

**LIFESCHOOL OF DALLAS
CHARTER HOLDER**

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

AUGUST 31, 2011

**LIFESCHOOL OF DALLAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2011**

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**LIFESCHOOL OF DALLAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2011**

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LIFESCHOOL OF DALLAS

CERTIFICATE OF BOARD

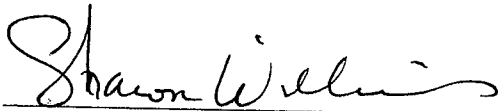
AUGUST 31, 2011

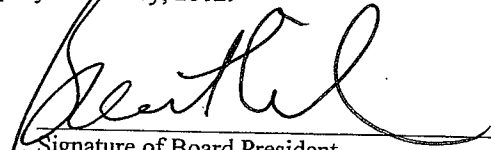
LifeSchool of Dallas
Name of Charter Holder
Federal EIN: 75-2722521

Dallas
County

057807
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, 2011, at a meeting of the governing body of the charter holder on the 11 day of January, 2012.


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)

FREEMON, SHAPARD & STORY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
LifeSchool of Dallas
950 South I-35E
Lancaster, TX 75146

Members of the Board of Directors:

We have audited the accompanying statements of financial position of LifeSchool of Dallas (the charter holder) as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years the ended. These financial statements are the responsibility of LifeSchool 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.

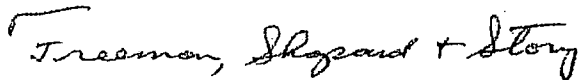
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LifeSchool of Dallas as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2012, on our consideration of LifeSchool of Dallas'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 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
January 9, 2012

**General-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2011 and 2010

| ASSETS | 2011 | 2010 |
|---|---------------|---------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 9,014,461 | \$ 1,505,334 |
| Investments | 3,213,766 | - |
| Due from TEA | 2,564,708 | 2,272,899 |
| Deferred expenses | - | 55,672 |
| Other current assets | - | 160,473 |
| Other receivables | 137,042 | 78,445 |
| Total Current Assets | 14,929,977 | 4,072,823 |
| Property and Equipment | | |
| Land | 3,663,708 | 3,663,708 |
| Building and improvements | 33,731,733 | 30,779,613 |
| Furniture and equipment | 1,020,062 | 711,990 |
| Vehicles | 398,965 | 398,965 |
| Assets purchased under capital lease | 155,221 | 155,221 |
| Construction in progress | 1,377,507 | - |
| Less accumulated depreciation | (3,436,991) | (2,097,155) |
| Total Property and Equipment | 36,910,205 | 33,612,342 |
| Other Assets | | |
| Capitalized Bond Issuance Costs | 957,086 | - |
| Other Assets | 1,000 | 1,000 |
| | 958,086 | 1,000 |
| Total Assets | \$ 52,798,268 | \$ 37,686,165 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 460,460 | \$ 267,677 |
| Accrued wages payable | 245,844 | 516,518 |
| Payroll deductions and withholdings | 448,692 | 169,931 |
| Due to state government | 30 | 341 |
| Due to student groups | 93,884 | 87,642 |
| Accrued interest | - | 33,320 |
| Bond interest payable | 117,712 | - |
| Construction in progress payable | 925,741 | - |
| Current portion of capital leases payable | 49,399 | 51,712 |
| Current portion of bond payable | 745,000 | - |
| Current portion of long-term debt | - | 1,754,330 |
| Total Current Liabilities | 3,086,762 | 2,881,471 |
| Long Term Debt | | |
| Capital leases payable | - | 49,398 |
| Bonds payable | 38,066,021 | - |
| Notes payable | - | 24,862,046 |
| Total Long-Term Debt | 38,066,021 | 24,911,444 |
| Total Liabilities | \$ 41,152,783 | \$ 27,792,915 |
| Net Assets | | |
| Unrestricted | 730,539 | 644,224 |
| Temporarily restricted | 10,914,946 | 9,249,026 |
| Total Net Assets | \$ 11,645,485 | \$ 9,893,250 |
| Total Liabilities and Net Assets | \$ 52,798,268 | \$ 37,686,165 |

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

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

| | Unrestricted | Temporarily Restricted | Totals 2011 |
|--|----------------------|---------------------------|----------------------|
| Revenues | | | |
| Local Support: | | | |
| Contributions | \$ 7,406 | \$ - | \$ 7,406 |
| Food Service Activity | 172,073 | - | 172,073 |
| Athletic Activities | 92,550 | - | 92,550 |
| Rent | 33,000 | - | 33,000 |
| Interest and Other Income | 24,385 | - | 24,385 |
| Other Revenues | 61,070 | - | 61,070 |
| Total Local Support | 390,484 | - | 390,484 |
| State Program Revenues: | | | |
| Foundation School Program | - | 29,092,109 | 29,092,109 |
| Advanced Placement Incentives | - | 900 | 900 |
| Student Success Initiative | - | 44,371 | 44,371 |
| Technology Allotment | - | 102,759 | 102,759 |
| Food Service | - | 5,907 | 5,907 |
| Total State Program Revenues | - | 29,246,046 | 29,246,046 |
| Federal Program Revenues: | | | |
| ESEA Title IV, Part A Safe and Drug-Free Schools | - | 960 | 960 |
| IDEA Part B, Formula | - | 270,887 | 270,887 |
| ESEA Title I Part A Improving Basic Programs | - | 514,112 | 514,112 |
| ESEA Title II Part A Teacher and Principal Training | - | 144,782 | 144,782 |
| National School Breakfast and Lunch Program | - | 707,946 | 707,946 |
| Title III Part A - English Language Acquisition and Enhancement | - | 15,444 | 15,444 |
| ARRA Title XIV, State Fiscal Stabilization Fund | - | 575,583 | 575,583 |
| Title II Part D - Enhancing Education Through Technology ARRA | - | 1,500 | 1,500 |
| ARRA IDEA Part B, Formula | - | 459,523 | 459,523 |
| ARRA IDEA Part B, Preschool | - | 13,667 | 13,667 |
| ARRA ESEA Title I Part A Improving Basic Programs | - | 152,556 | 152,556 |
| Total Federal Program Revenues | - | 2,856,960 | 2,856,960 |
| Net Assets Released from Restrictions: | | | |
| Restrictions Satisfied by Payments | 30,437,086 | (30,437,086) | - |
| Total Revenues | \$ 30,827,570 | \$ 1,665,920 | \$ 32,493,490 |
| Expenses | | | |
| Program Services: | | | |
| Instruction and Instructional-Related Services | 15,062,127 | - | 15,062,127 |
| Instructional and School Leadership | 2,004,895 | - | 2,004,895 |
| Support Services: | | | |
| Administrative Support Services | 2,077,590 | - | 2,077,590 |
| Support Services - Non-Student Based | 6,392,613 | - | 6,392,613 |
| Support Services - Student (Pupil) | 2,390,958 | - | 2,390,958 |
| Ancillary Services | 166,009 | - | 166,009 |
| Debt Service | 2,634,042 | - | 2,634,042 |
| Total Expenses | \$ 30,728,234 | \$ - | \$ 30,728,234 |
| Gains and Losses | | | |
| Loss on Sale of Real and Personal Property | (24,793) | - | (24,793) |
| Total Gains and Losses | (24,793) | - | (24,793) |
| Change in Net Assets | 74,543 | 1,665,920 | 1,740,463 |
| Prior Period Adjustment | 11,772 | - | 11,772 |
| Net Assets, Beginning of Year | 644,224 | 9,249,026 | 9,893,250 |
| Net Assets, End of Year | \$ 730,539 | \$ 10,914,946 | \$ 11,645,485 |

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

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals 2010</u> |
|--|----------------------|-----------------------------------|------------------------|
| Revenues | | | |
| Local Support: | | | |
| Contributions | \$ 2,762 | \$ - | \$ 2,762 |
| Food Service Activity | 173,730 | - | 173,730 |
| Athletic Activities | 76,119 | - | 76,119 |
| Rent | 14,450 | - | 14,450 |
| Interest and Other Income | 11,316 | - | 11,316 |
| Other Revenues | <u>149,870</u> | - | <u>149,870</u> |
| Total Local Support | 428,247 | - | 428,247 |
| State Program Revenues: | | | |
| Foundation School Program | - | 26,850,044 | 26,850,044 |
| Student Success Initiative | - | 60,753 | 60,753 |
| Technology Allotment | - | 97,527 | 97,527 |
| Food Service | - | <u>5,472</u> | <u>5,472</u> |
| Total State Program Revenues | - | 27,013,796 | 27,013,796 |
| Federal Program Revenues: | | | |
| ESEA Title IV, Part A Safe and Drug Free Schools | - | 8,350 | 8,350 |
| IDEA Part B, Formula | - | 255,490 | 255,490 |
| IDEA Part B, Preschool | - | 487 | 487 |
| ESEA Title I Part A Improving Basic Programs | - | 619,547 | 619,547 |
| ESEA Title II Part A Teacher and Principal Training | - | 123,341 | 123,341 |
| National School Breakfast and Lunch Program | - | 610,781 | 610,781 |
| Reading First | - | 3,043 | 3,043 |
| Title II Part D - Enhancing Education Through Technology | - | 3,936 | 3,936 |
| Title III Part A - English Language Acquisition and Enhancement | - | 13,822 | 13,822 |
| ARRA Title XIV, State Fiscal Stabilization Fund | - | 514,026 | 514,026 |
| Title II Part D - Enhancing Education Through Technology ARRA | - | 13,539 | 13,539 |
| ARRA IDEA Part B, Formula | - | 139,293 | 139,293 |
| ARRA IDEA Part B, Preschool | - | 1,900 | 1,900 |
| ARRA ESEA Title I Part A Improving Basic Programs | - | <u>345,358</u> | <u>345,358</u> |
| Total Federal Program Revenues | - | 2,652,913 | 2,652,913 |
| Net Assets Released from Restrictions: | | | |
| Restrictions Satisfied by Payments | <u>27,171,027</u> | <u>(27,171,027)</u> | <u>-</u> |
| Total Revenues | <u>\$ 27,599,274</u> | <u>\$ 2,495,682</u> | <u>\$ 30,094,956</u> |
| Expenses | | | |
| Program Services: | | | |
| Instruction and Instructional-Related Services | 13,094,603 | - | 13,094,603 |
| Instructional and School Leadership | 2,249,774 | - | 2,249,774 |
| Support Services: | | | |
| Administrative Support Services | 2,043,260 | - | 2,043,260 |
| Support Services - Non-Student Based | 7,045,674 | - | 7,045,674 |
| Support Services - Student (Pupil) | 2,131,729 | - | 2,131,729 |
| Ancillary Services | 90,373 | - | 90,373 |
| Debt Service | 706,702 | - | 706,702 |
| Fundraising | <u>84,300</u> | - | <u>84,300</u> |
| Total Expenses | <u>\$ 27,446,415</u> | <u>\$ -</u> | <u>\$ 27,446,415</u> |
| Gains and Losses | | | |
| Gain on Sale of Real and Personal Property | <u>49,795</u> | - | <u>49,795</u> |
| Total Gains and Losses | <u>49,795</u> | <u>-</u> | <u>49,795</u> |
| Change in Net Assets | <u>202,654</u> | <u>2,495,682</u> | <u>2,698,336</u> |
| Extraordinary Items | <u>(93,713)</u> | <u>-</u> | <u>(93,713)</u> |
| Net Assets, Beginning of Year | <u>535,283</u> | <u>6,753,344</u> | <u>7,288,627</u> |
| Net Assets, End of Year | <u>\$ 644,224</u> | <u>\$ 9,249,026</u> | <u>\$ 9,893,250</u> |

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

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

| | 2011 | 2010 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 1,752,235 | \$ 2,604,623 |
| Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities: | | |
| Depreciation | 1,343,297 | 674,832 |
| (Increase) Decrease in Investments | (3,213,766) | - |
| (Increase) Decrease in Due from TEA | (291,809) | (444,638) |
| (Increase) Decrease in Deferred Expenses | 55,672 | (11,148) |
| (Increase) Decrease in Other Receivables | (58,597) | 45,394 |
| (Increase) Decrease in Other Current Assets | 160,473 | (145,473) |
| (Increase) Decrease in Capitalized Bonds Costs | (957,086) | - |
| Increase (Decrease) in Accounts Payable | 192,783 | (149,451) |
| Increase (Decrease) in Accrued Wages Payable | (270,674) | 137,961 |
| Increase (Decrease) in Due to State Government | (311) | 128 |
| Increase (Decrease) in Due to Student Groups | 6,242 | (26,984) |
| Increase (Decrease) in Accrued Interest | (33,320) | 15,032 |
| Increase (Decrease) in Payroll Deductions and Withholdings | 278,761 | (175,725) |
| Increase (Decrease) in Bond Interest Payable | 117,712 | - |
| Increase (Decrease) in Construction in Progress Payable | 925,741 | - |
| Net Cash Provided (Used) by Operating Activities | 7,353 | 2,524,551 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Land, Buildings, and Equipment | (3,322,742) | (24,990,594) |
| Construction in Progress | (1,377,507) | - |
| Disposition of Land, Buildings, and Equipment | 59,089 | 1,170 |
| Net Cash Provided (Used) by Investing Activities | (4,641,160) | (24,989,424) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of Debt | 40,295,041 | 25,737,674 |
| Discount on Bond Issuance | (448,979) | - |
| Principal Payments on Debt | (27,703,128) | (3,378,008) |
| Net Cash Provided (Used) by Financing Activities | 12,142,934 | 22,359,666 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 7,509,127 | (105,207) |
| Cash and Cash Equivalents, Beginning of Year | 1,505,334 | 1,610,541 |
| Cash and Cash Equivalents, End of Year | \$ 9,014,461 | \$ 1,505,334 |
| Interest Paid During the Period Ended August 31, 2011 and 2010 | \$ 2,066,591 | \$ 705,531 |
| Income Taxes Paid During the Period Ended August 31, 2011 and 2010 | None | None |

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

**Notes to the
Financial Statements**

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of LifeSchool of Dallas (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.

A. *Reporting Entity*

The corporation 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*

LifeSchool 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. Maximum enrollment was increased from 5,000 to 10,000 students in August 2010. Approved campus locations are in Oak Cliff, Waxahachie, Red Oak, Lancaster, and Cedar Hill, 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.

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.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

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 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.

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

H. *Personal Leave*

All employees of the school earn five days of local paid personal leave per year. The balance does not accumulate; therefore, there is no liability accrued on the financial statements. Effective 8/1/11, the five days of local paid personal leave per year has been eliminated due to budget cuts.

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 depository banks. The depository banks should deposit for safekeeping and trust with the charter holder's agent banks 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 banks' dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2011, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$9,014,461, and the bank balance was \$9,244,077. The corporation's cash deposits at August 31, 2011, and during the year ended August 31, 2011, 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, 2010, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,505,334, and the bank balance was \$2,834,738. The corporation's cash deposits at August 31, 2010, and during the year ended August 31, 2010, were not 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 at Vintage Bank during the year ended August 31, 2011:

- a. Depository: Vintage Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$2,000,000.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$4,847,885 and occurred during the month of July 2011.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$3,335,068 (\$250,000 plus \$3,085,068 of non-interest bearing funds).

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit at Regions Bank during the year ended August 31, 2011:

- a. Depository: Regions Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$11,858,682.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$11,293,983 and occurred during the month of May 2011.
- 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, 2011 and 2010, 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 (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. 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 Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

B. *Funding Policy*

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's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011 and 2010, and a state contribution rate of 6.644% for fiscal years 2011 and 2010. In certain instances, the reporting school is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period September through December 2009 and increased to 6.644% for the period January 2010 through August 2011. The charter school's employees' contributions to the System for the years ending August 31, 2011 and 2010, were \$1,061,566 and \$958,300, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants for the years ending August 31, 2011 and 2010, were \$27,286 and \$21,484, respectively, equal to the required contributions for each year. For the years ending August 31, 2011 and 2010, the State of Texas contributed \$1,074,752 and \$1,107,153, 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 4.2%-2011 and 6.2%-2010 (Social Security) and 1.45% (Medicare) of their annual covered salary, and the charter holder contributes 6.2% (Social Security) and 1.45% (Medicare) of the covered payroll.

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 post employment 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. 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.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

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 2011 and 2010. 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, 2011 and 2010, the State's contributions to TRS Care were \$161,610 and \$146,250, respectively. The active member contributions were \$107,815 and \$97,327, respectively. The charter school's contributions were \$91,228 and \$82,354, respectively, which equaled the required contributions each year.

6. HEALTH CARE COVERAGE

During the years ended August 31, 2011 and 2010, full-time employees of the charter school were covered by a health insurance plan (the Plan). For the years ended August 31, 2011 and 2010, the charter school contributed \$412 and \$407, respectively, per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

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 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. INCOME TAX

On December 30, 2008, FASB issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. There was no unrelated business income for the year ended August 31, 2011 and 2010, and as a result, there was no income tax liability.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

9. CAPITAL ASSETS

Capital assets at August 31, 2011, were as follows:

| | Balance <u>9/1/2010</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>8/31/2011</u> |
|----------------------------|----------------------------|---------------------|--------------------|-----------------------------|
| Land | \$ 3,663,708 | \$ - | \$ - | \$ 3,663,708 |
| Buildings and Improvements | 30,779,613 | 3,014,670 | (62,550) | 33,731,733 |
| Furniture and Equipment | 711,990 | 308,072 | - | 1,020,062 |
| Vehicles | 398,965 | - | - | 398,965 |
| Capital Lease | 155,221 | - | - | 155,221 |
| Construction in Progress | - | 1,377,507 | - | 1,377,507 |
| Accumulated Depreciation | <u>(2,097,155)</u> | <u>(1,343,297)</u> | <u>3,461</u> | <u>(3,436,991)</u> |
| | <u>\$33,612,342</u> | <u>\$ 3,356,952</u> | <u>\$ (59,089)</u> | <u>\$36,910,205</u> |

Capital assets at August 31, 2010, were as follows:

| | Balance <u>9/1/2009</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>8/31/2010</u> |
|----------------------------|----------------------------|---------------------|-------------------|-----------------------------|
| Land | \$ 505,774 | \$ 3,157,934 | \$ - | \$ 3,663,708 |
| Buildings and Improvements | 9,171,095 | 21,609,688 | (1,170) | 30,779,613 |
| Furniture and Equipment | 652,831 | 59,159 | - | 711,990 |
| Vehicles | 308,345 | 90,620 | - | 398,965 |
| Capital Lease | 82,028 | 73,193 | - | 155,221 |
| Accumulated Depreciation | <u>(1,422,323)</u> | <u>(674,832)</u> | <u>-</u> | <u>(2,097,155)</u> |
| | <u>\$ 9,297,750</u> | <u>\$24,315,762</u> | <u>\$ (1,170)</u> | <u>\$33,612,342</u> |

Capital assets acquired with public funds received by the corporation for the operation of LifeSchool Lancaster, LifeSchool Red Oak, LifeSchool Oak Cliff, LifeSchool Waxahachie, and LifeSchool Cedar Hill constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

10. ECONOMIC DEPENDENCY

During the years ended August 31, 2011 and 2010, the charter holder earned revenue of \$29,246,046 and \$27,013,796, respectively, from the Texas Education Agency (TEA). This constitutes approximately 90.01% and 89.76%, 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.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ending August 31, 2011 and 2010, consisted of the following:

| | 2011 | 2010 |
|---|---------------|--------------|
| Foundation School Program | \$ 10,796,459 | \$ 9,220,075 |
| ESEA Title I Part A, Improving Basic Programs | 7,136 | - |
| ARRA IDEA Part B, Formula | 102,084 | 25,397 |
| ARRA IDEA Part B, Preschool | 6,094 | - |
| Advanced Placement Incentives | 900 | - |
| Technology Allotment | 2,273 | 3,554 |
| Total Temporarily Restricted Net Assets | \$ 10,914,946 | \$ 9,249,026 |

12. LONG-TERM DEBT

Long-term debt at August 31, 2011 and 2010, consisted of the following:

| | 2011 | 2010 |
|---|------|-----------|
| 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. | \$ - | \$314,903 |
| Note payable to Vintage Bank, 7.0% interest, principal and interest due monthly in installments of \$9,925, commencing July 18, 2010. Final payment is due June 18, 2015. The note is secured by equipment. | - | 485,848 |
| 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. | - | 61,980 |

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

| | | |
|---|-------------|---------------------|
| Note payable to Regions Bank, adjustable interest rate. Final payment is due March 23, 2015. The note is secured by the Cedar Hill, Oak Cliff, and Lancaster property. | - | 16,700,196 |
| Note payable to Regions Bank, adjustable interest rate. Final payment is due March 23, 2015. The note is secured by the Cedar Hill property. | - | 1,375,000 |
| Note payable to Oaks Fellowship, 7.5% interest rate, principal and interest due monthly in installments of \$49,595, commencing April 23, 2010. Final payment is due March 23, 2018. The note is secured by the Oak Cliff and Lancaster property. | - | 3,434,567 |
| Note payable to Southwest Securities, 6.0% interest rate, commencing August 8, 2010. Final payment is due January 8, 2016. The note is secured by the Red Oak High School property located in Waxahachie. | - | 627,959 |
| 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 Red Oak High School property located in Waxahachie. | - | 2,448,032 |
| Note payable to Southwest Securities, 6.0% interest, principal and interest due monthly in installments of \$8,612, commencing December 30, 2009. Final payment is due September 30, 2029. The note is secured by the Red Oak High School property located in Waxahachie. | - | <u>1,167,891</u> |
| Total debt | - | 26,616,376 |
| Less current portion of long-term debt | - | <u>(1,754,330)</u> |
| Total long-term debt | <u>\$</u> - | <u>\$24,862,046</u> |

All loans above were paid off with the proceeds from the bond issuance described below. Penalties for the early payoffs of the loans above totaled \$456,774.

13. BONDS

In March 2011, the corporation issued higher education bonds of \$38,880,000 (Series 2011A) and \$380,000 (Series 2011B) with interest rates ranging from 6.25% to 7.5% which included a \$456,462 original issue discount and \$973,037 issuance costs. Original issue discount and issuance costs are being amortized over the thirty year term of the bonds.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

There are a number of limitations and restrictions contained in the higher education bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2011.

A summary of changes in bonds payable for the year ended August 31, 2011, is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Original Issue</u> | <u>Interest Current Year</u> | <u>Balance 9/1/2010</u> | <u>Issued</u> | <u>Balance 8/31/2011</u> |
|--|----------------------|-----------------------|------------------------------|-------------------------|---------------------|--------------------------|
| Education Revenue Tax-Exempt Bonds, Series 2011A | 6.25% to 7.5% | \$38,880,000 | \$1,267,087 | \$ - | \$38,880,000 | \$38,880,000 |
| Education Revenue Taxable Bonds, Series 2011B | 7.0% | <u>380,000</u> | <u>12,044</u> | <u>-</u> | <u>380,000</u> | <u>380,000</u> |
| Total | | <u>\$39,260,000</u> | <u>\$1,279,131</u> | <u>\$ -</u> | <u>\$39,260,000</u> | <u>\$39,260,000</u> |
| Less Unamortized Discount on Bond Issuance | | | | | | <u>(448,979)</u> |
| Total Bonds Payable | | | | | | <u>\$38,811,021</u> |

Debt service requirements for bonds at August 31, 2011, are as follows:

| <u>Year Ended August 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|----------------------|---------------------|---------------------|
| 2012 | \$ 745,000 | \$ 2,825,075 | \$ 3,570,075 |
| 2013 | 795,000 | 2,777,688 | 3,572,688 |
| 2014 | 845,000 | 2,727,400 | 3,572,400 |
| 2015 | 585,000 | 2,673,763 | 3,258,763 |
| 2016 | 540,000 | 2,636,600 | 3,176,600 |
| 2017-2021 | 3,235,000 | 12,634,875 | 15,869,875 |
| 2022-2026 | 4,455,000 | 11,421,612 | 15,876,612 |
| 2027-2031 | 6,275,000 | 9,597,625 | 15,872,625 |
| 2032-2036 | 8,945,000 | 6,924,375 | 15,869,375 |
| 2037-2041 | <u>12,840,000</u> | <u>3,028,500</u> | <u>15,868,500</u> |
| | <u>\$ 39,260,000</u> | <u>\$57,247,513</u> | <u>\$96,507,513</u> |

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

14. LEASES

The School leased facilities from The Oaks Fellowship for property in Red Oak. This lease terminates in July 2019. The School paid monthly rental payments of \$77,101. The School also leased facilities from Pinnacle Commerical Property for property at 330 Ann Arbor, Dallas, Texas. The lease terminates July 31, 2012. The School paid monthly rental payments of \$14,166. Rent expense was \$1,329,637 and \$2,209,579, respectively, for the years ended August 31, 2011 and 2010.

Future minimum payments under noncancelable operating leases as of August 31, 2011 are as follows:

| | |
|------------|---------------------|
| 2011-12 | \$ 1,066,869 |
| 2012-13 | 925,209 |
| 2013-14 | 925,209 |
| 2014-15 | 925,209 |
| 2015-16 | 925,209 |
| Thereafter | <u>2,698,526</u> |
| Total | <u>\$ 7,466,231</u> |

15. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the corporation through financial statement issuance and has determined that the following subsequent events require recognition or disclosure in the financial statements.

LifeSchool of Dallas acquired \$7,120,000 of available funds in the bond issuance in 2011 after refinancing existing debt and paying costs of issuance. Of this amount, \$1,377,507 has been spent and reflected in construction in progress at August 31, 2011. An additional \$5,742,493 is planned for future construction and renovation projects at the five school locations.

16. EXTRAORDINARY ITEMS

Extraordinary items booked for the period ended August 31, 2010, consist of a loss realized with a vendor that declared bankruptcy of \$77,713 on portable building purchase payments that were lost and the write-off of \$16,000 of receivables from a theft loss realized several years ago deemed uncollectible.

17. PRIOR PERIOD ADJUSTMENT

An on-site monitoring visit by a federal agency found a failure to follow the Davis-Bacon Act on \$451,595 of pre-award acquisition costs for construction in 2010. The corporation was not aware that they would be awarded the grant; therefore, they did not follow the Davis-Bacon Act during the pre-award period. The corporation was allowed to reclassify \$463,367 of payroll to this grant (Title XIV State Fiscal Stabilization Fund). \$11,772 was the amount of additional grant expenditures allowed for 2010 in excess of the \$451,595 previously reported, creating a prior period adjustment of \$11,772.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

18. CAPITAL LEASES

LifeSchool of Dallas leases computers under capital leases which expire in July 2012 and August 2012.

Capital leases at August 31, 2011 and 2010, consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|---|-----------------|------------------|
| Lease 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 lease is secured by computers. | \$ 23,905 | \$ 51,588 |
| Lease payable to Dell Financial Services, 4.90% interest, principal and interest due monthly in installments of \$2,181, commencing October 1, 2009. Final payment is due August 31, 2012. The lease is secured by computers. | <u>25,494</u> | <u>49,522</u> |
| Total capital leases | 49,399 | 101,110 |
| Less current portion of capital leases | <u>(49,399)</u> | <u>(51,712)</u> |
| Total long-term capital leases | <u>\$ -</u> | <u>\$ 49,398</u> |

Future maturities of capital leases at August 31, 2011, are as follows:

| <u>Year Ended August 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|------------------|-----------------|------------------|
| 2012 | <u>\$ 49,399</u> | <u>\$ 1,115</u> | <u>\$ 50,514</u> |

Property and equipment secured under a capital lease at August 31, 2011 and 2010, consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|---|------------------|------------------|
| Dell Computers | \$155,221 | \$155,221 |
| Less Accumulated Depreciation | <u>(64,823)</u> | <u>(33,778)</u> |
| Property and Equipment Under a Capital Lease, Net | <u>\$ 90,398</u> | <u>\$121,443</u> |

Interest expense relating to this capital lease for the periods ended August 31, 2011 and 2010, total \$4,300 and \$6,212, respectively. Amortization of assets held under the capital leases is included with depreciation expense.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

19. CONSTRUCTION IN PROGRESS

At August 31, 2011, construction in progress amounted to \$1,377,507. The corporation is using bond proceeds for construction and renovation on the campuses at Oak Cliff, Red Oak, Waxahachie, Cedar Hill, and Lancaster to expand and/or maintain these schools. Construction in progress payable amounted to \$925,741 at August 31, 2011. This includes amounts due to the contractors C.D. Henderson Construction Group, LLC, Hill & Wilkinson Construction Group, Ltd, Delta Construction Services Company, and Ramtech Building Systems, Inc. for construction on classroom buildings that have not yet been paid at August 31, 2011.

**Specific-Purpose
Financial Statements**

LIFE CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2011 and 2010

| ASSETS | 2011 | 2010 |
|---|---------------|---------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 9,014,461 | \$ 1,505,334 |
| Investments | 3,213,766 | - |
| Due from TEA | 2,564,708 | 2,272,899 |
| Deferred expenses | - | 55,672 |
| Other current assets | - | 160,473 |
| Other receivables | 137,042 | 78,445 |
| Total Current Assets | 14,929,977 | 4,072,823 |
| Property and Equipment | | |
| Land | 3,663,708 | 3,663,708 |
| Buildings and improvements | 33,731,733 | 30,779,613 |
| Furniture and equipment | 1,020,062 | 711,990 |
| Vehicles | 398,965 | 398,965 |
| Assets purchased under capital leases | 155,221 | 155,221 |
| Construction in progress | 1,377,507 | - |
| Less accumulated depreciation | (3,436,991) | (2,097,155) |
| Total Property and Equipment | 36,910,205 | 33,612,342 |
| Other Assets | | |
| Capitalized Bond Issuance Costs | 957,086 | - |
| Other Assets | 1,000 | 1,000 |
| | 958,086 | 1,000 |
| Total Assets | \$ 52,798,268 | \$ 37,686,165 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 460,460 | \$ 267,677 |
| Accrued wages payable | 245,844 | 516,518 |
| Payroll deductions and withholdings | 448,692 | 169,931 |
| Due to state government | 30 | 341 |
| Due to student groups | 93,884 | 87,642 |
| Accrued interest | - | 33,320 |
| Bond interest payable | 117,712 | - |
| Construction in progress payable | 925,741 | - |
| Current portion of capital leases payable | 49,399 | 51,712 |
| Current portion of bond payable | 745,000 | - |
| Current portion of long-term debt | - | 1,754,330 |
| Total Current Liabilities | 3,086,762 | 2,881,471 |
| Long Term Debt | | |
| Capital leases payable | - | 49,398 |
| Bonds payable | 38,066,021 | - |
| Notes payable | - | 24,862,046 |
| Total Long-Term Debt | 38,066,021 | 24,911,444 |
| Total Liabilities | \$ 41,152,783 | \$ 27,792,915 |
| Net Assets | | |
| Unrestricted | 730,539 | 644,224 |
| Temporarily restricted | 10,914,946 | 9,249,026 |
| Total Net Assets | \$ 11,645,485 | \$ 9,893,250 |
| Total Liabilities and Net Assets | \$ 52,798,268 | \$ 37,686,165 |

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

**LIFE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals 2011</u> |
|--|----------------------|-----------------------------------|------------------------|
| Revenues | | | |
| Local Support: | | | |
| 5740 Other Revenues from Local Sources | \$ 125,861 | \$ - | \$ 125,861 |
| 5750 Cocurricular and Enterprising Activities | 264,623 | - | 264,623 |
| Total Local Support | <u>390,484</u> | <u>-</u> | <u>390,484</u> |
| State Program Revenues: | | | |
| 5810 Foundation School Program Act Revenues | - | 29,092,109 | 29,092,109 |
| 5820 State Program Revenues Distributed by TEA | - | 153,937 | 153,937 |
| Total State Program Revenues | <u>-</u> | <u>29,246,046</u> | <u>29,246,046</u> |
| Federal Program Revenues: | | | |
| 5920 Federal Revenues Distributed by TEA | - | 2,856,960 | 2,856,960 |
| Total Federal Program Revenues | <u>-</u> | <u>2,856,960</u> | <u>2,856,960</u> |
| Net Assets Released from Restrictions: | | | |
| Restrictions Satisfied by Payments | <u>30,437,086</u> | <u>(30,437,086)</u> | <u>-</u> |
| Total Revenues | <u>\$ 30,827,570</u> | <u>\$ 1,665,920</u> | <u>\$ 32,493,490</u> |
| Expenses | | | |
| 11 Instruction | 14,711,483 | - | 14,711,483 |
| 12 Instructional Resources & Media Services | 106,350 | - | 106,350 |
| 13 Curriculum & Instructional Staff | | | |
| Development | 244,294 | - | 244,294 |
| 21 Instructional Leadership | 64,944 | - | 64,944 |
| 23 School Leadership | 1,939,951 | - | 1,939,951 |
| 31 Guidance, Counseling, & Evaluation | | | |
| Services | 319,883 | - | 319,883 |
| 33 Health Services | 216,230 | - | 216,230 |
| 35 Food Services | 978,252 | - | 978,252 |
| 36 Cocurricular/Extracurricular Activities | 876,593 | - | 876,593 |
| 41 General Administration | 2,077,590 | - | 2,077,590 |
| 51 Plant Maintenance & Operations | 5,009,546 | - | 5,009,546 |
| 52 Security & Monitoring Services | 482,269 | - | 482,269 |
| 53 Data Processing Services | 900,798 | - | 900,798 |
| 61 Community Services | 166,009 | - | 166,009 |
| 71 Debt Service | 2,634,042 | - | 2,634,042 |
| Total Expenses | <u>\$ 30,728,234</u> | <u>\$ -</u> | <u>\$ 30,728,234</u> |
| Gains and Losses | | | |
| Loss on Sale of Real and Personal Property | (24,793) | - | (24,793) |
| Total Gains and Losses | <u>\$ (24,793)</u> | <u>\$ -</u> | <u>\$ (24,793)</u> |
| Change in Net Assets | <u>74,543</u> | <u>1,665,920</u> | <u>1,740,463</u> |
| Prior Period Adjustment | 11,772 | - | 11,772 |
| Net Assets, Beginning of Year | <u>644,224</u> | <u>9,249,026</u> | <u>9,893,250</u> |
| Net Assets, End of Year | <u>\$ 730,539</u> | <u>\$ 10,914,946</u> | <u>\$ 11,645,485</u> |

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

**LIFE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

| | Unrestricted | Temporarily Restricted | Totals 2010 |
|--|---------------|---------------------------|----------------|
| Revenues | | | |
| Local Support: | | | |
| 5740 Other Revenues from Local Sources | \$ 178,398 | \$ - | \$ 178,398 |
| 5750 Cocurricular and Enterprising Activities | 249,849 | - | 249,849 |
| Total Local Support | 428,247 | - | 428,247 |
| State Program Revenues: | | | |
| 5810 Foundation School Program Act Revenues | - | 26,850,044 | 26,850,044 |
| 5820 State Program Revenues Distributed by TEA | - | 163,752 | 163,752 |
| Total State Program Revenues | - | 27,013,796 | 27,013,796 |
| Federal Program Revenues: | | | |
| 5920 Federal Revenues Distributed by TEA | - | 2,652,913 | 2,652,913 |
| Total Federal Program Revenues | - | 2,652,913 | 2,652,913 |
| Net Assets Released from Restrictions: | | | |
| Restrictions Satisfied by Payments | 27,171,027 | (27,171,027) | - |
| Total Revenues | \$ 27,599,274 | \$ 2,495,682 | \$ 30,094,956 |
| Expenses | | | |
| 11 Instruction | 12,867,393 | - | 12,867,393 |
| 12 Instructional Resources & Media Services | 109,707 | - | 109,707 |
| 13 Curriculum & Instructional Staff Development | 117,503 | - | 117,503 |
| 21 Instructional Leadership | 246,688 | - | 246,688 |
| 23 School Leadership | 2,003,086 | - | 2,003,086 |
| 31 Guidance, Counseling, & Evaluation Services | 277,260 | - | 277,260 |
| 33 Health Services | 177,068 | - | 177,068 |
| 35 Food Services | 862,094 | - | 862,094 |
| 36 Cocurricular/Extracurricular Activities | 815,307 | - | 815,307 |
| 41 General Administration | 2,043,260 | - | 2,043,260 |
| 51 Plant Maintenance & Operations | 5,833,296 | - | 5,833,296 |
| 52 Security & Monitoring Services | 465,735 | - | 465,735 |
| 53 Data Processing Services | 746,643 | - | 746,643 |
| 61 Community Services | 90,373 | - | 90,373 |
| 71 Debt Service | 706,702 | - | 706,702 |
| 81 Fundraising | 84,300 | - | 84,300 |
| Total Expenses | \$ 27,446,415 | \$ - | \$ 27,446,415 |
| Gains and Losses | | | |
| Gain on Sale of Real and Personal Property | 49,795 | - | 49,795 |
| Total Gains and Losses | \$ 49,795 | \$ - | \$ 49,795 |
| Change in Net Assets | 202,654 | 2,495,682 | 2,698,336 |
| Extraordinary Items | (93,713) | - | (93,713) |
| Net Assets, Beginning of Year | 535,283 | 6,753,344 | 7,288,627 |
| Net Assets, End of Year | \$ 644,224 | \$ 9,249,026 | \$ 9,893,250 |

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

LIFE CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

| | 2011 | 2010 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 1,752,235 | \$ 2,604,623 |
| Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities: | | |
| Depreciation | 1,343,297 | 674,832 |
| (Increase) Decrease in Investments | (3,213,766) | - |
| (Increase) Decrease in Due from TEA | (291,809) | (444,638) |
| (Increase) Decrease in Deferred Expenses | 55,672 | (11,148) |
| (Increase) Decrease in Other Receivables | (58,597) | 45,394 |
| (Increase) Decrease in Other Current Assets | 160,473 | (145,473) |
| (Increase) Decrease in Capitalized Bonds Costs | (957,086) | - |
| Increase (Decrease) in Accounts Payable | 192,783 | (149,451) |
| Increase (Decrease) in Accrued Wages Payable | (270,674) | 137,961 |
| Increase (Decrease) in Due to State Government | (311) | 128 |
| Increase (Decrease) in Due to Student Groups | 6,242 | (26,984) |
| Increase (Decrease) in Accrued Interest | (33,320) | 15,032 |
| Increase (Decrease) in Payroll Deductions and Withholdings | 278,761 | (175,725) |
| Increase (Decrease) in Bond Interest Payable | 117,712 | - |
| Increase (Decrease) in Construction in Progress Payable | 925,741 | - |
| Net Cash Provided (Used) by Operating Activities | 7,353 | 2,524,551 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Land, Buildings, and Equipment | (3,322,742) | (24,990,594) |
| Construction in Progress | (1,377,507) | - |
| Disposition of Land, Buildings, and Equipment | 59,089 | 1,170 |
| Net Cash Provided (Used) by Investing Activities | (4,641,160) | (24,989,424) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of Debt | 40,295,041 | 25,737,674 |
| Discount on Bond Issuance | (448,979) | - |
| Principal Payments on Debt | (27,703,128) | (3,378,008) |
| Net Cash Provided (Used) by Financing Activities | 12,142,934 | 22,359,666 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 7,509,127 | (105,207) |
| Cash and Cash Equivalents, Beginning of Year | 1,505,334 | 1,610,541 |
| Cash and Cash Equivalents, End of Year | \$ 9,014,461 | \$ 1,505,334 |
| | | |
| Interest Paid During the Period Ended August 31, 2011 and 2010 | \$ 2,066,591 | \$ 705,531 |
| Income Taxes Paid During the Period Ended August 31, 2011 and 2010 | 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, 2011 AND 2010**

| Expenses | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| 6100 Payroll Costs | \$ 19,108,493 | \$ 17,673,563 |
| 6200 Professional and Contracted Services | 4,998,821 | 5,565,187 |
| 6300 Supplies and Materials | 2,168,115 | 2,345,110 |
| 6400 Other Operating Costs | 1,818,763 | 1,153,576 |
| 6500 Debt | <u>2,634,042</u> | <u>708,979</u> |
| Total Expenses | <u>\$ 30,728,234</u> | <u>\$ 27,446,415</u> |

The accompanying notes are an integral part of these statements.

**LIFE CHARTER SCHOOL
SCHEDULE OF CAPITAL ASSETS
AS OF AUGUST 31, 2011**

| | Ownership Interest | | |
|------------------------------------|--------------------|----------------------|-------------------|
| | Local | State | Federal |
| 1510 Land and Improvements | \$ - | \$ 3,663,708 | \$ - |
| 1520 Buildings and Improvements | 55,597 | 33,676,136 | - |
| 1531 Vehicles | 4,750 | 394,215 | - |
| 1539 Furniture and Equipment | - | 860,011 | 129,434 |
| 1549 Furniture and Equipment | - | 16,768 | 13,849 |
| 1559 Capital Lease | - | 155,221 | - |
| 1580 Construction in Progress | - | 1,377,507 | - |
| 1570 Less Accumulated Depreciation | (11,881) | (3,406,346) | (18,764) |
| Total Property and Equipment | <u>\$ 48,466</u> | <u>\$ 36,737,220</u> | <u>\$ 124,519</u> |

Note: Accumulated depreciation of \$3,406,346 above on capital assets acquired with state funds includes \$64,823 accumulated depreciation on assets recorded under capital leases.

The accompanying notes are an integral part of these statements.

**LIFE CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2011**

| | Budgeted Amounts | | Actual Amounts | Variance from Final Budget |
|---|------------------|---------------|-------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local Support: | | | | |
| 5740 Other Revenues from Local Sources | \$ 75,000 | \$ 75,000 | \$ 125,861 | \$ 50,861 |
| 5750 Cocurricular and Enterprising Activities | 340,231 | 321,334 | 264,623 | (56,711) |
| Total Local Support | 415,231 | 396,334 | 390,484 | (5,850) |
| State Program Revenues: | | | | |
| 5810 Foundation School Program Act Revenues | 29,820,249 | 27,895,582 | 29,092,109 | 1,196,527 |
| 5820 State Program Revenues Distributed by TEA | 686,470 | 159,605 | 153,937 | (5,668) |
| Total State Program Revenues | 30,506,719 | 28,055,187 | 29,246,046 | 1,190,859 |
| Federal Program Revenues: | | | | |
| 5920 Federal Revenues Distributed by TEA | 2,823,243 | 3,062,550 | 2,856,960 | (205,590) |
| Total Federal Program Revenues | 2,823,243 | 3,062,550 | 2,856,960 | (205,590) |
| Total Revenues | \$ 33,745,193 | \$ 31,514,071 | \$ 32,493,490 | \$ 979,419 |
| Expenses | | | | |
| 11 Instruction | 15,066,988 | 14,913,085 | 14,711,483 | 201,602 |
| 12 Instructional Resources & Media Services | 199,292 | 99,292 | 106,350 | (7,058) |
| 13 Curriculum & Instructional Staff Development | 392,610 | 16,000 | 244,294 | (228,294) |
| 21 Instructional Leadership | 71,792 | 71,792 | 64,944 | 6,848 |
| 23 School Leadership | 1,977,395 | 1,884,061 | 1,939,951 | (55,890) |
| 31 Guidance, Counseling, & Evaluation Services | 346,876 | 346,876 | 319,883 | 26,993 |
| 33 Health Services | 176,845 | 176,845 | 216,230 | (39,385) |
| 35 Food Services | 968,038 | 904,269 | 978,252 | (73,983) |
| 36 Cocurricular/Extracurricular Activities | 1,201,931 | 1,140,511 | 876,593 | 263,918 |
| 41 General Administration | 2,826,647 | 2,094,359 | 2,077,590 | 16,769 |
| 51 Plant Maintenance & Operations | 5,395,235 | 5,044,835 | 5,009,546 | 35,289 |
| 52 Security & Monitoring Services | 619,241 | 507,361 | 482,269 | 25,092 |
| 53 Data Processing Services | 847,159 | 856,314 | 900,798 | (44,484) |
| 61 Community Services | 118,104 | 133,104 | 166,009 | (32,905) |
| 71 Debt Service | 1,677,240 | 1,851,030 | 2,634,042 | (783,012) |
| Total Expenses | \$ 31,885,393 | \$ 30,039,734 | \$ 30,728,234 | \$ (688,500) |
| Gains and Losses | | | | |
| Loss on Sale of Real and Personal Property | - | - | (24,793) | (24,793) |
| Total Gains and Losses | - | - | (24,793) | (24,793) |
| Change in Net Assets | 1,859,800 | 1,474,337 | 1,740,463 | 266,126 |
| Prior Period Adjustment | 11,772 | 11,772 | 11,772 | - |
| Net Assets, Beginning of Year | 9,893,250 | 9,893,250 | 9,893,250 | - |
| Net Assets, End of Year | \$ 11,764,822 | \$ 11,379,359 | \$ 11,645,485 | \$ 266,126 |

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

**Reports on Compliance,
Internal Controls,
and Federal Awards**

FREEMON, SHAPARD & STORY

Certified Public Accountants

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
LifeSchool of Dallas
950 South I-35E
Lancaster, TX 75146

Members of the Board of Directors:

We have audited the financial statements of LifeSchool of Dallas (the corporation) as of and for the years ended August 31, 2011 and 2010, and have issued our report thereon dated January 9, 2012. 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 LifeSchool 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 LifeSchool of Dallas's internal control over financial reporting.

A deficiency in 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 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.

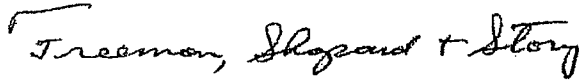
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 LifeSchool 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 an 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 items 2011-1.

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 9, 2012

FREEMON, SHAPARD & STORY

Certified Public Accountants

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

Board of Directors
LifeSchool of Dallas
950 South I-35E
Lancaster, TX 75146

Members of the Board of Directors:

Compliance

We have audited the compliance of LifeSchool of Dallas (the charter holder) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2011. LifeSchool 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 LifeSchool of Dallas's management. Our responsibility is to express an opinion on LifeSchool 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 LifeSchool 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 LifeSchool of Dallas's compliance with those requirements.

In our opinion, LifeSchool of Dallas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

The management of LifeSchool 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 LifeSchool 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 LifeSchool 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 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.

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 9, 2012

**LIFESCHOOL (THE CHARTER HOLDER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weaknesses identified? ___ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? ___ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? ___ Yes X No

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ___ Yes X No

Identification of major programs:

ESEA Title I, Part A Improving Basic Programs 84.010A and 84.389 Cluster
IDEA, Part B, Formula 84.027, 84.391, and 84.392 Cluster
Title XIV, State Fiscal Stabilization Fund ARRA 84.394

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? ___ Yes X No

II. Financial Statement Findings

Finding 2011-1

Criteria

The charter school is to spend required percentages of State Foundation Allotment for program specific areas by program intent code.

Condition

LifeSchool of Dallas did not spend the required 60% of Career and Technology allotment of \$449,926 during the year ended August 31, 2011. \$136,572 was expended for this program intent code leaving a shortage of \$133,384.

Cause

The school did not spend all of the Career and Technology allotments for program specific areas during the year ended August 31, 2011.

Effect

Specified program allotments from state foundation not spent may have to be repaid or rolled over and spent in the subsequent year.

Recommendation

The school needs to carefully budget and monitor the state foundation specific program allotments to make certain the required expenditure amounts are spent as prescribed for the respective program intent areas and student groups.

Management Response

LifeSchool of Dallas will carefully budget and monitor state foundation specific program allotments to make certain the prescribed program amounts are utilized and expended for the respective programs as required. Additionally, LifeSchool of Dallas will develop plans to spend required amounts for Career and Technology in the 2011-12 year.

III. Findings and Questioned Costs for State and Federal Awards

None identified.

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2011**

Finding 2010-1

Criteria

Cash balances at the depository bank should be adequately covered by pledged securities throughout the year.

Condition

LifeSchool of Dallas did not have adequate pledged securities to cover their cash balances on the highest daily cash balance and at year-end.

Effect

These cash balances are not adequately secured and are at-risk.

Recommendation

The school needs to carefully monitor its cash balances and inform the bank of any significant increase in cash, so that the bank can pledge adequate securities to cover the school's cash balances.

Management Response

LifeSchool of Dallas will carefully monitor cash balances and will inform the bank of any impending changes in cash balances in a timely manner in order to ensure that the depository bank has adequate pledged securities to cover the school's cash balances throughout the year.

Status

Cash balances were adequately secured throughout the year ended August 31, 2011.

Management's Explanation for not Implementing the Recommendation

N/A

Finding 2010-2

Criteria

The charter school is to spend the required percentages of state foundation allotments for program specific areas by program intent code.

Condition

LifeSchool of Dallas did not spend the required 55% of the Bilingual Education allotment of \$116,233. \$37,530 was expended for this program intent code leaving a shortage of \$26,398. Additionally, 60% of the Career and Technology allotment of \$333,917 was not spent during the year. \$82,757 was expended for this program intent code leaving a shortage of \$82,757. The High School allotment of \$133,986 was spent in the amount of \$104,323, leaving a shortage of \$29,663.

Effect

Specified program allotments from state foundation not spent may have to be repaid or rolled over and spent in the subsequent year. Additionally, the students in these areas may not be receiving all the resources they were entitled to receive.

Recommendation

The school needs to carefully budget and monitor the state foundation specific program allotments to make certain the required expenditure amounts are spent as prescribed for the respective program intent areas.

Management Response

LifeSchool of Dallas will carefully budget and monitor state foundation specific program allotments to make certain the prescribed program amounts are utilized and expended for the respective programs as required.

Status

55% of the program allotment was spent on Special Education, State Compensatory Education, Bilingual Education, and Gifted and Talented. 100% of the program allotment was spent on High School Allotment. However, 60% of the program allotment was not spent on Career and Technology.

Management's Explanation for not Implementing the Recommendation

Major improvements were made in this area. The shortfall in Career and Technology has been spent in the 2011-12 year to make sure this is not a problem in the future.

LIFESCHOOL OF DALLAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2011

| (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 | 11610101057807 | \$ 457,657 |
| *ESEA, Title I, Part A - School Improvement | 84.010A | 11610104057807001 | 46,446 |
| Total CFDA Number 84.010A | | | 504,103 |
| *ESEA, Title I, A - ARRA -Improving Basic Programs | 84.389 | 10551001057807 | 152,556 |
| Total Title I, Part A Cluster | | | 656,659 |
| *IDEA - Part B, Formula | 84.027 | 116600010578076600 | 257,231 |
| *IDEA - Part B, Formula | 84.027 | 126600010578076600 | 13,656 |
| Total CFDA Number 84.027 | | | 270,887 |
| *IDEA, Part B, Formula - ARRA | 84.391 | 10554001057807 | 459,523 |
| *IDEA, Part B, Preschool - ARRA | 84.392 | 10555001057807 | 13,667 |
| Total Special Education Cluster (IDEA) | | | 744,077 |
| ESEA Title IV, Pt. A - Safe and Drug-Free Schools | 84.186A | 11691001057950 | 960 |
| *Title II D Enhancing Ed Through Technology - ARRA | 84.386 | 10553001057807 | 1,500 |
| Title III, Part A - English Language Acquisition | 84.365A | 11671001057950 | 14,324 |
| Title III, Part A - English Language Acquisition | 84.365A | 12671001057950 | 1,120 |
| Total CFDA Number 84.365A | | | 15,444 |
| ESEA, Title II, Part A, Teacher/Principal Training | 84.367A | 11694501057807 | 142,723 |
| Title XIV, State Fiscal Stabilization Fund - ARRA | 84.394 | 10557001057807 | 575,583 |
| Total Passed Through State Department of Education | | | \$ 2,136,946 |
| TOTAL DEPARTMENT OF EDUCATION | | | \$ 2,136,946 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <u>Passed Through the State Department of Agriculture</u> | | | |
| *School Breakfast Program | 10.553 | 71401101 | \$ 79,976 |
| *National School Lunch Program - Cash Assistance | 10.555 | 71301101 | 575,056 |
| *National School Lunch Prog. - Non-Cash Assistance | 10.555 | 057-807 | 52,915 |
| Total CFDA Number 10.555 | | | 627,971 |
| Total Child Nutrition Cluster | | | 707,947 |
| Total Passed Through the State Department of Agriculture | | | \$ 707,947 |
| TOTAL DEPARTMENT OF AGRICULTURE | | | \$ 707,947 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 2,844,893 |

*Clustered Programs

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2011**

1. For all Federal programs, the District uses the net asset fund types specified in Texas Education Agency's *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 revenue per exhibit B-2 is as follows:

| | |
|--|---------------------|
| Total per Schedule of Expenditures of Federal Awards | \$ 2,844,893 |
| Indirect costs | <u>12,067</u> |
| Federal Revenue per Exhibit B-2 | <u>\$ 2,856,960</u> |