

**LIFE SCHOOL OF DALLAS
CHARTER HOLDER**

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2009

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**LIFE SCHOOL OF DALLAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009**

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**LIFE SCHOOL OF DALLAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009**

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LIFE SCHOOL OF DALLAS

CERTIFICATE OF BOARD


AUGUST 31, 2009

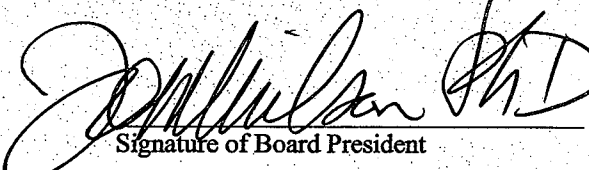
Life School of Dallas
Name of Charter Holder
Federal EIN: 75-2722521

Dallas
County

057-807
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial and compliance report of the above-named charter holder was reviewed and (check one) approved disapproved for the year ended August 31, 2009, at a meeting of the governing body of the charter holder on the 13th day of January, 2010.


Signature of Board Secretary


Signature of Board President

If the governing body of the charter holder does not approve the independent auditors' report, the reason(s) for disapproving it is (are): (attach list as necessary)

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FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

2088 Zihlman Road
Windthorst, Texas 76389
Ph. (940)423-6226
Fax (940)423-6326

H. Ted Neeb, CPA
Donna Hoff, CPA
Thea Neeb, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Life School of Dallas
950 South I-35 E.
Lancaster, TX 75146

Members of the Board of Directors:

We have audited the accompanying statements of financial position of Life School of Dallas (the Charter Holder) as of August 31, 2009 and 2008, and the related statements of activities and cash flows for the years the ended. These financial statements are the responsibility of Life School of Dallas's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Life School of Dallas (the Charter Holder) as of August 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2010, on our consideration of Life School of Dallas's (The Charter Holder) 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 controls 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* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Freeman, Shapard & Story

Freeman, Shapard & Story
January 6, 2010

**General-Purpose
Financial Statements**

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LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 1,610,541	\$ 922,330
Due from TEA	1,828,261	1,276,832
Deferred expenses	44,524	20,805
Other current assets	15,000	-
Other receivables	123,839	294,144
Total Current Assets	<u>3,622,165</u>	<u>2,514,111</u>
Property and Equipment		
Land	505,774	-
Building and improvements	4,905,943	511,920
Leasehold improvements	4,265,153	4,080,837
Furniture and equipment	739,608	423,465
Vehicles	303,595	254,733
Less accumulated depreciation	(1,422,323)	(1,129,177)
Total Property and Equipment	<u>9,297,750</u>	<u>4,141,778</u>
Other Assets	<u>1,000</u>	<u>1,000</u>
Total Assets	<u>\$ 12,920,915</u>	<u>\$ 6,656,889</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 417,127	\$ 497,516
Accrued wages payable	378,557	300,356
Payroll deductions and withholdings	345,656	236,606
Due to state government	213	123
Due to student groups	114,626	72,308
Accrued interest	18,288	-
Capital leases payable	26,126	-
Current portion of long-term debt	381,531	269,741
Total Current Liabilities	<u>1,682,124</u>	<u>1,376,650</u>
Long Term Debt, Net of Current Portion	<u>3,950,164</u>	<u>559,340</u>
Total Liabilities	<u>\$ 5,632,288</u>	<u>\$ 1,935,990</u>
Net Assets		
Unrestricted	535,283	429,399
Temporarily restricted	6,753,344	4,291,500
Total Net Assets	<u>\$ 7,288,627</u>	<u>\$ 4,720,899</u>
Total Liabilities and Net Assets	<u>\$ 12,920,915</u>	<u>\$ 6,656,889</u>

The accompanying notes are an integral part of these financial statements.

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	Unrestricted	Temporarily Restricted	Totals 2009
Revenues			
Local Support:			
Contributions	\$ 936,002	\$ -	\$ 936,002
Food Service Activity	171,947	-	171,947
Athletic Activities	88,469	-	88,469
Rent	20,070	-	20,070
Interest	3,708	-	3,708
Other Local Revenues	51,508	-	51,508
Total Local Support	1,271,704	-	1,271,704
State Program Revenues:			
Foundation School Program	-	22,614,758	22,614,758
Student Success Initiative	-	118,484	118,484
Technology Allotment	-	89,195	89,195
High School Allotment	-	116,808	116,808
Automated External Defibrillators	-	11,777	11,777
Food Service	-	5,338	5,338
Total State Program Revenues	-	22,956,360	22,956,360
Federal Program Revenues:			
ESEA Title IV, Part A - Safe and Drug Free Schools	-	8,979	8,979
IDEA Part B, Formula	-	338,618	338,618
IDEA Part B, Preschool	-	2,024	2,024
ESEA Title I Part A - Improving Basic Programs	-	521,713	521,713
National School Breakfast and Lunch Program	-	489,363	489,363
Reading First	-	67,205	67,205
Title II Part D - Enhancing Education Through Technology	-	4,287	4,287
Title III Part A - English Language Acquisition and Enhancement	-	19,076	19,076
ESEA Title II Part A- Teacher and Principal Training	-	120,804	120,804
Title I, Part A - ARRA Stimulus	-	5,788	5,788
Title V, Part A - Innovative Programs	-	-	-
Total Federal Program Revenues	-	1,577,857	1,577,857
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	22,072,373	(22,072,373)	-
Total Revenues	\$ 23,344,077	\$ 2,461,844	\$ 25,805,921
Expenses			
Program Services:			
Instruction and Instructional-Related Services	11,040,926	-	11,040,926
Instructional and School Leadership	1,809,470	-	1,809,470
Support Services:			
Administrative Support Services	1,269,246	-	1,269,246
Support Services - Non-Student Based	7,027,891	-	7,027,891
Support Services - Student (Pupil)	1,861,678	-	1,861,678
Debt Service	324	-	324
Ancillary Services	139,576	-	139,576
Fundraising	101,732	-	101,732
Total Expenses	\$ 23,250,843	\$ -	\$ 23,250,843
Gains and Losses			
Loss on Sale of Real and Personal Property	(7,115)	-	(7,115)
Gain on Sale of Real and Personal Property	19,765	-	19,765
Total Gains and Losses	12,650	-	12,650
Change in Net Assets	105,884	2,461,844	2,567,728
Net Assets, Beginning of Year	429,399	4,291,500	4,720,899
Net Assets, End of Year	\$ 535,283	\$ 6,753,344	\$ 7,288,627

The accompanying notes are an integral part of these financial statements.

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2008</u>
Revenues			
Local Support:			
Contributions	\$ 39,764	\$ -	\$ 39,764
Food Service Activity	185,588	-	185,588
Athletic Activities	123,163	-	123,163
Interest and Other Income	6,029	-	6,029
Other Revenues	86,588	-	86,588
Total Local Support	<u>441,132</u>	<u>-</u>	<u>441,132</u>
State Program Revenues:			
Foundation School Program	-	19,191,599	19,191,599
Student Success Initiative	-	60,305	60,305
Technology Allotment	-	80,692	80,692
High School Allotment	-	87,172	87,172
Automated External Defibrillators	-	2,944	2,944
Food Service	-	4,275	4,275
Total State Program Revenues	<u>-</u>	<u>19,426,987</u>	<u>19,426,987</u>
Federal Program Revenues:			
ESEA Title IV - Safe and Drug Free Schools	-	8,300	8,300
IDEA Part B, Formula	-	251,794	251,794
IDEA Part B, Preschool	-	1,660	1,660
ESEA Title I Part A - Improving Basic Programs	-	438,131	438,131
National School Breakfast and Lunch Program	-	436,646	436,646
Reading First	-	98,016	98,016
Title II Part D - Enhancing Education Though Technology	-	3,692	3,692
Title III Part A - English Language Acquisition and Enhancement	-	10,370	10,370
ESEA Title II Part A- Employee Training	-	93,784	93,784
Title V, Part A - Innovative Programs	-	2,129	2,129
Total Federal Program Revenues	<u>-</u>	<u>1,344,522</u>	<u>1,344,522</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>19,712,940</u>	<u>(19,712,940)</u>	<u>-</u>
Total Revenues	<u>\$ 20,154,072</u>	<u>\$ 1,058,569</u>	<u>\$ 21,212,641</u>
Expenses			
Program Services:			
Instruction and Instructional Related Services	9,399,346	-	9,399,346
Instructional and School Leadership	1,703,044	-	1,703,044
Support Services:			
Administrative Support Services	837,524	-	837,524
Support Services - Non-Student Based	6,115,500	-	6,115,500
Support Services - Student (Pupil)	1,766,590	-	1,766,590
Ancillary Services	230,646	-	230,646
Total Expenses	<u>\$ 20,052,650</u>	<u>\$ -</u>	<u>\$ 20,052,650</u>
Change in Net Assets	<u>101,422</u>	<u>1,058,569</u>	<u>1,159,991</u>
Net Assets, Beginning of Year	<u>327,977</u>	<u>3,232,931</u>	<u>3,560,908</u>
Net Assets, End of Year	<u>\$ 429,399</u>	<u>\$ 4,291,500</u>	<u>\$ 4,720,899</u>

The accompanying notes are an integral part of these financial statements.

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,567,728	\$ 1,159,991
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	331,580	295,515
(Increase) Decrease in Due from TEA	(551,429)	(124,183)
(Increase) Decrease in Deferred Expenses	(23,719)	(20,805)
(Increase) Decrease in Other Receivables	170,305	(142,306)
(Increase) Decrease in Other Current Assets	(15,000)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	16,190	(458,994)
Increase (Decrease) in Due to Student Groups	42,318	26,335
Increase (Decrease) in Payroll Deductions and Withholdings	109,050	-
Net Cash Provided (Used) by Operating Activities	2,647,023	735,553
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(5,489,752)	(776,591)
Disposition of Land, Buildings, and Equipment	2,200	-
Net Cash Provided (Used) by Investing Activities	(5,487,552)	(776,591)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt	3,879,704	-
Principal Payments on Debt	(350,964)	(262,386)
Net Cash Provided (Used) by Financing Activities	3,528,740	(262,386)
Net Increase (Decrease) in Cash and Cash Equivalents	688,211	(303,424)
Cash and Cash Equivalents, Beginning of Year	922,330	1,225,754
Cash and Cash Equivalents, End of Year	\$ 1,610,541	\$ 922,330
Interest Paid During the Period Ended August 31, 2009 and 2008	\$ 114,238	\$ 63,496
Income Taxes Paid During the Period Ended August 31, 2009 and 2008	None	None

The accompanying notes are an integral part of these financial statements.

**Notes to the
Financial Statements**

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of Life School of Dallas (the charter holder) 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.

A. *Reporting Entity*

The charter holder is a not-for-profit organization incorporated in the State of Texas in 1996 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The corporation is governed by a Board of Directors comprised of eight 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.

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

B. *Corporate Operations*

Life School of Dallas is operating an open-enrollment charter school providing education from K through 12th grade students authorized under Chapter 12, Subchapter D of the Texas Education Code. The Texas State Board of Education issued the initial charter to the charter holder for a period of five years from August 1, 1998 to July 31, 2003. Subsequent to the awarding of the initial charter, the corporation applied for and received a second charter renewal in July 2003 extending the charter ten years to July 31, 2013. Maximum enrollment was increased from 2,000 to 3,000 in May 2005. In April 2008, maximum enrollment was again increased from 3,000 to 5,000 effective August 1, 2008. Approved campus locations are in Oak Cliff, Red Oak, Lancaster, and McKinney, Texas.

C. *Basis of Accounting and Presentation*

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under those provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

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

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

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

Permanently restricted – net assets required to be maintained in perpetuity with only the income to be used for the charter holder's activities due to donor-imposed restrictions.

D. *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.

E. *Contributions*

The corporation accounts for contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recorded 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.

No amounts have been reflected in the financial statements for donated materials or services since no objective basis is available to measure the value thereof; however, a substantial number of volunteers donate their time to the school program services and in fund-raising activities.

F. *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 equivalents.

G. *Capital Assets*

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

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

H. *Personal Leave*

All employees of the school earn five days of local paid personal leave per year. The balance does not accumulate, and therefore, there is no liability accrued on the financial statements.

Employees additionally earn five days of state paid personal and sick leave per year. There is no material liability for unpaid accumulated sick leave since the school does not have a policy to pay any amounts when the employees separate from service with the school, and any unused balance is transferable to other schools.

I. *Functional Allocation of Expenses*

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. CASH DEPOSITS

The corporation's funds are deposited and invested with a depository bank. The depository bank should deposit for safekeeping and trust with the charter holder's agent bank approved pledged securities in an amount sufficient to protect corporate funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2009, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,610,541, and the bank balance was \$2,077,309. The corporation's cash deposits at August 31, 2009, and during the year ended August 31, 2009, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the corporation's name.

At August 31, 2008, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$922,330, and the bank balance was \$1,365,421. The corporation's cash deposits at August 31, 2008, and during the year ended August 31, 2008, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the corporation's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit during the year ended August 31, 2009:

- a. Depository: Vintage Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$3,000,000.

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$2,948,342 and occurred during the month of June 2009.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

3. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2009 and 2008, the charter holder had no material liability for accrued sick leave or vacation leave.

4. PENSION PLAN OBLIGATIONS

A. *Plan Description*

The charter school contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is 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. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701-2698 or by calling (800) 877-0123.

B. *Funding Policy*

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary, and the State of Texas contributes an amount equal to 6.58% of the charter school's covered payroll. The charter school's employees' contributions to the System for the years ending August 31, 2009 and 2008 were \$854,035 and \$734,282 respectively, equal to the required contributions for each year. Other contributions made from federal and private grants for the years ending August 31, 2009 and 2008 were \$23,428 and \$25,367, respectively, equal to the required contributions for each year. For the years ending August 31, 2009 and 2008, the State of Texas contributed \$854,429 and \$729,626, respectively, on-behalf of the charter school.

C. *Additional plans*

Certain employees of the charter holder are also provided with social security and medicare coverage. Under provisions of federal law, covered employees contribute 6.2% (social security) and 1.45% (medicare) of their annual covered salary, and the charter holder contributes matching amounts of the covered payroll.

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

5. PUBLIC SCHOOL RETIREE HEALTH PLAN

A. *Plan Description*

The charter school contributes to the Texas Public School Retired Employees Group Insurance Program (TRS Care), a cost-sharing multiple employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

B. *Funding Policy*

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with public schools contributing a percentage of payroll set at 0.55% for fiscal years 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2009 and 2008, the State's contributions to TRS Care were \$129,608 and \$110,730, respectively, the active member contributions were \$86,718 and \$74,581, respectively, and the public school's contributions were \$73,377 and \$63,107, respectively, which equaled the required contributions each year.

6. HEALTH CARE COVERAGE

During the years ended August 31, 2009 and 2008, full-time employees of the charter school were covered by a health insurance plan (the Plan). The charter school paid premiums on covered employees to the Plan of \$383 per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

7. COMMITMENTS AND 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 agencies. The programs administered by the charter school have complex compliance requirements and should state or federal auditors discover areas of noncompliance, charter school

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

funds may be subject to refund if so determined by the Texas Education Agency or the grantor agencies. In the opinion of the charter school, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

8. CAPITAL ASSETS

Capital assets at August 31, 2009 were as follows:

	<u>Balance</u> <u>9/1/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2009</u>
Land	\$ -	\$ 505,774	\$ -	\$ 505,774
Buildings and Improvements	511,920	4,394,023	-	\$ 4,905,943
Leasehold Improvements	4,080,837	184,315	-	4,265,152
Furniture and Equipment	423,465	239,616	(5,500)	657,581
Vehicles	254,733	83,996	(35,134)	303,595
Capital Lease	-	82,028	-	82,028
Accumulated Depreciation	<u>(1,129,177)</u>	<u>(331,580)</u>	<u>38,434</u>	<u>(1,422,323)</u>
	<u>\$ 4,141,778</u>	<u>\$5,158,172</u>	<u>\$ (2,200)</u>	<u>\$ 9,297,750</u>

Capital assets at August 31, 2008 were as follows:

	<u>Balance</u> <u>9/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2008</u>
Buildings and Improvements	\$ 443,030	\$ 68,890	\$ -	\$ 511,920
Leasehold Improvements	3,524,624	556,213	-	4,080,837
Furniture and Equipment	354,375	69,090	-	423,465
Vehicles	172,335	82,398	-	254,733
Accumulated Depreciation	<u>(833,662)</u>	<u>(295,515)</u>	<u>-</u>	<u>(1,129,177)</u>
	<u>\$ 3,660,702</u>	<u>\$ 481,076</u>	<u>\$ -</u>	<u>\$ 4,141,778</u>

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Capital assets acquired with public funds received by the corporation for the operation of Life School Lancaster, Life School Red Oak, Life School Oak Cliff, and Life School McKinney constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for each individual charter school.

9. ECONOMIC DEPENDENCY

During the year ended August 31, 2009 and 2008, the charter holder earned revenue of \$22,956,360 and \$19,426,987, respectively, from the Texas Education Agency (TEA). This constitutes approximately 89% and 92%, respectively, of total revenue earned. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ending August 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
TEA Foundation Allotment	\$ 6,750,893	\$ 4,287,085
Technology Allotment	<u>2,451</u>	<u>4,415</u>
Total Temporarily Restricted Net Assets	<u>\$ 6,753,344</u>	<u>\$ 4,291,500</u>

11. LONG-TERM DEBT

Long-term debt at August 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Note payable to Vintage Bank, 6.5% interest, principal and interest due monthly in installments of \$8,826, commencing August 14, 2005. Final payment is due July 14, 2010. The note is secured by equipment.	\$ 93,554	\$ 189,799
Note payable to Vintage Bank, 6.9% interest, principal and interest due monthly in installments of \$14,854, commencing August 12, 2007. Final payment is due July 12, 2012. The note is secured by Lancaster leasehold improvements.	465,798	605,852
Note payable to Vintage Bank, 6.9% interest, principal and interest due monthly in installments of \$3,477, commencing July 5, 2007. Final payment is due June 5, 2009. The note is secured by 2007 school bus.	-0-	33,430

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Note payable to Prologic, 4.13% interest, principal and interest due annually, commencing June 23, 2009. Final payment is due May 15, 2011. The note is secured by Student Information Software.	123,960	-0-
Note payable to Dell Financial Services, 7.28% interest, principal and interest due monthly in installments of \$2,444, commencing August 1, 2009. Final payment is due July 1, 2012. The note is secured by computers.	77,463	-0-
Note payable to Southwest Securities, 7.39% interest, principal and interest due monthly in installments of \$21,650, commencing May 30, 2009. Final payment is due October 4, 2026. The note is secured by the Waxahachie property.	2,523,876	-0-
Note payable to Southwest Securities, WSJP + 1% - 6% floor floating daily interest, interest only payments until construction is complete. The note is secured by the building under construction.	<u>1,073,170</u>	-0-
Total long term debt	4,357,821	829,081
Less current portion of long term debt	<u>(407,657)</u>	<u>(269,741)</u>
Future maturities of long term debt	<u>\$ 3,950,164</u>	<u>\$ 559,340</u>

A summary of changes in general long-term debt for the year ended August 31, 2009 is as follows:

<u>DESCRIPTION</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Debt</u>		<u>Issued</u>	<u>Retired</u>	<u>Debts</u>	
				<u>Amounts Outstanding 9/1/08</u>	<u>Amounts Outstanding 8/31/09</u>				
Vintage Bank Equipment Note	6.5%	\$ 450,000	\$ 9,967	\$ 189,799	\$ -0-	(\$96,245)	\$ 93,554		
Vintage Bank Lancaster Note	6.9%	750,000	39,801	605,852	-0-	(140,054)	465,798		
Vintage Bank School Bus Note	6.9%	77,651	1,342	33,430	-0-	(33,430)	-0-		
Prologic Software Note	4.13%	182,900	-0-	-0-	182,900	(58,940)	123,960		
Dell Financial Computer Note	7.28%	82,028	324	-0-	82,028	(4,565)	77,463		
Southwest Securities Waxahachie Note	7.39%	2,541,607	63,059	-0-	2,541,607	(17,731)	2,523,876		
Southwest Securities WSJP Construction Note	WSJP +1%-6% Fl.	1,073,170	<u>10,143</u>	<u>-0-</u>	<u>1,073,170</u>	<u>(-0-)</u>	<u>1,073,170</u>		
TOTAL			<u>\$ 124,636</u>	<u>\$ 829,081</u>	<u>\$ 3,879,705</u>	<u>(\$350,965)</u>	<u>\$4,357,821</u>		

LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

Future maturities of long-term debt at August 31, 2009, are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 407,657	\$ 220,546	\$ 628,203
2011	332,069	199,456	531,525
2012	265,837	178,567	444,404
2013	94,524	165,272	259,796
2014	101,751	158,045	259,796
Thereafter	<u>3,155,983</u>	<u>1,084,078</u>	<u>4,240,061</u>
	<u>\$4,357,821</u>	<u>\$2,005,964</u>	<u>\$ 6,363,785</u>

12. RELATED PARTY TRANSACTIONS

The School leases facilities from The Oaks Fellowship, a not-for-profit organization with common employees, managers and officers. The facilities represent campuses located in Red Oak, Oak Cliff, and Lancaster, Texas. The current lease terminates in July 2017. The School pays monthly rental payments based on the square footage of the buildings used at rates ranging from \$.44 to \$1.00 per square foot per month. The following is a summary of amounts paid to The Oaks Fellowship during the year ended August 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Rent	\$ 2,602,969	\$ 2,425,730
Maintenance, utilities, and office expenses	149,209	195,061
Leasehold improvements	<u>285,949</u>	<u>965,458</u>
	<u>\$ 3,038,127</u>	<u>\$ 3,586,249</u>

The School also began leasing facilities from Stonebridge Church, a not-for-profit organization with related employees, managers and officers on July 15, 2008. The facilities represent a campus located in McKinney, Texas. The current lease terminates in July 2010. The School pays monthly rental payments based on the square footage of the buildings used at rates ranging from \$1.00 to \$1.13 per square foot per month. The following is a summary of amounts paid to Stonebridge Church during the year ended August 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Rent	\$ 127,500	\$ 15,075
Maintenance, utilities, and office expense	<u>31,289</u>	<u>-</u>
	<u>\$ 158,789</u>	<u>\$ 15,075</u>

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

Future minimum payments under non-cancelable operating leases as of August 31, 2009 are as follows:

2009-10	\$ 2,691,359
2010-11	2,556,359
2011-12	2,556,359
2012-13	2,556,359
2013-14	2,556,359
2014-17	<u>7,669,077</u>
 Total	 <u>\$ 20,585,872</u>

Other receivables reflected on the Statement of Financial Position include \$94,947 and \$275,868 at August 31, 2009 and 2008, respectively, of amounts due from the Oaks Fellowship. These receivables represent maintenance payroll and expenses owed to the school by the Oaks Fellowship for their portion of shared expenses.

13. SUBSEQUENT EVENTS

Subsequent to August 31, 2009, the charter holder agreed to a loan commitment with Regions Bank for \$18.2 million dollars of new loan financing. The loan will be utilized for \$16.7 million dollars of real property acquisition that is currently leased and \$1.5 million dollars of capital improvements. The loan will be a five year note with a twenty-five year amortization and a balloon payment due at maturity. Interest rates are expected to be 3.17% and 3.32%, respectively, at a floating rate, or 4.96% and 4.81%, respectively at a fixed rate (with an "interest swap" transaction involved). Payments are scheduled to be level principal and interest on the unpaid balance due monthly. The loan will be secured by first lien on Cedar Hill, Oak Cliff, and Lancaster real properties owned or acquired by the charter holder.

14. CONTRIBUTIONS

Contributions Revenue includes \$842,392 of value of Waxahachie property in excess of purchase price on property acquired in April 2009. Property acquired appraised at \$3,600,000 and was acquired at a cost of \$2,757,608 and a donation of \$842,392.

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Financial Statements**

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LIFE CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 1,610,541	\$ 922,330
Due from TEA	1,828,261	1,276,832
Deferred expenses	44,524	20,805
Other current assets	15,000	-
Other receivables	123,839	294,144
Total Current Assets	<u>3,622,165</u>	<u>2,514,111</u>
Property and Equipment		
Land	505,774	-
Buildings and improvements	4,905,943	511,920
Leasehold improvements	4,265,153	4,080,837
Furniture and equipment	739,608	423,465
Vehicles	303,595	254,733
Less accumulated depreciation	(1,422,323)	(1,129,177)
Total Property and Equipment	<u>9,297,750</u>	<u>4,141,778</u>
Other Assets	<u>1,000</u>	<u>1,000</u>
Total Assets	<u>\$ 12,920,915</u>	<u>\$ 6,656,889</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 417,127	\$ 497,516
Accrued wages payable	378,557	300,356
Payroll deductions and withholdings	345,656	236,606
Due to state government	213	123
Due to student groups	114,626	72,308
Accrued interest	18,288	-
Capital leases payable	26,126	-
Current portion of long-term debt	381,531	269,741
Total Current Liabilities	<u>1,682,124</u>	<u>1,376,650</u>
Long Term Debt, Net of current portion	<u>3,950,164</u>	<u>559,340</u>
Total Liabilities	<u>\$ 5,632,288</u>	<u>\$ 1,935,990</u>
Net Assets		
Unrestricted	535,283	429,399
Temporarily restricted	6,753,344	4,291,500
Total Net Assets	<u>\$ 7,288,627</u>	<u>\$ 4,720,899</u>
Total Liabilities and Net Assets	<u>\$ 12,920,915</u>	<u>\$ 6,656,889</u>

The accompanying notes are an integral part of these financial statements.

**LIFE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2009</u>
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	\$ 1,011,288	\$ -	\$ 1,011,288
5750 Cocurricular and Enterprising Activities	260,416	-	260,416
Total Local Support	<u>1,271,704</u>	-	<u>1,271,704</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	22,731,566	22,731,566
5820 State Program Revenues Distributed by TEA	-	224,794	224,794
Total State Program Revenues	-	<u>22,956,360</u>	<u>22,956,360</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by TEA	-	1,577,857	1,577,857
Total Federal Program Revenue	-	<u>1,577,857</u>	<u>1,577,857</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>22,072,373</u>	<u>(22,072,373)</u>	<u>-</u>
Total Revenues	\$ <u>23,344,077</u>	\$ <u>2,461,844</u>	\$ <u>25,805,921</u>
Expenses			
11 Instruction	10,804,717	-	10,804,717
12 Instructional Resources & Media Services	97,179	-	97,179
13 Curriculum Development & Instructional Staff Development	139,030	-	139,030
21 Instructional Leadership	85,132	-	85,132
23 School Leadership	1,724,338	-	1,724,338
31 Guidance, Counseling, & Evaluation Services	272,385	-	272,385
33 Health Services	162,616	-	162,616
35 Food Services	684,911	-	684,911
36 Cocurricular/Extracurricular Activities	741,766	-	741,766
41 General Administration	1,269,246	-	1,269,246
51 Plant Maintenance & Operations	6,100,926	-	6,100,926
52 Security & Monitoring Services	367,072	-	367,072
53 Data Processing Services	559,893	-	559,893
61 Community Services	139,576	-	139,576
71 Debt Service	324	-	324
81 Fundraising	101,732	-	101,732
Total Expenses	\$ <u>23,250,843</u>	\$ -	\$ <u>23,250,843</u>
Gains and Losses			
Loss on Sale of Real and Personal Property	(7,115)	-	(7,115)
Gain on Sale of Real and Personal Property	19,765	-	19,765
Total Gains and Losses	<u>12,650</u>	-	<u>12,650</u>
Change in Net Assets	<u>105,884</u>	<u>2,461,844</u>	<u>2,567,728</u>
Net Assets, Beginning of Year	<u>429,399</u>	<u>4,291,500</u>	<u>4,720,899</u>
Net Assets, End of Year	\$ <u>535,283</u>	\$ <u>6,753,344</u>	\$ <u>7,288,627</u>

The accompanying notes are an integral part of these financial statements.

**LIFE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	Unrestricted	Temporarily Restricted	Totals 2008
Revenues			
Local Support:			
5740 Other Revenues from Local Sources	\$ 132,381	\$ -	\$ 132,381
5750 Cocurricular and Enterprising Activities	308,751	-	308,751
Total Local Support	<u>441,132</u>	<u>-</u>	<u>441,132</u>
State Program Revenues:			
5810 Foundation School Program Act Revenues	-	19,278,771	19,278,771
5820 State Program Revenues Distributed by TEA	-	148,216	148,216
Total State Program Revenues	<u>-</u>	<u>19,426,987</u>	<u>19,426,987</u>
Federal Program Revenues:			
5920 Federal Revenues Distributed by TEA	-	1,344,522	1,344,522
Total Federal Program Revenue	<u>-</u>	<u>1,344,522</u>	<u>1,344,522</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>19,712,940</u>	<u>(19,712,940)</u>	<u>-</u>
Total Revenues	<u>\$ 20,154,072</u>	<u>\$ 1,058,569</u>	<u>\$ 21,212,641</u>
Expenses			
11 Instruction	9,277,532	-	9,277,532
12 Instructional Resources & Media Services	62,920	-	62,920
13 Curriculum Development & Instructional Staff Development	58,894	-	58,894
21 Instructional Leadership	77,494	-	77,494
23 School Leadership	1,625,550	-	1,625,550
31 Guidance, Counseling, & Evaluation Services	265,986	-	265,986
33 Health Services	148,465	-	148,465
35 Food Services	641,262	-	641,262
36 Cocurricular/Extracurricular Activities	710,877	-	710,877
41 General Administration	837,524	-	837,524
51 Plant Maintenance & Operations	5,287,814	-	5,287,814
52 Security & Monitoring Services	294,492	-	294,492
53 Data Processing Services	533,193	-	533,193
61 Community Service	230,647	-	230,647
Total Expenses	<u>\$ 20,052,650</u>	<u>\$ -</u>	<u>\$ 20,052,650</u>
Change in Net Assets	<u>101,422</u>	<u>1,058,569</u>	<u>1,159,991</u>
Net Assets, Beginning of Year	<u>327,977</u>	<u>3,232,931</u>	<u>3,560,908</u>
Net Assets, End of Year	<u>\$ 429,399</u>	<u>\$ 4,291,500</u>	<u>\$ 4,720,899</u>

The accompanying notes are an integral part of these financial statements.

**LIFE CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,567,728	\$ 1,159,991
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	331,580	295,515
(Increase) Decrease in Due from TEA	(551,429)	(124,183)
(Increase) Decrease in Deferred Expenses	(23,719)	(20,805)
(Increase) Decrease in Other Receivables	170,305	(142,306)
(Increase) Decrease in Other Current Assets	(15,000)	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	16,190	(458,994)
Increase (Decrease) in Due to Student Groups	42,318	26,335
Increase (Decrease) in Payroll Deductions and Withholdings	109,050	-
	<u>2,647,023</u>	<u>735,553</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(5,489,752)	(776,591)
Disposition of Land, Buildings, and Equipment	2,200	-
	<u>(5,487,552)</u>	<u>(776,591)</u>
Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt	3,879,704	-
Principal Payments on Debt	(350,964)	(262,386)
	<u>3,528,740</u>	<u>(262,386)</u>
Net Cash Provided (Used) by Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	688,211	(303,424)
Cash and Cash Equivalents, Beginning of Year	922,330	1,225,754
Cash and Cash Equivalents, End of Year	\$ <u>1,610,541</u>	\$ <u>922,330</u>
Interest Paid During the Period Ended August 31, 2009 and 2008	\$ 114,238	\$ 63,496
Income Taxes Paid During the Period Ended August 31, 2009 and 2008	None	None

The accompanying notes are an integral part of these financial statements.

**Required
Supplementary
Information**

**LIFE CHARTER SCHOOL
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008**

Expenses	<u>2009</u>	<u>2008</u>
6100 Payroll Costs	\$ 15,356,809	\$ 13,127,826
6200 Professional and Contracted Services	5,288,203	4,554,506
6300 Supplies and Materials	1,821,405	1,715,782
6400 Other Operating Costs	670,189	591,040
6500 Debt	114,237	63,496
	<u>\$ 23,250,843</u>	<u>\$ 20,052,650</u>

The accompanying notes are an integral part of these statements.

**LIFE CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
AS OF AUGUST 31, 2009**

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 505,774	\$ -
1520 Buildings and Improvements	-	4,905,943	-
1521 Leasehold Improvements	37,898	4,227,255	-
1531 Vehicles	-	303,595	-
1539 Furniture and Equipment	4,750	627,097	-
1549 Furniture and Equipment	-	16,768	8,966
1559 Capital Lease	-	82,028	-
1570 Less Accumulated Depreciation	(632)	(1,421,692)	-
Total Property and Equipment	<u>\$ 42,016</u>	<u>\$ 9,246,768</u>	<u>\$ 8,966</u>

The accompanying notes are an integral part of these statements.

**LIFE CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ -	\$ 1,002,392	\$ 1,011,288	\$ 8,896
5750 Cocurricular & Enterprising Activities	346,437	248,955	260,416	11,461
Total Local Support	346,437	1,251,347	1,271,704	20,357
State Program Revenues:				
5810 Foundation School Program Act Revenues	20,429,740	22,383,008	22,731,566	348,558
5820 State Program Revenues Distributed by TEA	197,837	223,388	224,794	1,406
Total State Program Revenues	20,627,577	22,606,396	22,956,360	349,964
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	1,358,826	1,567,381	1,577,857	10,476
Total Federal Program Revenues	1,358,826	1,567,381	1,577,857	10,476
Total Revenues	\$ 22,332,840	\$ 25,425,124	\$ 25,805,921	\$ 380,797
Expenses				
11 Instruction	9,928,266	11,051,801	10,804,717	247,084
12 Instructional Resources & Media Services	174,481	98,032	97,179	853
13 Curriculum Development & Instructional Staff Development	75,121	131,770	139,030	(7,260)
21 Instructional Leadership	73,800	95,590	85,132	10,458
23 School Leadership	1,647,368	1,712,771	1,724,338	(11,567)
31 Guidance, Counseling, & Evaluation Services	278,315	275,076	272,385	2,691
33 Health Services	157,925	159,074	162,616	(3,542)
35 Food Services	748,742	667,184	684,911	(17,727)
36 Cocurricular/Extracurricular Activities	630,988	683,194	741,766	(58,572)
41 General Administration	1,066,988	1,263,078	1,269,246	(6,168)
51 Plant Maintenance & Operations	5,688,181	6,135,012	6,100,926	34,086
52 Security & Monitoring Services	360,000	365,600	367,072	(1,472)
53 Data Processing Services	649,087	559,573	559,893	(320)
61 Community Services	428,510	175,025	139,576	35,449
71 Debt Service	-	143,000	324	142,676
81 Fundraising	-	145,275	101,732	43,543
Total Expenses	\$ 21,907,772	\$ 23,661,055	\$ 23,250,843	\$ 410,212
Gains and Losses				
Loss on Sale of Real and Personal Property	-	-	(7,115)	(7,115)
Gain on Sale of Real and Personal Property	-	-	19,765	19,765
Total Gains and Losses	-	-	12,650	12,650
Change in Net Assets	425,068	1,764,069	2,567,728	803,659
Net Assets, Beginning of Year	4,720,899	4,720,899	4,720,899	-
Net Assets, End of Year	\$ 5,145,967	\$ 6,484,968	\$ 7,288,627	\$ 803,659

The accompanying notes are an integral part of these financial statements.

**LIFE CHARTER SCHOOL
SUPPLEMENTAL EXPLANATION OF BUDGET VARIANCES (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2009**

Explanation of unfavorable budget variances between final amended budget and actual expenses as reflected on Exhibit E-1:

1. Function 13 expenditures-Curriculum and Instructional Staff Development

Variance less than ten percent of final budget amount

2. Function 23 expenditures-School Leadership

Variance less than ten percent of final budget amount

3. Function 33 expenditures-Health Services

Variance less than ten percent of final budget amount

4. Function 35 expenditures-Food Services

Variance less than ten percent of final budget amount

5. Function 36 expenditures-Cocurricular/Extracurricular Activities

Variance less than ten percent of final budget amount

6. Function 41 expenditures-General Administration

Variance less than ten percent of final budget amount

7. Function 52 expenditures-Security & Monitoring Services

Variance less than ten percent of final budget amount

8. Function 53 expenditures-Data Processing Services

Variance less than ten percent of final budget amount

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FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

2088 Zihlman Road
Windthorst, Texas 76389
Ph. (940) 423-6226
Fax (940) 423-6326

H. Ted Neeb, CPA
Donna Hoff, CPA
Thea Neeb, CPA

**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***

The Board of Directors
Life School of Dallas
950 South I-35 E.
Lancaster, TX 75146

Members of the Board of Directors:

We have audited the financial statements of Life School of Dallas (the charter holder) as of and for the year ended August 31, 2009 and 2008, and have issued our report thereon dated January 6, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Life School of Dallas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Life School of Dallas's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Life School of Dallas's financial statements are free of 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Freemon, Shapard & Story
January 6, 2010

FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

2088 Zihlman Road
Windthorst, Texas 76389
Ph. (940)423-6226
Fax (940)423-6326

H. Ted Neeb, CPA
Donna Hoff, CPA
Thea Neeb, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors
Life School of Dallas
950 South I-35 E.
Lancaster, TX 75146

Members of the Board of Directors:

Compliance

We have audited the compliance of Life School of Dallas (the charter holder) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. Life School of Dallas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Life School of Dallas's management. Our responsibility is to express an opinion on Life School of Dallas's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Life School of Dallas'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. Our audit does not provide a legal determination of Life School of Dallas's compliance with those requirements.

The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1.

Internal Control Over Compliance

The management of Life School of Dallas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Life School of Dallas's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Life School of Dallas's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

We have audited the general-purpose financial statements of Life School of Dallas as of and for the year ended August 31, 2009, and have issued our report thereon dated January 6, 2010. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Freeman, Shapard & Story
January 6, 2010

**LIFE SCHOOL (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2009**

I. Summary of Auditor's Results

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements of the auditee | Unqualified |
| 2. Significant deficiencies in internal controls disclosed by the audit of the financial statements | None |
| a. Significant deficiencies that were material weaknesses | None |
| 3. Noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements | None |
| 4. Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements. | None |
| a. Significant deficiencies that were material weaknesses | None |
| 5. Type of auditor's report issued on compliance for major programs | Unqualified |
| 6. Findings disclosed by the audit of the financial statements which the auditor is required to report | See Below |
| 7. Major Programs: | |
| ESEA Title I, Part A Improving Basic Programs 84.010A | |
| 8. The dollar threshold used to distinguish between Type A and Type B programs | \$ 300,000 |
| 9. Auditee qualified as a low-risk auditee | |

II. Findings relating to the financial statements which are required to be reported in accordance with generally accepted government auditing standards

None identified.

III. Findings and questioned costs for state and federal awards

Finding 2009-1

Criteria

Employee compensation funded in whole or in part with Federal funds requires the maintenance of time and effort documentation.

Condition

Time and effort documentation was not kept for all employees funded by federal funds in 2008-09.

Effect

Coding of payroll for these employees cannot be traced to exact records of time and effort.

Cause

The school was under the impression that they were exempt from time and effort documentation by the Texas Education ed-flex waiver allowable for public school district.

Recommendation

If an employee's compensation is funded in whole or in part with Federal funds, time and effort documentation must be prepared.

Management Response

Time and effort documentation is being kept in the 2009-10 year and was immediately implemented when this requirement was noted.

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2009**

Finding 2008-1

Criteria

The charter holder shall spend 85% of the special education allotment from the Texas Education Agency on special education students, programs, and services.

Condition

The charter holder failed to spend 85% percent of the special education allotment on special education students, programs, and services. The final summary of finance reflected a special education allotment of \$1,130,344, requiring \$960,792 to be spent. The school's special education expenditures for the year totaled \$850,555, a shortage of \$110,237.

Effect

The charter school failed to spend \$110,237 on special education.

Recommendation

The charter holder should spend 85% of the special education allotment on special education students, programs, and services. 15% of the special education allotment is allowed to be spent on administrative and overhead costs.

Management Response

The charter holder will strive to budget and spend 85% of special education allotment on special education students, programs, and services.

Status

The charter holder spent 85% of the special education allotment on special education students, programs, and services in the 2008-09 year.

Management's Explanation for not Implementing the Recommendation

N/A

Finding 2008-2

Criteria

Experienced board members must obtain six hours of board member training every year, and new board members must obtain twelve hours of board member training their first year of service.

Condition

One board member did not receive the six hours of board member training required for the 2007-08 year.

Effect

The board member may not be aware of changes and updates in charter school rules and regulations.

Recommendation

All board members must receive the required board training every year.

Management Response

The board member who did not receive the required board training resigned from the board. All other board members will receive the required board training every year.

Status

The board members who did not receive the required board training resigned from the board. All other board members received the required board training.

Management's Explanation for not Implementing the Recommendation

N/A

**LIFE SCHOOL OF DALLAS (THE CHARTER HOLDER)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2009**

<u>Finding Number</u>	<u>Contact Person</u>	<u>Corrective Action Planned</u>	<u>Anticipated Completion Date</u>
2009-1	Scott Fuller (214) 376-8200	Time and effort documentation will be kept for all employees whose compensation is funded in whole or in part with federal funds.	2009-10 Fiscal Year

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LIFE SCHOOL OF DALLAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2009

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09610101057807	\$ 512,838
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10610101057807	8,875
Total CFDA Number 84.010A			521,713
IDEA - Part B, Formula	84.027	096600010578076600	327,854
IDEA - Part B, Formula	84.027	106600010578076600	10,764
Total CFDA Number 84.027			338,618
IDEA - Part B, Preschool	84.173	096610010578076610	2,024
ESEA Title IV - Safe and Drug-Free Schools	84.186A	09691001057950	8,979
Title II, Part D -Enhancing Ed. Through Technology	84.318X	09630001057807	4,287
Reading First	84.357	086455057110041	67,205
Title III, Part A - English Language Acquisition	84.365A	09671001057950	19,076
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09694501057807	113,532
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10694501057807	7,272
Total CFDA Number 84.367A			120,804
Title I, Part A-ARRA/Stimulus	84.389	10551001057807	5,788
Total Passed Through State Department of Education			\$ 1,088,494
TOTAL DEPARTMENT OF EDUCATION			\$ 1,088,494
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553	71400901	\$ 51,982
National School Lunch Program - Cash Assistance*	10.555	71300901	399,402
National School Lunch Prog. - Non-Cash Assistance*	10.555	057-807	37,979
Total CFDA Number 10.555			437,381
Total Passed Through the State Department of Agriculture			\$ 489,363
TOTAL DEPARTMENT OF AGRICULTURE			\$ 489,363
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,577,857

*Clustered Programs as required by Compliance Supplement March, 2009

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

1. For all Federal programs, the corporation uses 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.
2. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.
4. A reconciliation of the Schedule of Expenditures of Federal Awards to the federal revenue per Exhibit B-2 is as follows:

Total per Schedule of Expenditures of Federal Awards	<u>\$ 1,577,857</u>
Federal Revenue per Exhibit B-2	<u>\$ 1,577,857</u>