



GOLDEN RULE SCHOOLS, INC.

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

AUGUST 31, 2017



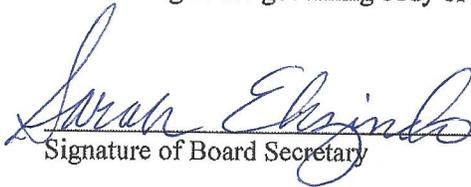
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GOLDEN RULE SCHOOLS, INC.
FEDERAL EMPLOYER IDENTIFICATION NUMBER: 75-2909306
DALLAS COUNTY DISTRICT NUMBER: 057-835

CERTIFICATE OF BOARD

We, the undersigned, certify that the attached Financial and Compliance Report of Golden Rule Schools, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the governing body of the charter holder on the 13th day of JANUARY, 2013.



Signature of Board Secretary



Signature of Board President



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Golden Rule Schools, Inc.
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying statement of financial position of Golden Rule Schools, Inc. as of August 31, 2017, and the related statements of activities, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Golden Rule Schools, Inc. as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information (consisting of the schedule of expenses, schedule of capital assets and budgetary comparison schedule) is presented for the purpose of additional analysis and is not a required part of the financial statements. 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. The Supplementary Information and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 other 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 Supplementary Information and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Golden Rule Schools, Inc.'s August 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018 on our consideration of Golden Rule 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 Golden Rule Schools, Inc.'s internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

January 17, 2018

**GENERAL-PURPOSE
FINANCIAL STATEMENTS**

GOLDEN RULE SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2017
(with summarized financial information at August 31, 2016)

ASSETS	2017	2016
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 7,236,025	\$ 8,414,489
Certificates of Deposit	753,916	2,057,369
Due from Texas Education Agency	646,426	921,044
Other Receivables	5,626	13,682
Prepaid Expenses	71,736	49,382
<i>Total Current Assets</i>	8,713,729	11,455,966
 <i>Property and Equipment, net</i>	 11,415,393	 9,284,740
 <i>Other Assets:</i>		
Cash Restricted For Bonded Debt	29,236	28,706
<i>Total Other Assets</i>	29,236	28,706
 TOTAL ASSETS	 \$ 20,158,358	 \$ 20,769,412
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 219,816	\$ 106,685
Accrued Wages	82,375	48,840
Employee Deductions and Withholdings	65,414	110,984
Accrued Interest	9,114	13,600
Bonds Payable Within One Year	145,000	40,000
<i>Total Current Liabilities</i>	521,719	320,109
 <i>Noncurrent Liabilities:</i>		
Bonds Payable in More Than One Year	4,982,542	7,133,862
<i>Total Noncurrent Liabilities</i>	4,982,542	7,133,862
<i>Total Liabilities</i>	5,504,261	7,453,971
 <i>Net Assets:</i>		
Unrestricted	735,874	618,889
Temporarily Restricted	13,918,223	12,696,552
<i>Total Net Assets</i>	14,654,097	13,315,441
 TOTAL LIABILITIES AND NET ASSETS	 \$ 20,158,358	 \$ 20,769,412

The accompanying notes are an integral part of this financial statement.

GOLDEN RULE SCHOOLS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017
(with summarized financial information for the year ended August 31, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Totals	
REVENUE				
5740 Local Revenues	\$ 17,820	\$ -	\$ 17,820	\$ 17,380
5750 Food Service, Enterprising	112,235	-	112,235	108,903
5760 Intermediate Sources	2,000	-	2,000	-
5810 Foundation School Program	-	11,546,592	11,546,592	12,381,190
5820 Other State Revenues	-	670,593	670,593	605,250
5920 Federal Revenues	-	2,439,805	2,439,805	1,767,987
	<u>132,055</u>	<u>14,656,990</u>	<u>14,789,045</u>	<u>14,880,710</u>
Net Assets Released from Restrictions	13,435,319	(13,435,319)	-	-
TOTAL REVENUE	<u>13,567,374</u>	<u>1,221,671</u>	<u>14,789,045</u>	<u>14,880,710</u>
EXPENSES				
11 Instruction	7,152,256	-	7,152,256	6,413,806
12 Instructional Resources	599	-	599	3,333
13 Curriculum Development and Instructional Staff Development	146,868	-	146,868	60,380
21 Instructional Leadership	132,371	-	132,371	-
23 School Leadership	1,257,687	-	1,257,687	1,147,508
31 Guidance, Counseling and Evaluation Services	145,976	-	145,976	156,490
33 Health Services	95,048	-	95,048	89,929
35 Food Services	994,752	-	994,752	1,123,941
36 Extracurricular	57,763	-	57,763	28,958
41 General Administration	835,856	-	835,856	788,741
51 Plant Maintenance	2,062,824	-	2,062,824	1,903,664
52 Security & Monitoring Services	175,534	-	175,534	171,125
53 Data Processing	121,046	-	121,046	253,791
71 Debt Service	256,739	-	256,739	298,552
81 Fundraising	15,070	-	15,070	5,056
TOTAL EXPENSES	<u>13,450,389</u>	<u>-</u>	<u>13,450,389</u>	<u>12,445,274</u>
CHANGE IN NET ASSETS	116,985	1,221,671	1,338,656	2,435,436
NET ASSETS - BEGINNING OF YEAR	<u>618,889</u>	<u>12,696,552</u>	<u>13,315,441</u>	<u>10,880,005</u>
NET ASSETS - END OF YEAR	<u>\$ 735,874</u>	<u>\$ 13,918,223</u>	<u>\$ 14,654,097</u>	<u>\$ 13,315,441</u>

The accompanying notes are an integral part of this financial statement.

GOLDEN RULE SCHOOLS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2017
(with summarized financial information for the year ended August 31, 2016)

	2017	2016
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash Receipts from Grantors and Services	\$ 15,063,663	\$ 14,582,304
Payments to Employees for Services	(8,547,280)	(8,052,917)
Payments to Vendors for Goods and Services	(4,502,306)	(4,213,994)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,014,077	2,315,393
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Maturity (Purchase) of Certificates of Deposit	1,303,453	(53,900)
Purchase of Property and Equipment	(2,500,464)	(235,750)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,197,011)	(289,650)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Principal Payments on Bonded Debt	(1,995,000)	(40,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,995,000)	(40,000)
NET INCREASE (DECREASE) IN CASH	(1,177,934)	1,985,743
BEGINNING CASH AND CASH EQUIVALENTS	8,443,195	6,457,452
ENDING CASH AND CASH EQUIVALENTS	\$ 7,265,261	\$ 8,443,195
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 7,236,025	\$ 8,414,489
Restricted Cash	29,236	28,706
TOTAL CASH AND CASH EQUIVALENTS	\$ 7,265,261	\$ 8,443,195
ADDITIONAL DISCLOSURES		
Interest Paid	\$ 312,546	\$ 306,000

The accompanying notes are an integral part of this financial statement.

GOLDEN RULE SCHOOLS, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2017
(with summarized financial information for the year ended August 31, 2016)

	2017	2016
RECONCILIATION OF CHANGE IN NET ASSETS TO CASH		
 FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 1,338,656	\$ 2,435,436
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	369,811	333,943
Amortization of Bond Issue Costs and Premiums	(51,320)	(7,448)
Change in Accrued Interest	(4,486)	-
(Increase) Decrease in Current Assets:		
Due from Texas Education Agency	274,618	(298,406)
Other Receivables	(11,944)	(13,682)
Prepaid Expenses	(2,354)	(12,178)
Increase (Decrease) in Liabilities:		
Accounts Payable	113,131	(95,522)
Accrued Wages	33,535	6,552
Employee Deductions and Withholdings	(45,570)	(33,302)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,014,077	\$ 2,315,393

The accompanying notes are an integral part of this financial statement.

GOLDEN RULE SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Golden Rule Schools, Inc. (the Corporation) is a not-for-profit organization incorporated in the State of Texas on January 21, 1999 that operates an open-enrollment charter school providing education to preschool, elementary and middle school students authorized under Chapter 12, Subchapter D of the Texas Education Code.

The Corporation is a single-charter school and does not conduct any other charter or non-charter activities. The mission of Golden Rule Schools, Inc. is to establish a safe and student-centered environment where knowledge and literacy are encouraged through learning activities that are developmentally appropriate, individually paced, and attuned to each student's academic performance and interests. Golden Rule Schools, Inc. honors and respects the cultural and ethnic differences of the students served by the school. As students develop the problem solving skills needed for the 21st Century, they will be encouraged to live, study, and strive together to be effective and productive citizens in the diverse and technology-driven global economy.

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

The Corporation receives the majority of its funding from the Texas Education Agency based on average daily attendance in the schools it operates. Since the Corporation receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Basis of Accounting and Presentation

The general-purpose financial statements of the Corporation were prepared in conformity with accounting principles generally accepted in the United States. The *Financial Accounting Standards Board* is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – net assets that are not subject to grantor or donor-imposed stipulations.

Temporarily Restricted Net Assets – net assets subject to grantor or donor-imposed stipulations that may or will be met either by actions of the Corporation and/or passage of time.

Permanently Restricted Net Assets – net assets required to be maintained in perpetuity with only the income to be used for the charter school's activities due to grantor or donor-imposed restrictions.

GOLDEN RULE SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2017

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Contributions

The Corporation 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 and Cash Equivalents

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

Investments

The Corporation reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Capital Assets

Capital assets, which include 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 Corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost (or fair value if donated) and are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Useful lives are generally estimated to be 5-to-10 years for furniture, equipment and vehicles and 25-to-30 years for buildings and improvements.

Use of Estimates

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

Income Taxes

The Corporation is a not-for-profit organization exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. As such, no provision for income taxes has been made in the financial statements. The Corporation generally is no longer subject to income tax examination by Federal authorities for years prior to August 31, 2014.

GOLDEN RULE SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2017

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Reclassifications

Certain amounts for the year ended August 31, 2016, have been reclassified for comparative purposes to conform to the presentation used in the August 31, 2017 financial statements.

Subsequent Events

Subsequent events were considered through January 17, 2018, which is the date the financial statements were available to be issued.

NOTE 2 -- CASH AND CASH EQUIVALENTS

As of August 31, 2017, all of the Corporation's deposits were collateralized by a combination of FDIC coverage and collateral pledged by the Corporation's depository.

NOTE 3 -- CERTIFICATES OF DEPOSIT

The Corporation invests in brokered certificates of deposit across multiple institutions to maximize FDIC coverage of deposits. The certificates are carried at market value based on level 1 inputs (quoted market prices) and are fully covered by FDIC. The aggregate face value of the certificates at August 31, 2017 was \$750,000 with a market value, including accrued interest, of \$753,916.

NOTE 4 -- GRANTS RECEIVABLE

The Corporation receives several grants from the Texas Education Agency. The Corporation accrues a pro-rated portion of the State Foundation School Program allotment for the following year based on the days of instruction in August. Grants receivable at August 31, 2017 and 2016 were made up of the following:

	<u>2017</u>	<u>2016</u>
Foundation School Program Accrual	\$ 284,242	\$ 558,405
Foundation School Program Settle-up	15,911	202,031
State Educator Excellence Grant	19,551	35,212
Federal Grant Reimbursements	<u>326,722</u>	<u>125,396</u>
Total Due from Texas Education Agency	<u>\$ 646,426</u>	<u>\$ 921,044</u>

GOLDEN RULE SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2017

NOTE 5 -- CAPITAL ASSETS

Capital assets at August 31, 2017 and 2016 were as follows:

	2017	2016
Land	\$ 3,905,799	\$ 2,983,165
Buildings and Improvements	9,365,555	7,787,725
Furniture and Fixtures	545,670	545,670
Vehicles	79,517	79,517
Total Property and Equipment	13,896,541	11,396,077
Less: Accumulated Depreciation	(2,481,148)	(2,111,337)
Property and Equipment - Net	<u>\$ 11,415,393</u>	<u>\$ 9,284,740</u>

In February, 2017, the Corporation purchased the property at 1745 Ave B, Grand Prairie, Texas from Nueva Vida/New Life Assembly for the amount of \$2,500,000. Land is not depreciated. Capital assets acquired with public funds received by the Corporation for the operation of Golden Rule Schools, Inc. constitute public property pursuant to Charter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets. Depreciation expense was \$369,811 and \$333,942 for the years ended August 31, 2017 and 2016, respectively.

NOTE 6 -- BONDS PAYABLE

In 2015, the Corporation issued Education Refunding Bonds Series 2015 through the Danbury Higher Education Authority in the face amount of \$7,050,000 to advance refund Education Revenue Bonds Series 2008A. The funds were placed in an irrevocable trust for the repayment of the 2008 bonds until the call date of February 15, 2018 for series 2008A and August 15, 2018 for 2008B. On August 15, 2017, the Corporation partially redeemed some of the Series 2015 bonds with a principal payment of \$1,955,000. The refunding bonds, like the original 2008 series, are secured by the property purchased. The remaining refunding bonds mature serially through August 15, 2035 and bear interest at 4-5%.

The bonds have several restrictive covenants to which the Corporation complied during the year ended August 31, 2017. In addition, the Corporation is required to maintain interest and sinking accounts with the paying agent as additional security. As of August 31, 2017, amounts in these sinking and reserve accounts totaled \$29,236, which is shown as restricted cash on the Statement of Financial Position.

Premium and issue costs related to the bonds are deferred and amortized over the life of the bonds. A summary of changes in long-term debt for the year ended August 31, 2017, are as follows:

Year Ending August 31,	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Principal, Series 2015	\$ 7,010,000	\$ -	\$ (1,995,000)	\$ 5,015,000	\$ 145,000
Unamortized Premiums	559,257	-	(175,155)	384,102	-
Unamortized Issuance Costs	(395,395)	-	123,835	(271,560)	-
	<u>\$ 7,173,862</u>	<u>\$ -</u>	<u>\$ (2,046,320)</u>	<u>\$ 5,127,542</u>	<u>\$ 145,000</u>

GOLDEN RULE SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2017

NOTE 6 -- BONDS PAYABLE (CONT)

Future maturities of refunding bonds at August 31, 2017 are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 145,000	\$ 205,050	\$ 350,050
2019	240,000	199,250	439,250
2020	240,000	189,650	429,650
2021	235,000	180,050	415,050
2022	230,000	170,650	400,650
2023-2027	1,310,000	701,900	2,011,900
2028-2031	1,555,000	403,600	1,958,600
2032-2035	1,060,000	83,800	1,143,800
	<u>\$ 5,015,000</u>	<u>\$ 2,133,950</u>	<u>\$ 7,148,950</u>

Because the Corporation has been legally released from the 2008 bonds, they have been removed from these financial statements. However, they are still outstanding in the amount of \$7,200,000 as of August 31, 2017.

NOTE 7 -- PENSION PLAN

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the charter school, but are the liability of the State of Texas. Charters are legally separate entities from the State and there is no withdrawal penalty for leaving TRS. Assets contributed by one entity may be used to pay the benefits of another and unfunded obligations are passed on to other entities. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publications Heading. The plan financial statements for the year ending August 31, 2016 reported the following information:

Total Plan Assets	\$152,925,647,396
Plan Net Position	\$134,008,637,473
Accumulated Benefit Obligations	\$171,797,150,487
Funded Percentage	78.00%

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 1 year, the period would be increased by such action.

GOLDEN RULE SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2017

NOTE 7 -- PENSION PLAN (CONT)

The following table presents contribution rates and amounts:

Year ending August 31,	Active Member		State		Corporation	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2017	7.70%	\$ 583,709	6.80%	\$ 515,484	1.50%	\$ 207,110
2016	7.20%	\$ 516,214	6.80%	\$ 487,535	1.50%	\$ 199,176

The employer is also required to contribute in certain circumstances such as salaries funded through certain private and federal grants, new members, and 1.5% of all covered salaries to TRS if the Charter does not participate in social security. The Charter's contributions did not exceed 5% of all contributions to TRS for the plan year.

NOTE 8 -- RETIREE HEALTH PLAN

TRS also offers retiree health insurance, called TRS-Care, a cost-sharing multiple-employer defined benefit postemployment health care plan. Qualified retirees (and their dependents) receive health insurance paid for by the plan. The statutory authority for the program is Texas Insurance Code, Chapter 1575. The State, employees and employers contribute a portion of covered payroll.

Contribution requirements are not actuarially determined but are established each biennium by the Texas Legislature. Contribution rates and amounts were as follows:

Year ending August 31,	Active Member		State		Corporation	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2017	0.65%	\$ 49,275	1.00%	\$ 75,808	0.55%	\$ 57,593
2016	0.65%	\$ 46,625	1.00%	\$ 71,731	0.55%	\$ 58,646

NOTE 9 -- HEALTH CARE COVERAGE

During the year ended August 31, 2017, employees of Golden Rule Schools, Inc. were covered by a Health Insurance Plan (the Plan). The Corporation contributed \$250 per month per employee for basic health care premiums and \$27 per month for vision and dental insurance. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All premiums were paid to licensed insurers.

GOLDEN RULE SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2017

NOTE 10 -- OPERATING LEASES

The Corporation leases facilities for three main locations. The leases are for five year terms with fixed rental payments and utility payments through November 30, 2021. Future minimum rental payments on these lease agreements are as follows:

<u>Year Ending August 31,</u>	<u>Future Minimum Lease Payments</u>
2018	\$ 360,000
2019	360,000
2020	360,000
2021	360,000
2022	90,000
	<u>\$ 1,530,000</u>

NOTE 11 -- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of August 31, 2017 and 2016 consist of unspent revenue from the Foundation School Program. This revenue is from the State of Texas and is restricted for operating public schools in accordance with state statutes.

NOTE 12 -- LITIGATION

The Corporation is unaware of any pending or threatened litigation that would result in any significant financial impact.

NOTE 13 -- CONTINGENCIES

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

NOTE 14 -- TEXAS EDUCATION AGENCY INVESTIGATION

In July 2015, the Texas Education Agency initiated an Accreditation Investigation into allegations of violations of state laws relating to nepotism and the use of public funds. In April 2017, after a period of negotiation, Golden Rule and TEA officials executed an Agreed Plan of Action. Pursuant to the Agreed Plan of Action, Golden Rule procured the services of an independent firm to conduct agreed-upon procedures over the subject matter. As of the date of this report, TEA has not accepted the results of those agreed upon procedures. Management believes they have complied with all applicable State laws and regulations. However, should the investigation uncover any violations, TEA may impose corrective measures, including sanctions that could be significant to these financial statements.

GOLDEN RULE SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2017

NOTE 15 -- RELATED PARTIES

The Corporation had the following significant related party transactions during the year ending August 31, 2017:

Ant Maintenance (operated by the brother of the Chief Executive Officer (CEO)) provided routine maintenance services at all of the Corporation's facilities. Ant Maintenance received compensation of \$311,938 during the year ending August 31, 2017. Ant Maintenance was awarded the maintenance contract by the School Board. The CEO has no voting rights. The compensation includes the annual contract agreement of \$298,320 for a total of six workers during school hours.

The Corporation leases one of its facilities from a church where the CEO is the pastor. The CEO is an employee of the church and does not have voting rights for the church's business decisions, which are handled by an independent board of deacons. The church was paid \$450,000 for rent and utilities during the year ending August 31, 2017. See Note 16 for subsequent purchase of facility.

The Corporation employs seven individuals related to the CEO for a total compensation of \$311,675 for the year ending August 31, 2017.

NOTE 16 – SUBSEQUENT EVENTS

In September 2017, the Corporation issued Education Revenue Bonds Series 2017 through the Danbury Higher Education Authority in the face amount of \$23,400,000 to finance the costs of acquiring, constructing, equipping, and renovating educational facilities. The revenue bonds are secured by the property purchased. The bonds mature serially through August 15, 2047 and bear interest at 4%. In September 2017, the Corporation purchased property at 135 W. Wintergreen Road, Desoto Texas from Nueva Vida/New Life Assembly for \$11,000,000.

SUPPLEMENTARY INFORMATION

GOLDEN RULE SCHOOLS, INC.
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

EXPENSES	<u>2017</u>	<u>2016</u>
6100 Payroll	\$ 8,535,245	\$ 8,026,167
6200 Professional and Contracted Services	2,708,336	2,488,232
6300 Supplies and Materials	1,377,373	922,763
6400 Other Operating Costs	572,696	709,560
6500 Debt Service	256,739	298,552
TOTAL EXPENSES	<u>\$ 13,450,389</u>	<u>\$ 12,445,274</u>

GOLDEN RULE SCHOOLS, INC.
 SCHEDULE OF CAPITAL ASSETS
 AUGUST 31, 2017

	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 3,905,799	\$ -
1520 Buildings and Improvements	-	9,365,555	-
1531 Vehicles	-	79,517	-
1539 Furniture and Equipment	-	392,618	153,052
Total Property and Equipment	\$ -	\$ 13,743,489	\$ 153,052

GOLDEN RULE SCHOOLS, INC.
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2017

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE				
5740 Local Revenues	\$ 55,000	\$ 55,000	\$ 17,820	\$ (37,180)
5750 Food Service, Enterprising	101,300	140,000	112,235	(27,765)
5760 Intermediate Sources	-	-	2,000	2,000
5810 Foundation School Program	12,064,688	12,176,365	11,546,592	(629,773)
5820 Other State Revenues	148,000	500,000	670,593	170,593
5920 Federal Revenues	2,113,173	2,656,552	2,439,805	(216,747)
TOTAL REVENUE	<u>14,482,161</u>	<u>15,527,917</u>	<u>14,789,045</u>	<u>(738,872)</u>
EXPENSES				
11 Instruction	6,405,024	6,854,823	7,152,256	(297,433)
12 Instructional Resources	5,000	5,000	599	4,401
13 Curriculum Development and Instructional Staff Development	56,853	145,801	146,868	(1,067)
21 Instructional Leadership	-	192,000	132,371	59,629
23 School Leadership	1,079,100	1,076,313	1,257,687	(181,374)
31 Guidance, Counseling and Evaluation Services	144,191	162,306	145,976	16,330
33 Health Services	83,000	113,000	95,048	17,952
35 Food Services	1,165,000	1,152,000	994,752	157,248
36 Extracurricular Activities	31,000	87,000	57,763	29,237
41 General Administration	800,816	800,688	835,856	(35,168)
51 Plant Maintenance	2,270,000	2,405,000	2,062,824	342,176
52 Security & Monitoring	250,000	250,000	175,534	74,466
53 Data Processing	268,000	257,000	121,046	135,954
71 Debt Service	300,000	300,000	256,739	43,261
81 Fundraising	8,000	15,000	15,070	(70)
TOTAL EXPENSES	<u>12,865,984</u>	<u>13,815,931</u>	<u>13,450,389</u>	<u>365,542</u>
CHANGE IN NET ASSETS	<u>\$ 1,616,177</u>	<u>\$ 1,711,986</u>	<u>\$ 1,338,656</u>	<u>\$ (373,330)</u>

GOLDEN RULE SCHOOLS, INC.
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

BUDGETARY EXPLANATIONS

The following functions exceeded their final budget by more than \$10,000 and 10% for the following reasons:

23 School Leadership

Personnel benefits for school leadership were budgeted in the instruction function.

**COMPLIANCE AND
INTERNAL CONTROL**



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Golden Rule Schools, Inc.

We have audited 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, the financial statements of Golden Rule Schools, Inc., which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Golden Rule Schools, Inc.'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 Golden Rule Schools, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Golden Rule Schools, Inc.'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 Golden Rule Schools, Inc.'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.

We noted certain other matters we have reported to management in a separate letter dated January 17, 2018.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

January 17, 2018



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Golden Rule Schools, Inc.

Report on Compliance for Each Major Federal Program

We have audited Golden Rule Schools, Inc.'s compliance 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 each of Golden Rule Schools, Inc.'s major federal programs for the year ended August 31, 2017. Golden Rule Schools, Inc.'s 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 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 each of Golden Rule Schools, Inc.'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* (the 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 Golden Rule Schools, Inc.'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 major federal program. However, our audit does not provide a legal determination of Golden Rule Schools, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Golden Rule Schools, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

Management of Golden Rule Schools, Inc. 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 Golden Rule Schools, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 Golden Rule Schools, Inc.'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.

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.



Armstrong, Vaughan & Associates, P.C.

January 17, 2018

GOLDEN RULE SCHOOLS, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Auditor's Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal Control over Financial Reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | No |
| 3. Noncompliance material to financial statements noted: | No |

Federal Awards

- | | | | | | | | |
|---|----------------|-------------|---------------|---------|-------------------------|----------------|--|
| 1. Material weaknesses identified on major programs? | No | | | | | | |
| 2. Significant deficiencies identified on major programs? | No | | | | | | |
| 3. Type of auditor's report issued on the compliance for major programs: | Unmodified | | | | | | |
| 4. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No | | | | | | |
| 5. Identification of major programs: | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"><u>Title</u></td> <td style="width: 50%;"><u>CFDA</u></td> </tr> <tr> <td>TTIPS Cycle 5</td> <td>84.377A</td> </tr> <tr> <td>Child Nutrition Cluster</td> <td>10.555, 10.553</td> </tr> </table> | <u>Title</u> | <u>CFDA</u> | TTIPS Cycle 5 | 84.377A | Child Nutrition Cluster | 10.555, 10.553 | |
| <u>Title</u> | <u>CFDA</u> | | | | | | |
| TTIPS Cycle 5 | 84.377A | | | | | | |
| Child Nutrition Cluster | 10.555, 10.553 | | | | | | |
| 6. Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 | | | | | | |
| 7. Auditee qualified as a low-risk auditee? | No | | | | | | |

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

GOLDEN RULE SCHOOLS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2017

FINDING: 2017-001

Status

Appropriate procurement procedures were conducted to award a new contract for vended meals.

GOLDEN RULE SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

FEDERAL GRANTOR Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency			
Title I, Part A Improving Basic*	84.010A	16610101057835	\$ 504,544
Title I Priority*	84.010A	16610112057835000	<u>60,000</u>
Total Title I Program			\$ 564,544
IDEA-B Formula **	84.027A	166600010578356000	232,512
IDEA-B Preschool **	84.173A	166610010578356000	<u>5,103</u>
Total IDEA-B Cluster			237,615
TTIPS Cycle 5	84.377A	166107307110004	678,127
Title II, Part A - Teacher Training and Recruiting	84.367A	16694501057835	67,171
Title III, Part A - LEP	84.365A	16671001057835	85,002
Summer School LEP	84.369A	69551602	<u>4,749</u>
<i>Total U.S. Department of Education</i>			<u><u>1,637,208</u></u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Education Agency			
School Breakfast Program ***	10.553	71401601	129,422
National School Lunch Program ***	10.555	71301601	604,039
Passed Through Texas Department of Agriculture			
Commodities *** ^	10.555	057-835	<u>69,136</u>
Total Child Nutrition Cluster			802,597
<i>Total U.S. Department of Agriculture</i>			<u><u>802,597</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,439,805</u></u>

*Indicates cluster program under Compliance Supplement.

^Indicates non-cash assistance.

GOLDEN RULE SCHOOLS, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

NOTE 1 -- STANDARD FINANCIAL ACCOUNTING SYSTEM

For all federal programs, the Charter Holder 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.

NOTE 2 -- BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter Holder, and is presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 3 – INDIRECT COSTS

The Charter Holder does not charge indirect costs to its grants.