661	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Dues and subscription	2,586	-	-	-	225	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-
Other	45,909	-	4,325	-	2,434	846	90	-	-
Total other expenses	<u>515,369</u>	<u>2,419</u>	<u>93,105</u>	<u>-</u>	<u>24,840</u>	<u>44,456</u>	<u>3,065</u>	<u>46</u>	<u>486,845</u>
Total expenses	<u>\$ 3,284,112</u>	<u>\$ 64,750</u>	<u>\$ 141,583</u>	<u>\$ 65,223</u>	<u>\$ 380,679</u>	<u>\$ 293,446</u>	<u>\$ 69,407</u>	<u>\$ 46</u>	<u>\$ 488,935</u>

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
Statement of Functional Expenses
Year ended June 30, 2018 (continued)

	Program Services						Support Service		
	<u>Food Services</u>	<u>Extracurricular Activities</u>	<u>Facilities Maintenance and Operations</u>	<u>Security and Monitoring Services</u>	<u>Data Processing Services</u>	<u>Community Services</u>	<u>Total Program Services</u>	<u>General Administration</u>	<u>Total</u>
Expenses									
Salaries	\$ 8,745	\$ 19,927	\$ 162,359	\$ 7,019	\$ 12,263	\$ 51,714	\$ 3,417,588	\$ 289,982	\$ 3,707,570
Employee benefits	742	809	18,628	649	1,075	9,348	409,502	23,987	433,489
Payroll taxes	163	438	4,161	137	167	997	90,287	5,426	95,713
Total salaries and fringe benefits	<u>9,650</u>	<u>21,174</u>	<u>185,148</u>	<u>7,805</u>	<u>13,505</u>	<u>62,059</u>	<u>3,917,377</u>	<u>319,395</u>	<u>4,236,772</u>
Supplies and materials	1,080	45,572	-	990	370	6,143	239,090	10,945	250,035
Student transportation	-	12,868	-	-	-	-	517,361	-	517,361
Student food service	299,893	-	-	-	-	-	299,893	-	299,893
Professional and contractual services	-	-	-	56,999	33,409	2,865	391,172	184,299	575,471
Travel	-	20,200	-	-	-	3,789	100,394	12,942	113,336
Building lease	-	-	1,079,129	-	-	-	1,079,129	-	1,079,129
Maintenance and repair - building	-	-	80,156	378	-	-	80,534	-	80,534
Utilities	-	-	265,384	-	-	-	265,384	-	265,384
Copier rental	-	-	-	-	-	-	39,337	-	39,337
Postage	-	-	-	-	-	-	10,661	4,575	15,236
Insurance	-	-	71,169	-	-	-	71,169	38,272	109,441
Dues and subscription	1,746	14,337	-	-	-	-	18,894	8,648	27,542
Depreciation	-	1,176	16,973	2,289	-	-	20,438	-	20,438
Other	-	11,958	-	-	-	133,058	198,620	26,268	224,888
Total other expenses	<u>302,719</u>	<u>106,111</u>	<u>1,512,811</u>	<u>60,656</u>	<u>33,779</u>	<u>145,855</u>	<u>3,332,076</u>	<u>285,949</u>	<u>3,618,025</u>
Total expenses	<u>\$ 312,369</u>	<u>\$ 127,285</u>	<u>\$ 1,697,959</u>	<u>\$ 68,461</u>	<u>\$ 47,284</u>	<u>\$ 207,914</u>	<u>\$ 7,249,453</u>	<u>\$ 605,344</u>	<u>\$ 7,854,797</u>

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services								
	Instruction	Instructional Resources and Media Services	Curriculum Development and Instructional Staff	Instructional Leadership	School Leadership	Guidance, Counseling and Evaluation Service	Social Work Services	Health Services	Student Transportation
Expenses									
Salaries	\$ 2,405,265	\$ 45,872	\$ 170,887	\$ 89,356	\$ 329,341	\$ 262,858	\$ 56,231	\$ -	\$ 5,961
Employee benefits	257,592	5,388	14,737	5,319	28,432	38,720	10,363	-	310
Payroll taxes	63,247	913	3,916	1,547	6,362	5,145	1,077	-	101
Total salaries and fringe benefits	<u>2,726,104</u>	<u>52,173</u>	<u>189,540</u>	<u>96,222</u>	<u>364,135</u>	<u>306,723</u>	<u>67,671</u>	<u>-</u>	<u>6,372</u>
Supplies and materials	244,920	3,778	1,646	-	3,954	14,858	-	-	-
Student transportation	24,769	-	-	-	-	-	-	-	423,121
Student food service	-	-	-	-	-	-	-	-	-
Professional and contractual services	194,386	-	106,715	-	10,505	42,138	-	-	-
Travel	49,255	-	29,383	2,226	3,777	-	-	-	-
Building lease	-	-	-	-	-	-	-	-	-
Maintenance and repair - building	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Copier rental	42,458	-	59	-	-	886	822	-	-
Postage	16,400	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Dues and subscription	3,308	145	-	-	225	706	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-
Other	56,248	-	2,447	-	151	1,315	-	-	-
Total other expenses	<u>631,744</u>	<u>3,923</u>	<u>140,250</u>	<u>2,226</u>	<u>18,612</u>	<u>59,903</u>	<u>822</u>	<u>-</u>	<u>423,121</u>
Total expenses	<u>\$ 3,357,848</u>	<u>\$ 56,096</u>	<u>\$ 329,790</u>	<u>\$ 98,448</u>	<u>\$ 382,747</u>	<u>\$ 366,626</u>	<u>\$ 68,493</u>	<u>\$ -</u>	<u>\$ 429,493</u>

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
Statement of Functional Expenses
Year Ended June 30, 2017 (continued)

	<u>Program Services</u>						<u>Support Service</u>		
	<u>Food Services</u>	<u>Extracurricular Activities</u>	<u>Facilities Maintenance and Operations</u>	<u>Security and Monitoring Services</u>	<u>Data Processing Services</u>	<u>Community Services</u>	<u>Total Program Services</u>	<u>General Administration</u>	<u>Total</u>
Expenses									
Salaries	\$ -	\$ 24,383	\$ 58,985	\$ -	\$ 56,000	\$ 57,166	\$ 3,562,305	\$ 396,968	\$ 3,959,273
Employee benefits	-	717	8,509	-	5,182	10,365	385,634	26,029	411,663
Payroll taxes	-	510	2,294	-	986	1,078	87,176	6,564	93,740
Total salaries and fringe benefits	-	25,610	69,788	-	62,168	68,609	4,035,115	429,561	4,464,676
Supplies and materials	1,080	66,098	-	-	2,725	2,325	341,384	3,276	344,660
Student transportation	-	13,179	-	-	-	-	461,069	-	461,069
Student food service	327,154	-	-	-	-	-	327,154	-	327,154
Professional and contractual services	-	700	-	53,832	6,202	-	414,478	173,329	587,807
Travel	-	8,107	-	-	-	-	92,748	20,241	112,989
Building lease	-	-	1,035,498	-	-	-	1,035,498	-	1,035,498
Maintenance and repair - building	-	-	185,979	-	-	-	185,979	-	185,979
Utilities	-	-	284,356	-	-	-	284,356	-	284,356
Copier rental	-	-	-	-	-	-	44,225	-	44,225
Postage	-	-	-	-	-	-	16,400	2,052	18,452
Insurance	-	-	41,602	-	-	-	41,602	38,841	80,443
Dues and subscription	-	16,676	-	-	-	-	21,060	9,293	30,353
Depreciation	-	1,176	52,818	5,432	-	-	59,426	-	59,426
Other	25,507	2,381	-	-	-	38,393	126,442	24,475	150,917
Total other expenses	353,741	108,317	1,600,253	59,264	8,927	40,718	3,451,821	271,507	3,723,328
Total expenses	<u>\$ 353,741</u>	<u>\$ 133,927</u>	<u>\$ 1,670,041</u>	<u>\$ 59,264</u>	<u>\$ 71,095</u>	<u>\$ 109,327</u>	<u>\$ 7,486,936</u>	<u>\$ 701,068</u>	<u>\$ 8,188,004</u>

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
 Statements of Cash Flows
 Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Foundation School Program payments	\$ 5,810,363	\$ 6,145,200
Grant payments	1,622,152	1,926,725
Other State Program payments	46,088	80,040
Miscellaneous sources	543,849	280,927
Payments to vendors for goods and services rendered	(3,569,897)	(3,683,852)
Payments for payroll and related costs	(4,303,443)	(4,613,450)
Net cash provided by operating activities	149,112	135,590
Cash Flows From Investing Activities	-	-
Cash Flows From Financing Activities	-	-
Net change in cash and cash equivalents	149,112	135,590
Cash and cash equivalents beginning of year	472,271	336,681
Cash and cash equivalents at end of year	\$ 621,383	\$ 472,271
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	\$ 12,162	\$ 63,236
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,438	59,426
Changes in assets and liabilities		
Due from governments and other sources	168,339	176,133
Other receivables	(12,845)	5,518
Prepaid expenses and inventories	(5,438)	49,821
Accounts payable	35,174	(52,908)
Payroll liabilities	(66,137)	(138,214)
Other accrued liabilities	(2,581)	(27,422)
Net cash provided by operating activities	\$ 149,112	\$ 135,590

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Reporting Entity and Nature of Operations

Promesa Public Schools, Inc. (the “Organization” or “School”), formerly The East Austin Academia, Inc., is a not-for-profit organization created to be an innovative, tuition-free public school open to any pre-kindergarten through 12th grader in Travis County, Texas. The Organization implements a results-focused rigorous college preparatory curriculum with an emphasis on the belief that with more time for learning all students will succeed. The Organization employs strategies to maintain a nurturing atmosphere, giving students the opportunity to develop strong leadership skills, a solid foundation in STEAM subjects (Science, Technology, Engineering, Art & Math), and discover talent through extracurricular programs. The Organization is a 501(c)(3) tax exempt nonprofit organization that prepares all students for graduation and success in college and career, while also instilling a commitment to community service.

In May 2017, the Organization was approved to add two additional campuses, one in Corpus Christi, Texas and the other in Brownsville, Texas. The two new campuses will start serving students in August 2018.

The Organization is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Organization and has the authority to make decisions, appoint the superintendent, chief executive officer of the Organization, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

Besides the instruction and academic programs, the Organization also provides students with the following programs:

ACE Afterschool: Afterschool Centers on Education (ACE) works in partnership with the Boys & Girls Club to offer free academically driven programming and exciting activities with an intense focus on academics and education to children’s afterschool experience.

Boys & Girls Club Aftercare: Boys & Girls Club provides afterschool, holiday, and summer programs for youth ages 6-18. Programs include a variety of activities that fall under the following categories: education and career development, health and life skills, the arts, character and leadership development, and sports, fitness, and recreation.

Athletics: Promesa Public Schools, Inc. offers a full range of sports for students, including: flag football, boys and girls basketball, boys and girls soccer, cheerleading, step team and dance, volleyball, cross country, softball and baseball.

Austin Soundwaves: Chosen by the Hispanic Alliance, the Austin Soundwaves Program is based on the world renowned intensive youth music education program known as El Sistema, which emphasizes training in orchestral music for children. Created nearly three decades ago in Venezuela as a way to bring classical music training to underprivileged children, El Sistema is now an internationally recognized and codified system.

East Austin’s Children’s Promise: East Austin Children's Promise coordinates a pipeline of services in partnership with over 25 organizations in and around East Austin. These services offer holistic support so that, not only the child's needs are met, but the child's parent's, sibling's and community's needs are met, too. In addition to youth services, programs like adult education, free childcare, and nutrition and fitness classes help foster an environment in which children can focus on achievement. With the help of our partners, these programs and services are provided at no cost to the community.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

Dollars for Scholars: Dollars for Scholars is a three-year program with the purpose of providing all participating students enrolled in 4th-8th grades with a savings account to help them develop good habits around finances and savings. This program is the real-world component of the financial literacy curriculum for the School's students.

Student Support Services: Student Support Services includes prevention, intervention, transition and follow-up services for students and families at Promesa Public Schools, Inc. The staff provide direct services for all children and youth at the School, especially those who are experiencing problems that create barriers to learning. Direct services are provided by means such as education, counseling, consultation and individual and group assessment. In addition, Student Support Services personnel provide in-service training, parent education, community collaboration and carry out student service program management.

Upward Bound: Upward Bound provides educational, financial and instructional support for students who want to excel in high school and are committed to getting into college and staying there until graduation.

Financial Statement Presentation

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP). As of June 30, 2018, the Organization has adopted ASU 2016-14.

For financial statement purposes, the Organization now distinguishes between net assets with donor restrictions and net assets without donor restrictions as follows:

Net Assets with Donor Restrictions - Net assets the use of which is subject to stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations.

Net Assets without Donor Restrictions - Net assets that are not subject to stipulations. Net assets without donor stipulations may be used for any purpose or designated for specific purposes by action of the Board of Directors of the Organization.

Basis of Accounting

Contributions, revenues, and expenses are recognized under the accrual method of accounting. Public support and revenue are considered to be available for unrestricted use, unless specifically restricted by the donor.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the determination of the useful lives of long-lived assets, collectability of grants and receivables, and proper classification of functional expenses.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all cash, money market, and certificates of deposit with a maturity of less than 90 days to be cash equivalents.

Due from Governments and Other Receivables

The Organization has amounts due from governments and other entities of \$1,020,005 and \$1,188,344 at June 30, 2018 and 2017, respectively. Other receivables totaled \$13,854 and \$1,008 as of June 30, 2018 and 2017, respectively. The Organization considers the receivable balances to be fully collectible and therefore, the allowance for doubtful accounts, was \$0 for the years ended June 30, 2018 and 2017.

Inventories

Inventories are priced at the lower of cost or market, with cost determined on a first-in, first-out basis and market based on the lower of replacement cost or estimated realizable value.

Capital Assets

Purchased property, buildings and equipment are recorded at cost at the date of purchase and depreciated on a straight-line basis over their estimated useful lives, which are generally 3 to 10 years for furniture and equipment and 40 to 50 years for buildings. The Organization's capitalization policy is to capitalize all capital assets over \$5,000.

The Organization expenses fixed assets purchased with federal funds, where title to real and personal property is held by the federal entity. Title to property and equipment acquired by a non-federal entity with federal awards vests with the non-federal entity until such time the Organization no longer needs the equipment for the program for which the assets were acquired.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donated items are recorded at fair value as of the date of gift. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support and reclassified to unrestricted support in the year the equipment is purchased and/or placed into service. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the assets are placed into service.

Impairment of Long-Lived Assets

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Organization did not recognize an impairment loss during the years ended June 30, 2018 and 2017.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

Grants and Contracts

The Organization recognizes revenue from fee for service transactions as services are rendered and for grants as eligible expenditures are incurred. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Contributions

Contributions received (including unconditional promises to give) are recorded as with donor restriction or without donor restriction in the period received depending on the existence and/or nature of any donor restrictions. Contributions received which are part of the Organization's ongoing major or central activities are recognized as revenue. Conditional promises to give to the Organization are recognized as the conditions upon which they depend are substantially met. Promises to give are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions in the reporting period in which the support is recognized. Donated assets are recorded at their estimated fair values at the date of receipt.

The Organization reports contributions as restricted support if the support is received with donor restrictions that limit the use of the donated assets. When and if a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Personal Leave

All regular employees are eligible to accrue state mandated personal leave immediately upon hire. Each eligible employee receives 5 days of state personal leave each school year. Regular part-time employees earn personal leave on a prorated basis depending on the part-time employees' regular schedule. All state personal leave to which the employee is entitled shall be earned after one month of service at full pay in the current school year. There is no limit on the accrual of unused state personal leave, and state personal leave may be transferred to and from other school campuses in Texas as permitted by law.

Functional Classification of Expenses

Expenses are categorized by function in the statement of activities as (1) program services and (2) support service. The Organization follows TEA's account code structure including a mandatory 2-digit function code applied to expenses that identify the purpose of the transaction. All expenditures are coded to the function based on the activities and operational areas that the expenses support as identified by the check request form or aloha form in the Organization's accounting system.

Federal Income Tax

The Organization is a not-for-profit organization exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. There were no unrelated business activities during the years ended June 30, 2018 and 2017. As such, no provision for federal income taxes has been made in the accompanying financial statements.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

The Organization regularly assesses uncertain tax positions in each of the tax jurisdictions in which it has operations and accounts for the related financial statement implications. Uncertain tax benefits are reported using the two-step approach under which tax effects of a position are recognized only if it is “more-likely-than-not” to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than fifty percent likely to be realized upon ultimate settlement of the tax position. Determining the appropriate level of unrecognized tax benefits requires the Organization to exercise judgment regarding the uncertain application of tax law. The amount of unrecognized tax benefits is adjusted when information becomes available or when an event occurs indicating a change is appropriate. Future changes in unrecognized tax benefits requirements could have a material impact on the results of operations.

The Organization is generally no longer subject to tax examinations relating to US federal tax returns for years prior to fiscal year ended December 31, 2014.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This ASU requires a lessee to recognize on its balance sheet a right-of-use asset and a lease liability under most operating leases. This ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effects that the adoption of this ASU 2016-02 will have on its financial position, results of operations, or cash flows.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which decreases the number of net asset classes from three to two. The new classes are net assets with donor restrictions and net assets without donor restrictions. The standard also:

- Requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments.
- Continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, eliminating the requirement for those who use the direct method to perform a reconciliation with the indirect method.
- Requires a not-for-profit to disclose qualitative information on how it manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes.
- Requires reporting of expenses by function and nature as well as an analysis of expenses by both function and nature.

The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organization elected to early adopt this standard for the year ended June 30, 2018. The adoption of this standard required the Organization to modify its presentation of the financial statements and expand on disclosures related to functional expenses and liquidity. As a result, the financial statements as of and for the years ended June 30, 2018 and 2017 were modified to reflect this presentation.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

In May 2014, the FASB issued ASU 2014-09, *Revenue Recognition* (Topic 606). This ASU provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of revenue recognition. The new standard, as initially released, would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and early adoption would not be permitted. In August 2015, the FASB deferred the effective date of the new revenue standard resulting in the new revenue standard being effective for fiscal years beginning after December 15, 2018 and allowing entities to adopt one year earlier if they so elect. The new standard allows for two alternative implementation methods: the use of either (1) full retrospective application to each prior reporting period presented or (2) modified retrospective application in which the cumulative effect of initially applying the revenue standard is recognized as an adjustment to the opening balance of retained earnings in the period of adoption. The Organization tentatively plans to adopt the new standard for the fiscal year ending June 30, 2019 but has not yet determined the method by which the standard will be adopted. The Organization is currently evaluating the impact of the standard on its financial statements.

Reclassifications of Prior Year Presentation

Certain prior year amounts have been reclassified as a result of the adoption of ASU 2016-14 for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

2. Liquidity

The Organization has \$1,655,242 of financial assets available within one year of the balance sheet date of June 30, 2018 consisting of cash and cash equivalents of \$621,383, accounts receivable from governments of \$1,020,005, and other receivables of \$13,854. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization receives Foundation School Program (FSP) funding based on student enrollments and attendance every year. The Organization opened two new campuses in August 2018 and expects increases in FSP revenue along with increased funding due to increased student population in 2018 and 2019.

3. Pension Plan Obligations

Plan Description

The Organization participates in a cost-sharing multiple-employer defined benefit pension plan (the "Plan") that has a special funding mechanism. The Plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C and 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.

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.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

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.

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.

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 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

	<u>Contribution Rates</u>	
	<u>2018</u>	<u>2017</u>
Member	7.7 %	July-Aug 7.2 %; Sep-June 7.7 %
Non-Employer Contribution Entity (State) Employers	6.8 %	6.8 %
Employers	6.8 %	6.8 %
Employer Contributions	\$ 77,239	\$ 84,368
Member Contributions	\$ 276,574	\$ 313,695
Non-Employer Contributing Entity (State) Contributions	\$ 167,008	\$ 196,189

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 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.

The GAA also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for the fiscal year 2015. The Non-OASDI contribution for the years ended June 30, 2018 and 2017 were \$53,878 and \$61,830 respectively.

4. Health Care Coverage

During the years ended June 30, 2018 and 2017, employees of the Organization were covered by a Health Insurance Plan (the Plan). The Organization contributed \$351 per month per employee to the Plan in 2018 and \$341 per month per employee to the Plan in 2017. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

5. Federal, State, and Local Government Assistance

The Organization 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 Organization have complex compliance requirements and should state or federal auditors discover areas of noncompliance, Organization funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

6. Capital Assets

Fixed assets as of June 30, 2018 and 2017 consisted of the following:

		2018		2017
Buildings and improvements	\$	334,499	\$	334,499
Furniture and equipment		47,824		47,824
Less accumulated depreciation		(368,538)		(348,099)
Fixed assets, net	\$	13,785	\$	34,224

Depreciation and amortization expense for the years ended June 30, 2018 and 2017, totaled \$20,438 and \$59,426, respectively.

7. Restrictions on Net Assets

Net assets with donor restrictions were \$871,331 and \$857,810 as of June 30, 2018 and 2017 are restricted for the benefit of the students of the charter school, under the Foundation School Program, and for any activities supported by local grants.

		2018		2017
State funds	\$	837,770	\$	828,000
Local funds		33,561		29,810
	\$	871,331	\$	857,810

8. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. During the years ended June 30, 2018 and 2017, the Organization released \$7,644,931 and \$8,030,579, respectively, of funds with donor restrictions related to the Foundation School Program, federal grants, and local grants.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

9. Concentration of Credit Risk

The Organization's management believes it has mitigated its concentrations of credit risk in bank accounts by maintaining deposits in several financial institutions, which may at times exceed amounts covered by the Federal Deposit Insurance Corporation ("FDIC"). The excess of the deposit liabilities reported by the banks over the amounts that would have been covered by the FDIC was approximately \$413,000 and \$405,000 as of June 30, 2018 and 2017, respectively.

Management believes concentrations of credit risk in trade receivables are limited due to contracts with federal, state, and local government agencies and other nongovernmental agencies which management believes are of high credit quality. As of June 30, 2018 and 2017, management assessed all receivable balances to be collectible.

10. Concentration of Program Services

The Organization receives a substantial amount of its revenue from federal and state governmental agencies. If there were a significant reduction in the quantity of students served or contracts renewed, programs and activities would require adjustments accordingly.

11. Operating Lease Agreements

The Organization is obligated under two operating leases for facilities. Both leases renew on an annual basis and are cancellable with a 30-day notice. Rent expense for the years ended June 30, 2018 and 2017 totaled \$1,079,129 and \$1,035,498, respectively.

12. Related Party Transactions

The Organization paid rent and administration service fees of \$1,214,162 and \$1,136,062 for the years ended June 30, 2018 and 2017, respectively, to Southwest Key Programs, Inc. ("SWK"). SWK is a related party to the Organization as it is under common control of SWK. The Organization is considered an affiliate of SWK and the Organization's financial statements are also included in the consolidated financial statements of SWK. The Organization received contributions from SWK of \$160,000 and \$33,098 during the years ended June 30, 2018 and 2017, respectively.

The Organization paid food and food service expenses of \$4,046 and \$336,166 for the years ended June 30, 2018 and 2017, respectively, to Southwest Key Café del Sol, LLC (the "Cafe"). The Café is considered an affiliate of SWK.

The Organization paid building maintenance, repair and remodeling project expenses of \$8,068 and \$36,801 for the years ended June 30, 2018 and 2017, respectively, to Southwest Key Green Energy and Construction, LLC ("Green Energy & Construction"). Green Energy & Construction is considered an affiliate of SWK.

Promesa Public Schools, Inc.
Notes to Financial Statements (Continued)
June 30, 2018 and 2017

13. Subsequent Events

The Organization has evaluated subsequent events that occurred after June 30, 2018 through the date of this report on November 8, 2018.

During September 2018, the Organization signed a line of credit for \$1 million to assist with the Organization's expansion on the new campuses in Brownville, Texas and Corpus Christi, Texas.

Supplemental Schedules

Promesa Public Schools, Inc.
Schedule of Expenses
Year Ended June 30, 2018

Expenses	<u>2018</u>
6100- Payroll costs	\$ 4,236,772
6200- Professional and contractual services	2,786,822
6300- Supplies and Materials	308,521
6400- Other Operating Costs	<u>522,682</u>
	<u>\$ 7,854,797</u>

See report of independent auditor.

Promesa Public Schools, Inc.

Schedule of Capital Assets

Year Ended June 30, 2018

<u>Asset Classification</u>	<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1520 - Buildings and improvements	\$ -	\$ -	\$ 334,499	\$ 334,499
1539 - Furniture and equipment	-	47,824	-	47,824
1570 - Accumulated depreciation	-	(34,039)	(334,499)	(368,538)
	<u>\$ -</u>	<u>\$ 13,785</u>	<u>\$ -</u>	<u>\$ 13,785</u>

See notes to financial statements and report of independent auditor.

Promesa Public Schools, Inc.
Schedule of Budgetary Comparison
Year Ended June 30, 2018

	(Unaudited) Original Budget	(Unaudited) Final Budget	Actual Amounts	(Unaudited) Variance from Final Budget Favorable (Unfavorable)
Revenue				
Local support:				
5740 Other revenues from local sources	\$ 221,037	\$ 440,508	\$ 526,856	\$ 86,348
5750 Revenue from cocurricular, enterprising service or activities	-	23,631	29,839	6,208
State program revenues:				
5810 Per Capita and Foundation School Program Act Revenues	6,071,483	5,743,679	5,709,289	(34,390)
5820 State program revenues distributed by TEA	-	42,188	46,088	3,900
Federal program revenues:				
5920 Federal revenue distributed by TEA	1,354,377	1,365,475	1,428,096	62,621
5940 Federal revenue distributed directly from the federal government	126,790	132,930	126,791	(6,139)
Total revenue	<u>7,773,687</u>	<u>7,748,411</u>	<u>7,866,959</u>	<u>118,548</u>
Expenses				
11 Instruction	3,179,142	3,249,768	3,284,112	(34,344)
12 Instructional resources and media services	66,590	64,701	64,750	(49)
13 Curriculum development and instructional staff development	186,767	144,808	141,583	3,225
21 Instructional leadership	113,026	65,934	65,223	711
23 School leadership	332,308	377,061	380,679	(3,618)
31 Guidance, counseling and evaluation service	273,122	273,617	293,446	(19,829)
32 Social work services	67,478	69,309	69,407	(98)
33 Health services	2,000	55	46	9
34 Student transportation	442,266	484,513	488,935	(4,422)
35 Food services	318,770	320,270	312,369	7,901
36 Extracurricular activities	87,619	109,889	127,285	(17,396)
41 General administration	703,929	661,198	605,344	55,854
51 Facilities, maintenance and operations	1,607,566	1,670,255	1,697,959	(27,704)
52 Security and monitoring services	65,000	62,881	68,461	(5,580)
53 Data processing services	70,520	47,178	47,284	(106)
61 Community services	77,059	128,520	207,914	(79,394)
81 Fund Raising	-	15,931	-	15,931
Total expenses	<u>7,593,162</u>	<u>7,745,888</u>	<u>7,854,797</u>	<u>(108,909)</u>
Change in net assets	180,525	2,523	12,162	9,639
Net assets at beginning of period	<u>924,432</u>	<u>924,432</u>	<u>924,432</u>	<u>-</u>
Net assets at end of period	<u>\$ 1,104,957</u>	<u>\$ 926,955</u>	<u>\$ 936,594</u>	<u>\$ 9,639</u>

See notes to financial statements and report of independent auditor.

Government Auditing Standards and Single Audit Reports



Report of Independent Auditor 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
Promesa Public Schools, Inc.

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 Promesa Public Schools, Inc. (the “Organization”), a nonprofit organization, which comprise the statement of financial position as of June 30, 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, and have issued our report thereon dated November 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s 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 the Organization’s 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 the Organization’s 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 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.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

November 8, 2018
Austin, Texas



Report of Independent Auditor on Compliance for Each Major Federal Program and Internal Control Over Compliance in Accordance with the *Uniform Guidance*

To the Board of Directors of
Promesa Public Schools, Inc.

Report on Compliance for Each Major Federal Program

We have audited the compliance of Promesa Public Schools, Inc. (the “Organization”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Organization’s major federal programs for the year ended June 30, 2018. The Organization’s major federal programs are identified on the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s 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 (CFR) 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 the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Organization's 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 of the Organization’s major federal programs. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the 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, 2018.



Report on Internal Control over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance 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 the Organization's 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.

Purpose of this Report

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.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

November 8, 2018
Austin, Texas

Promesa Public Schools, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor\Pass-Through Grantor\Program Title	Federal CFDA Number	Agency or Pass-Through Number	Amounts Paid to Subrecipients	Federal Expenditures
U.S. Department of Education				
<i>Fund for Improvement of Education</i>				
Reading to Improve Success in Education ("Project RISE")	84.215G	S215G140030-15	\$ -	\$ 1,305
Indirect cost			-	28
			-	1,333
Project LEAD (Linking Education to Adolescent Development)	84.215E	S215E150016-16A	-	122,806
Indirect cost			-	2,652
			-	125,458
Total Fund for Improvement of Education			-	126,791
Pass-through from Texas Education Agency				
<i>Grants to Local Education Agencies</i>				
Title I, Part A - Improving Basic Programs	84.010A	S010A170043&S010A160043	-	331,684
Indirect cost			-	7,161
			-	338,845
Title I, 1003 (A)- Priority and Focus School Grant	84.010A	S010A160043	-	4,841
Indirect cost			-	105
			-	4,946
Total Grants to Local Education Agencies			-	343,791
<i>Special Education Cluster (IDEA)</i>				
IDEA - B Formula	84.027A	H027A170008&H027A160008	-	193,546
Indirect cost			-	4,178
Total Special Education Cluster (IDEA)			-	197,724
Supporting Effective Instruction/ Improving Teacher Quality State Grants				
Indirect cost	84.367A	S367A170041&S367A160041	-	37,132
			-	801
			-	37,933
English Language Acquisition State Grants				
Indirect cost	84.365A	S365A170043&S365A160043	-	8,225
			-	147
			-	8,372
TITLE IV, Part A- Subpart 1				
Indirect cost	84.424A	S424A170045	-	5,640
			-	121
			-	5,761
Texas Twenty-First Century Community Learning Centers - Cycle 8				
Indirect cost	84.287C	S287C170044&S287C160044	-	252,799
			-	4,384
			-	257,183
Texas Twenty-First Century Community Learning Centers - Cycle 9				
Indirect cost	84.287C	S287C170044&S287C160044	-	256,020
			-	5,001
			-	261,021
Total Twenty-First Century Community Learning Centers			-	518,204
2018-2020 Public Charter School Program Start-Up Grant				
	84.282A	U282A160006	-	27,365
Total U.S. Department of Education			-	1,265,941
U.S. Department of Agriculture				
<i>Child Nutrition Cluster</i>				
Passed Through Texas Education Agency:				
School Breakfast Program (SBP)	10.553	2018IN109946	-	47,496
National School Lunch Program (NSLP)	10.555	2018IN109946	-	241,450
Total Children Nutrition Cluster			-	288,946
Total U.S. Department of Agriculture			-	288,946
Total Federal Awards			\$ -	\$ 1,554,887

See Notes to the Schedule of Expenditures of Federal Awards

Promesa Public Schools, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activities of all federal financial assistance programs of Promesa Public Schools, Inc. (the "Organization"). The Organization's structure is defined in note 1 to the financial statements.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. Relationship to Financial Statements

Federal financial assistance funding is reported in the Organization's financial statements for year ended June 30, 2018 as federal program revenues.

4. Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related federal financial reports filed with the grantor agencies due to timing differences.

5. Indirect Cost Rate

The Organization is subject to negotiated indirect cost rates and, therefore, is not eligible to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance, section 414.

6. Subsequent Events

The Organization's management has evaluated subsequent events through November 8, 2018, the date the report was available to be issued.

Promesa Public Schools, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness(es)?	None noted
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal controls over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness(es)?	None noted
Type of auditor's report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Major programs:	CFDA 84.287 – Texas Twenty-First Century Community Learning Centers
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as a low-risk auditee?	Yes

Financial Statement Findings	None noted
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Federal Award Findings and Questioned Costs	None noted
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Schedule of Prior Year Findings	None noted
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