

LIFESCHOOL OF DALLAS

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2013

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LIFESCHOOL OF DALLAS
CERTIFICATE OF BOARD
AUGUST 31, 2013

LifeSchool of Dallas
Name of Charter Holder

Dallas
County

057807
Co. - Dist. Number

We, the undersigned, certify that the attached annual Financial and Compliance Report of the above-named charter was reviewed and (check one) approved disapproved for the year ended August 31, 2013, at a meeting of the governing body the charter holder on the 8th day of January, 2014.


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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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LifeSchool of Dallas
Lancaster, TX

We have audited the accompanying financial statements of LifeSchool of Dallas (a nonprofit organization and the charter holder), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LifeSchool of Dallas as of August 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of LifeSchool of Dallas as of August 31, 2012, were audited by other auditors whose report dated January 4, 2013, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The required supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014, on our consideration of LifeSchool of Dallas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LifeSchool of Dallas' internal control over financial reporting and compliance.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants
Denton, Texas

January 6, 2014

**General-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-1

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,306,182	\$ 7,204,999
Cash and cash equivalents - restricted	9,282,947	3,220,217
Due from TEA	3,677,141	2,993,057
Prepaid expenses	15,502	208,631
Other receivables	94,433	129,049
Total Current Assets	<u>19,376,205</u>	<u>13,755,953</u>
Property and Equipment		
Land	3,689,850	3,663,708
Building and improvements	41,068,217	36,896,402
Furniture and equipment	1,995,357	1,742,026
Vehicles	394,215	398,965
Assets purchased under capital lease	427,491	427,491
Construction in progress	62,184	-
Less accumulated depreciation	<u>(6,884,456)</u>	<u>(5,052,475)</u>
Total Property and Equipment	<u>40,752,858</u>	<u>38,076,117</u>
Other Assets		
Capitalized Bond Issuance Costs	991,558	925,183
Other Assets	1,000	1,000
	<u>992,558</u>	<u>926,183</u>
Total Assets	<u>\$ 61,121,621</u>	<u>\$ 52,758,253</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,323,501	\$ 141,244
Accrued wages payable	220,985	197,262
Payroll deductions and withholdings	393,990	306,373
Due to state government	7,129	39
Due to student groups	20,627	22,045
Accrued interest payable	120,998	119,494
Current portion of note payable	350,004	-
Current portion of capital leases payable	67,981	64,307
Current portion of bond payable	845,000	795,000
Total Current Liabilities	<u>3,350,215</u>	<u>1,645,764</u>
Long Term Debt (net of current portions)		
Note payable	6,649,996	-
Capital leases payable	71,123	140,095
Bonds payable	36,455,953	37,285,987
Total Long-Term Debt	<u>43,177,072</u>	<u>37,426,082</u>
Total Liabilities	<u>46,527,287</u>	<u>39,071,846</u>
Net Assets		
Unrestricted	991,467	969,226
Temporarily restricted	<u>13,602,867</u>	<u>12,717,181</u>
Total Net Assets	<u>14,594,334</u>	<u>13,686,407</u>
Total Liabilities and Net Assets	<u>\$ 61,121,621</u>	<u>\$ 52,758,253</u>

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

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-2

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2013		Totals
	Unrestricted	Temporarily Restricted	
Revenues			
Local Support:			
Contributions	\$ 39,977	\$ -	\$ 39,977
Food Service Activity	226,244	-	226,244
Athletic Activities	137,051	-	137,051
Rent	23,580	-	23,580
Interest and Other Income	21,224	-	21,224
Other Revenues	367,300	-	367,300
Total Local Support	815,376	-	815,376
State Program Revenues:			
Foundation School Program	-	31,737,388	31,737,388
Instructional Materials Fund	-	151,258	151,258
Food Service	-	7,327	7,327
Student Success Initiative	-	12,910	12,910
Total State Program Revenues	-	31,908,883	31,908,883
Federal Program Revenues:			
IDEA Part B, Formula	-	433,075	433,075
IDEA Part B, Preschool	-	2,452	2,452
ESEA Title I Part A Improving Basic Programs	-	693,283	693,283
ESEA Title II Part A Teacher and Principal Training	-	119,792	119,792
National School Breakfast and Lunch Program	-	991,748	991,748
Title III Part A - English Language Acquisition and Enhancement	-	30,994	30,994
Teacher Incentive Fund	-	155,563	155,563
Summer School LEP	-	2,231	2,231
Total Federal Program Revenues	-	2,429,138	2,429,138
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	33,452,335	(33,452,335)	-
Total Revenues	34,267,711	885,686	35,153,397
Expenses			
Program Services:			
Instruction and Instructional-Related Services	16,730,229	-	16,730,229
Instructional and School Leadership	2,285,555	-	2,285,555
Support Services:			
Administrative Support Services	2,792,787	-	2,792,787
Support Services - Non-Student Based	6,354,545	-	6,354,545
Support Services • Student (Pupil)	3,101,159	-	3,101,159
Ancillary Services	4,692	-	4,692
Debt Service	2,975,559	-	2,975,559
Fundraising	944	-	944
Total Expenses	34,245,470	-	34,245,470
Change in Net Assets	22,241	885,686	907,927
Net Assets, Beginning of Year	969,226	12,717,181	13,686,407
Net Assets, End of Year	\$ 991,467	\$ 13,602,867	\$ 14,594,334

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

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-2

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2012		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 15,885	\$ -	\$ 15,885
Food Service Activity	199,448	-	199,448
Athletic Activities	120,468	-	120,468
Rent	30,000	-	30,000
Interest and Other Income	23,717	-	23,717
Other Revenues	419,622	-	419,622
Total Local Support	809,140	-	809,140
State Program Revenues:			
Foundation School Program	-	30,110,675	30,110,675
Instructional Materials Fund	-	369,703	369,703
Food Service	-	6,611	6,611
Total State Program Revenues	-	30,486,989	30,486,989
Federal Program Revenues:			
IDEA Part B, Formula	-	445,196	445,196
IDEA Part B, Preschool	-	280	280
ESEA Title I Part A Improving Basic Programs	-	787,067	787,067
ESEA Title II Part A Teacher and Principal Training	-	90,265	90,265
National School Breakfast and Lunch Program	-	826,296	826,296
Title III Part A - English Language Acquisition and Enhancement	-	10,612	10,612
Education Jobs Fund	-	706,211	706,211
ARRA ESEA Title I Part A Improving Basic Programs	-	23,666	23,666
Total Federal Program Revenues	-	2,889,593	2,889,593
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	31,574,347	(31,574,347)	-
Total Revenues	32,383,487	1,802,235	34,185,722
Expenses			
Program Services:			
Instruction and Instructional-Related Services	15,797,368	-	15,797,368
Instructional and School Leadership	2,198,756	-	2,198,756
Support Services:			
Administrative Support Services	2,381,054	-	2,381,054
Support Services - Non-Student Based	6,028,700	-	6,028,700
Support Services • Student (Pupil)	2,811,508	-	2,811,508
Ancillary Services	63,700	-	63,700
Debt Service	2,880,649	-	2,880,649
Fundraising	23,457	-	23,457
Total Expenses	32,185,192	-	32,185,192
Gains and Losses			
Gain on Sale of Real and Personal Property	40,392	-	40,392
Total Gains and Losses	40,392	-	40,392
Change in Net Assets	238,687	1,802,235	2,040,922
Net Assets, Beginning of Year	730,539	10,914,946	11,645,485
Net Assets, End of Year	\$ 969,226	\$ 12,717,181	\$ 13,686,407

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

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-3

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Change in Net Assets	\$ 907,927	\$ 2,040,922
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	1,887,784	1,630,450
(Increase) Decrease in Due from TEA	(684,084)	(428,349)
(Increase) Decrease in Prepaid Expenses	193,129	(208,631)
(Increase) Decrease in Other Receivables	34,616	7,993
(Increase) Decrease in Capitalized Bond Costs	(107,212)	31,903
Increase (Decrease) in Accounts Payable	1,182,257	(319,216)
Increase (Decrease) in Accrued Wages Payable	23,723	(48,582)
Increase (Decrease) in Due to State Government	7,090	9
Increase (Decrease) in Due to Student Groups	(1,418)	(71,839)
Increase (Decrease) in Accrued Interest Payable	1,504	1,782
Increase (Decrease) in Payroll Deductions and Withholdings	87,617	(142,319)
Increase (Decrease) in Construction in Progress Payable	-	(925,741)
Net Cash Provided (Used) by Operating Activities	<u>3,532,933</u>	<u>1,568,382</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(4,446,538)	(2,781,396)
Construction in Progress	<u>(62,184)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,508,722)</u>	<u>(2,781,396)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt	7,000,000	272,270
Principal Payments on Debt	<u>(860,298)</u>	<u>(862,267)</u>
Net Cash Provided (Used) by Financing Activities	<u>6,139,702</u>	<u>(589,997)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,163,913	(1,803,011)
Cash and Cash Equivalents, Beginning of Year	<u>10,425,216</u>	<u>12,228,227</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$9,282,947 and \$3,220,217 at August 31, 2013 and 2012, respectively)	<u>\$ 15,589,129</u>	<u>\$ 10,425,216</u>
Interest Paid During the Years Ended August 31, 2013 and 2012	\$ 2,963,625	\$ 2,836,886
Income Taxes Paid During the Years Ended August 31, 2013 and 2012	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, 2013 AND 2012

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

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. The Corporation's charter was subsequently renewed for another ten years, expiring July 31, 2023. 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, Cedar Hill and West Dallas, 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.

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.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

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 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, 2013 AND 2012

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 were eliminated due to budget cuts. However, they were reinstated 7/9/12.

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 AND CASH EQUIVALENTS

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, 2013, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$15,588,755, and the bank balance was \$16,091,919. The corporation's cash deposits at August 31, 2013, and during the year ended August 31, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the corporation's name. The above amounts include \$5,872,624 of fully collateralized investments in TexPool accounted for as cash equivalents.

At August 31, 2012, the carrying amount of the charter holder's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,204,999, and the bank balance was \$7,799,484. The corporation's cash deposits at August 31, 2012, and during the year ended August 31, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the corporation's name. The above amounts include \$3,502,837 of fully collateralized investments in TexPool accounted for as cash equivalents.

The corporation has restricted cash and cash equivalents of \$9,282,947 and \$3,220,217 as of August 31, 2013 and 2012, respectively. These amounts are deposited with Region's Bank in short-term cash sweep accounts. As of August 31, 2013, \$5,578,286 of bonds payable and note payable proceeds are restricted for future construction projects. The remaining \$3,704,661 is held in various reserve accounts and is restricted for debt service reserves by the corporation's bonds payable and note payable indentures.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

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, 2013:

- a. Depository: Vintage Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$750,621.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$3,503,417 and occurred during the month of October 2012.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$3,386,896 (\$250,000 plus \$3,136,896 of non-interest bearing funds).

3. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2013 and 2012, 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. 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, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under 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 pension plan. That report may be obtained by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1- 800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

B. Funding Policy

Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (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 during the fiscal year; (2) state statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

State law provides for a member contribution rate of 6.4% for fiscal years 2013 and 2012, and a state contribution rate of 6.4% for fiscal year 2013 and 6.0% for fiscal year 2012. The charter school's employees' contributions to the System for the years ended August 31, 2013 and 2012, were \$1,102,323 and \$1,062,106, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants for the years ended August 31, 2013 and 2012, were \$24,836 and \$21,960, respectively, equal to the required contributions for each year. For the years ended August 31, 2013 and 2012, the State of Texas contributed \$1,021,250 and \$973,764, 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 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 postemployment health care plan administered by the Teacher Retirement System of Texas. TRS Care 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 Teacher Retirement System of Texas 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 under the TRS Publications heading, by calling the TRS Communications Department at 1- 800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. The State of Texas and active public school employee contribution rates were 0.5% and 1.0% of public school payroll, respectively, with public schools contributing a percentage of payroll set at 0.55% for fiscal years 2013 and 2012. For the years ended August 31, 2013 and 2012, the State's contributions to TRS Care were \$84,108 and \$162,274, respectively. The active member contributions were \$111,894 and \$107,870, respectively. The charter school's contributions were \$96,671 and \$91,275, respectively, which equaled the required contributions each year.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

6. HEALTH CARE COVERAGE

During the years ended August 31, 2013 and 2012, full-time employees of the charter school were covered by a health insurance plan (the Plan). For the years ended August 31, 2013 and 2012, the charter school contributed a minimum of \$317 and \$362, respectively, per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay additional contributions or premiums for the employee and 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 years ended August 31, 2013 and 2012, and as a result, there was no income tax liability.

9. PROPERTY AND EQUIPMENT

Property and Equipment at August 31, 2013, were as follows:

	<u>Balance</u> <u>9/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2013</u>
Land	\$ 3,663,708	\$ 26,142	\$ -	\$ 3,689,850
Buildings and Improvements	36,896,402	4,171,815	-	41,068,217
Furniture and Equipment	1,742,026	376,427	123,096	1,995,357
Vehicles	398,965	-	4,750	394,215
Capital Lease	427,491	-	-	427,491
Construction in Progress	-	62,184	-	62,184
Accumulated Depreciation	<u>(5,052,475)</u>	<u>(1,831,981)</u>	-	<u>(6,884,456)</u>
	<u>\$38,076,117</u>	<u>\$ 2,804,587</u>	<u>\$ 127,846</u>	<u>\$40,752,858</u>

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

Property and Equipment at August 31, 2012, were as follows:

	<u>Balance</u> <u>9/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2012</u>
Land	\$ 3,663,708	\$ -	\$ -	\$ 3,663,708
Buildings and Improvements	33,731,733	3,164,669	-	36,896,402
Furniture and Equipment	1,020,062	721,964	-	1,742,026
Vehicles	398,965	-	-	398,965
Capital Lease	155,221	272,270	-	427,491
Construction in Progress	1,377,507	-	(1,377,507)	-
Accumulated Depreciation	<u>(3,436,991)</u>	<u>(1,615,484)</u>	<u>-</u>	<u>(5,052,475)</u>
	<u>\$36,910,205</u>	<u>\$ 2,543,419</u>	<u>\$(1,377,507)</u>	<u>\$38,076,117</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.

10. ECONOMIC DEPENDENCY

During the years ended August 31, 2013 and 2012, the charter holder earned revenue of \$31,737,388 and \$30,486,989, respectively, from the Texas Education Agency (TEA). This constitutes approximately 90.28% and 89.18%, 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 ended August 31, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Foundation School Program	\$12,926,302	\$12,257,394
Campus Activity Funds	101,913	76,064
Locally Funded SR Funds	4,607	4,607
ESEA Title I Part A, Improving Basic Programs	305,478	295,239
ARRA IDEA Part B, Formula	20,725	79,066
ARRA IDEA Part B, Preschool	1,062	4,811
State Textbook Fund	4,035	-
National School Lunch & Breakfast Program	<u>238,745</u>	<u>-</u>
	<u>-</u>	<u>-</u>
	<u>\$13,602,867</u>	<u>\$12,717,181</u>

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

12. BONDS PAYABLE

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.

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, 2013.

A summary of bonds payable for the year ended August 31, 2013 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 09/01/12	Issued/ (Retired)	Amounts Outstanding 08/31/13	Amount due in more than one year
Education Revenue Tax-Exempt Bond – Series 2011A	6.25%-7.50%	\$ 38,880,000	\$ 38,245,000	\$ (715,000)	\$ 37,530,000	\$ 735,000
Education Revenue Taxable Bond – Series 2011B	7.00%	380,000	270,000	(80,000)	190,000	110,000
Total bonded debt payable			38,515,000	(795,000)	37,720,000	845,000
Bond Discount			(434,013)	(14,966)	(419,047)	
Total			\$ 38,080,987	\$ 780,034	\$ 37,300,953	\$ 845,000

Debt service requirements are as follows:

Years ending 31-Aug	Principal	Interest	Requirements
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	570,000	2,602,850	3,172,850
2018	605,000	2,567,225	3,172,225
2019-2023	3,665,000	12,211,875	15,876,875
2024-2028	5,100,000	10,773,500	15,873,500
2029-2033	7,220,000	8,650,913	15,870,913
2034-2038	10,335,000	5,532,375	15,867,375
2039-2043	8,255,000	1,268,250	9,523,250
Thereafter	-	-	-
	\$ 37,720,000	\$ 51,644,750	\$ 89,364,750

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

13. OPERATING 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 Gospel Lighthouse Church beginning August 2013 with minimum monthly rental payments of \$12,719. Rent expense was \$937,326 and \$1,306,356, respectively, for the years ended August 31, 2013 and 2012.

Future minimum payments under noncancellable operating leases as of August 31, 2013 are as follows:

2013-14	\$ 1,077,837
2014-15	1,065,118
2015-16	925,209
2016-17	925,209
2017-18	925,209
Thereafter	<u>848,108</u>
Total	<u>\$ 5,766,690</u>

14. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Corporation through January 6, 2014, the date of financial statement issuance, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

15. CAPITAL LEASES PAYABLE

LifeSchool of Dallas leases three buses from Mercedes Benz Financial Services.

Description	Interest Rate	Date of Agreement	Original Property Value
Three school buses	4.750%	10/14/2011	\$ 272,270
Less accumulated depreciation			<u>(27,227)</u>
			<u><u>\$ 245,043</u></u>

The following schedule shows the future minimum lease payments under the capitalized lease, together with the present value of the net minimum lease payments as of August 31, 2013:

Years ending August 31,	Annual Lease Payments
2014	\$ 73,571
2015	73,571
2016	-
Thereafter	<u>-</u>
Total minimum lease payments	147,142
Less: amount representing interest	8,038
Present value of net minimum payments	<u><u>\$ 139,104</u></u>

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

16. NOTE PAYABLE

Note payable consists of the following at August 31, 2013:

A note payable in the original amount of \$7,000,000, secured by real estate and a pledge of the corporation's revenues, dated March 28, 2013. Interest accrues at the LIBOR rate plus 4.15% , adjusted monthly, every three months or every six months at the election of the Organization and is payable monthly beginning April 28, 2013. The applicable rate at August 31, 2013 was 4.3341%. Principal payments of \$29,167 are due monthly beginning September 28, 2013. The note matures March 28, 2018. The balance of the note payable at August 31, 2013 was \$7,000,000.

<u>Total of Current and Long-Term Debt</u>	<u>Current portion due within one year</u>	<u>Long-Term Portion</u>	<u>Total Balance 8/31/13</u>
Note Payable	\$ 350,004	\$ 6,649,996	\$ 7,000,000
Total	<u>\$ 350,004</u>	<u>\$ 6,649,996</u>	<u>\$ 7,000,000</u>

Following is a schedule by year of expected principal payments for the mortgage and notes described above for each of the next five years and in the aggregate:

<u>Year Ended August 31,</u>	
2014	\$ 350,004
2015	350,004
2016	350,004
2017	350,004
2018	350,004
Thereafter	<u>5,249,980</u>
	<u>\$ 7,000,000</u>

**Specific-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS

Exhibit B-1

**STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2013 AND 2012**

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,306,182	\$ 7,204,999
Cash and cash equivalents - restricted	9,282,947	3,220,217
Due from TEA	3,677,141	2,993,057
Prepaid expenses	15,502	208,631
Other receivables	94,433	129,049
Total Current Assets	19,376,205	13,755,953
Property and Equipment		
Land	3,689,850	3,663,708
Building and improvements	41,068,217	36,896,402
Furniture and equipment	1,995,357	1,742,026
Vehicles	394,215	398,965
Assets purchased under capital lease	427,491	427,491
Construction in progress	62,184	-
Less accumulated depreciation	(6,884,456)	(5,052,475)
Total Property and Equipment	40,752,858	38,076,117
Other Assets		
Capitalized Bond Issuance Costs	991,558	925,183
Other Assets	1,000	1,000
	992,558	926,183
Total Assets	\$ 61,121,621	\$ 52,758,253
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,323,501	\$ 141,244
Accrued wages payable	220,985	197,262
Payroll deductions and withholdings	393,990	306,373
Due to state government	7,129	39
Due to student groups	20,627	22,045
Accrued interest payable	120,998	119,494
Current portion of note payable	350,004	-
Current portion of capital leases payable	67,981	64,307
Current portion of bond payable	845,000	795,000
Total Current Liabilities	3,350,215	1,645,764
Long Term Debt (net of current portions)		
Note payable	6,649,996	-
Capital leases payable	71,123	140,095
Bonds payable	36,455,953	37,285,987
Total Long-Term Debt	43,177,072	37,426,082
Total Liabilities	46,527,287	39,071,846
Net Assets		
Unrestricted	991,467	969,226
Temporarily restricted	13,602,867	12,717,181
Total Net Assets	14,594,334	13,686,407
Total Liabilities and Net Assets	\$ 61,121,621	\$ 52,758,253

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

LIFESCHOOL OF DALLAS

Exhibit B-2

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012**

	2013		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 39,977	\$ -	\$ 39,977
Food Service Activity	226,244	-	226,244
Athletic Activities	137,051	-	137,051
Rent	23,580	-	23,580
Interest and Other Income	21,224	-	21,224
Other Revenues	367,300	-	367,300
Total Local Support	815,376	-	815,376
State Program Revenues:			
Foundation School Program	-	31,737,388	31,737,388
Instructional Materials Fund	-	151,258	151,258
Food Service	-	7,327	7,327
Student Success Initiative	-	12,910	12,910
Total State Program Revenues	-	31,908,883	31,908,883
Federal Program Revenues:			
IDEA Part B, Formula	-	433,075	433,075
IDEA Part B, Preschool	-	2,452	2,452
ESEA Title I Part A Improving Basic Programs	-	693,283	693,283
ESEA Title II Part A Teacher and Principal Training	-	119,792	119,792
National School Breakfast and Lunch Program	-	991,748	991,748
Title III Part A - English Language Acquisition and Enhancement	-	30,994	30,994
Teacher Incentive Fund	-	155,563	155,563
Summer School LEP	-	2,231	2,231
Total Federal Program Revenues	-	2,429,138	2,429,138
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	33,452,335	(33,452,335)	-
Total Revenues	34,267,711	885,686	35,153,397
Expenses			
Program Services:			
Instruction and Instructional-Related Services	16,730,229	-	16,730,229
Instructional and School Leadership	2,285,555	-	2,285,555
Support Services:			
Administrative Support Services	2,792,787	-	2,792,787
Support Services - Non-Student Based	6,354,545	-	6,354,545
Support Services • Student (Pupil)	3,101,159	-	3,101,159
Ancillary Services	4,692	-	4,692
Debt Service	2,975,559	-	2,975,559
Fundraising	944	-	944
Total Expenses	34,245,470	-	34,245,470
Change in Net Assets	22,241	885,686	907,927
Net Assets, Beginning of Year	969,226	12,717,181	13,686,407
Net Assets, End of Year	\$ 991,467	\$ 13,602,867	\$ 14,594,334

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

LIFESCHOOL OF DALLAS

Exhibit B-2

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012**

	2012		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 15,885	\$ -	\$ 15,885
Food Service Activity	199,448	-	199,448
Athletic Activities	120,468	-	120,468
Rent	30,000	-	30,000
Interest and Other Income	23,717	-	23,717
Other Revenues	419,622	-	419,622
Total Local Support	809,140	-	809,140
State Program Revenues:			
Foundation School Program	-	30,110,675	30,110,675
Instructional Materials Fund	-	369,703	369,703
Food Service	-	6,611	6,611
Total State Program Revenues	-	30,486,989	30,486,989
Federal Program Revenues:			
IDEA Part B, Formula	-	445,196	445,196
IDEA Part B, Preschool	-	280	280
ESEA Title I Part A Improving Basic Programs	-	787,067	787,067
ESEA Title II Part A Teacher and Principal Training	-	90,265	90,265
National School Breakfast and Lunch Program	-	826,296	826,296
Title III Part A - English Language Acquisition and Enhancement	-	10,612	10,612
Education Jobs Fund	-	706,211	706,211
ARRA ESEA Title I Part A Improving Basic Programs	-	23,666	23,666
Total Federal Program Revenues	-	2,889,593	2,889,593
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	31,574,347	(31,574,347)	-
Total Revenues	32,383,487	1,802,235	34,185,722
Expenses			
Program Services:			
Instruction and Instructional-Related Services	15,797,368	-	15,797,368
Instructional and School Leadership	2,198,756	-	2,198,756
Support Services:			
Administrative Support Services	2,381,054	-	2,381,054
Support Services - Non-Student Based	6,028,700	-	6,028,700
Support Services - Student (Pupil)	2,811,508	-	2,811,508
Ancillary Services	63,700	-	63,700
Debt Service	2,880,649	-	2,880,649
Fundraising	23,457	-	23,457
Total Expenses	32,185,192	-	32,185,192
Gains and Losses			
Gain on Sale of Real and Personal Property	40,392	-	40,392
Total Gains and Losses	40,392	-	40,392
Change in Net Assets	238,687	1,802,235	2,040,922
Net Assets, Beginning of Year	730,539	10,914,946	11,645,485
Net Assets, End of Year	\$ 969,226	\$ 12,717,181	\$ 13,686,407

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

LIFESCHOOL OF DALLAS

Exhibit B-3

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2013</u>	<u>2012</u>
Change in Net Assets	\$ 907,927	\$ 2,040,922
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	1,887,784	1,630,450
(Increase) Decrease in Due from TEA	(684,084)	(428,349)
(Increase) Decrease in Prepaid Expenses	193,129	(208,631)
(Increase) Decrease in Other Receivables	34,616	7,993
(Increase) Decrease in Capitalized Bonds Costs	(107,212)	31,903
Increase (Decrease) in Accounts Payable	1,182,257	(319,216)
Increase (Decrease) in Accrued Wages Payable	23,723	(48,582)
Increase (Decrease) in Due to State Government	7,090	9
Increase (Decrease) in Due to Student Groups	(1,418)	(71,839)
Increase (Decrease) in Accrued Interest Payable	1,504	1,782
Increase (Decrease) in Payroll Deductions and Withholdings	87,617	(142,319)
Increase (Decrease) in Construction in Progress Payable	-	(925,741)
Net Cash Provided (Used) by Operating Activities	<u>3,532,933</u>	<u>1,568,382</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(4,446,538)	(2,781,396)
Construction in Progress	(62,184)	-
Net Cash Provided (Used) by Investing Activities	<u>(4,508,722)</u>	<u>(2,781,396)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt	7,000,000	272,270
Principal Payments on Debt	(860,298)	(862,267)
Net Cash Provided (Used) by Financing Activities	<u>6,139,702</u>	<u>(589,997)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	5,163,913	(1,803,011)
Cash and Cash Equivalents, Beginning of Year	<u>10,425,216</u>	<u>12,228,227</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$9,282,947 and \$3,220,217 at August 31, 2013 and 2012, respectively)	<u>\$ 15,589,129</u>	<u>\$ 10,425,216</u>
 Interest Paid During the Years Ended August 31, 2013 and 2012	\$ 2,963,625	\$ 2,836,886
Income Taxes Paid During the Years Ended August 31, 2013 and 2012	None	None

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

**Required
Supplementary
Information**

LIFESCHOOL OF DALLAS

Exhibit C-1

**STATEMENTS OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012**

Expenses	<u>2013</u>	<u>2012</u>
6100 Payroll Costs	\$ 20,389,912	\$ 18,848,919
6200 Professional and Contracted Services	5,216,250	5,642,172
6300 Supplies and Materials	3,145,592	2,489,470
6400 Other Operating Costs	2,518,157	2,323,982
6500 Debt	<u>2,975,559</u>	<u>2,880,649</u>
Total Expenses	<u>\$ 34,245,470</u>	<u>\$ 32,185,192</u>

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

STATEMENT OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2013

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 3,689,850	\$ -
1520 Buildings and Improvements	55,597	41,012,620	-
1531 Vehicles	-	394,215	-
1539 Furniture and Equipment	4,750	1,433,738	523,783
1549 Furniture and Equipment	-	16,768	16,318
1559 Capital Lease	-	427,491	
1580 Construction in Progress	-	62,184	
1570 Less Accumulated Depreciation	(25,851)	(6,707,215)	(151,390)
Total Property and Equipment	<u>\$ 34,496</u>	<u>\$ 40,329,651</u>	<u>\$ 388,711</u>

Note: Accumulated depreciation of \$6,707,215 above on capital assets acquired with state funds includes \$154,138 accumulated depreciation on assets recorded under capital leases.

LIFESCHOOL OF DALLAS

Exhibit E-1

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 395,000	\$ 420,042	\$ 418,016	\$ (2,026)
5750 Cocurricular and Enterprising Activities	80,000	445,000	397,360	(47,640)
Total Local Support	475,000	865,042	815,376	(49,666)
State Program Revenues:				
5810 Foundation School Program Act Revenues	30,850,860	30,850,860	31,737,388	886,528
5820 State Program Revenues Distributed by TEA	-	198,391	171,495	(26,896)
Total State Program Revenues	30,850,860	31,049,251	31,908,883	859,632
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	1,955,036	2,367,135	2,273,575	(93,560)
5940 Federal Revenues Distributed Directly from the Federal Government	-	100,000	155,563	55,563
Total Federal Program Revenues	1,955,036	2,467,135	2,429,138	(37,997)
Total Revenues	33,280,896	34,381,428	35,153,397	771,969
Expenses				
11 Instruction	15,684,744	16,194,397	16,309,727	(115,330)
12 Instructional Resources & Media Services	60,480	92,203	72,833	19,370
13 Curriculum & Instructional Staff Development	143,348	423,391	347,669	75,722
21 Instructional Leadership	887,444	731,305	360,795	370,510
23 School leadership	1,655,808	2,082,429	1,924,760	157,669
31 Guidance, Counseling, & Evaluation Services	749,381	970,348	725,263	245,085
33 Health Services	220,502	249,977	214,828	35,149
34 Student Transportation	-	2,645	2,644	1
35 Food Services	1,030,949	1,072,179	1,003,927	68,252
36 Cocurricular/Extracurricular Activities	1,110,496	1,246,745	1,154,497	92,248
41 General Administration	3,210,629	3,202,977	2,792,787	410,190
51 Plant Maintenance & Operations	4,934,486	5,251,357	4,599,013	652,344
52 Security & Monitoring Services	523,254	803,952	725,986	77,966
53 Data Processing Services	782,008	1,018,005	1,029,546	(11,541)
61 Community Services	18,000	27,397	4,692	22,705
71 Debt Service	2,782,688	2,922,688	2,975,559	(52,871)
81 Fundraising	5,000	5,000	944	4,056
Total Expenses	33,799,217	36,296,995	34,245,470	2,051,525
Change in Net Assets	(518,321)	(1,915,567)	907,927	2,823,494
Net Assets, Beginning of Year	13,686,407	13,686,407	13,686,407	-
Net Assets, End of Year	\$ 13,168,086	\$ 11,770,840	\$ 14,594,334	\$ 2,823,494

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
LifeSchool of Dallas
Lancaster, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of LifeSchool of Dallas (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report dated January 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LifeSchool of Dallas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LifeSchool of Dallas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LifeSchool of Dallas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 finding 2013-1.

LifeSchool of Dallas' Response to Findings

LifeSchool of Dallas' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. LifeSchool of Dallas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay, PC
A Professional Corporation
Certified Public Accountants
Denton, Texas

January 6, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
LifeSchool of Dallas
Lancaster, Texas

Report on Compliance for Each Major Federal Program

We have audited LifeSchool of Dallas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of LifeSchool of Dallas' major federal programs for the year ended August 31, 2013. LifeSchool of Dallas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LifeSchool of Dallas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LifeSchool of Dallas' compliance.

Opinion on Each Major Federal Program

In our opinion, LifeSchool of Dallas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of LifeSchool of Dallas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LifeSchool of Dallas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay, PC
A Professional Corporation
Certified Public Accountants
Denton, Texas

January 6, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

I. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued Unmodified

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 auditors' report issued on compliance for major programs Unmodified

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:

 CFDA 84.010A - ESEA, Title I, Part A - Improving Basic Programs

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

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

II. Financial Statement Findings

Finding 2013-1

Criteria

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Condition

LifeSchool of Dallas' expenses exceeded the final amended budget in three functional categories for the year as per Exhibit E-1. No functional category overages exceeded ten percent of the final budgeted amounts.

Cause

Unexpected expenditures occurred that were not anticipated.

Effect

Expenditures were made without formal board approval and budgeting.

Recommendation

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Management Response

LifeSchool of Dallas will monitor the budget more closely including making budget amendments approved by the Board when necessary in advance of spending funds.

III. Findings and Questioned Costs for State and Federal Awards

None identified.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

CORRECTIVE ACTION PLAN:

Finding 2013-1 – Actual expenses in excess of budgeted amounts

LifeSchool of Dallas will monitor the budget more closely including making budget amendments approved by the Board when necessary in advance of spending funds.

Contact Person: Jennifer Wilson, Chief Financial Officer

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

Finding 2012-1

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 58% of the Career and Technology allotment of \$447,699 during the year ended August 31, 2012. \$165,860 was expended for this program intent code leaving a shortage of \$93,805.

Status

LifeSchool of Dallas did spend the required 58% of the Career and Technology allotment during the year ended August 31, 2013.

Finding 2012-2

Criteria

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

Condition

LifeSchool of Dallas' expenses exceeded the final amended budget in seven functional categories for the year as per Exhibit E-1. Two functional categories exceeded ten percent of the final budgeted amounts.

Status

LifeSchool of Dallas amended its budget throughout the year ended August 31, 2013. However, actual expenses exceeded the final amended budget in three functional categories for the year ended August 31, 2013. See current year finding 2013-1.

LIFESCHOOL OF DALLAS

Exhibit I-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013**

(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>Direct Program</u>			
Teacher Incentive Fund	84.374A	S374A120090	\$ 155,563
Total Direct Program			<u>155,563</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610101057807	693,283
Total CFDA Number 84.010A			<u>693,283</u>
*IDEA - Part B, Formula	84.027	136600010578076600	433,075
*IDEA - Part B, Preschool	84.173	136610010578076610	2,452
Total Special Education Cluster (IDEA)			<u>435,527</u>
Title III, Part A - English Language Acquisition	84.365A	12671001057950	30,994
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501057807	119,792
Summer School LEP	84.369A	69551202	2,231
Total Passed Through State Department of Education			<u>\$ 1,281,827</u>
TOTAL DEPARTMENT OF EDUCATION			<u>\$ 1,437,390</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401301	\$ 139,160
*National School Lunch Program - Cash Assistance	10.555	71301301	805,330
*National School Lunch Program - Non-Cash Assistance	10.555	057-807	47,258
Total CFDA Number 10.555			<u>852,588</u>
Total Child Nutrition Cluster			<u>991,748</u>
Total Passed Through the State Department of Agriculture			<u>\$ 991,748</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$ 991,748</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,429,138</u>

*Clustered Programs

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

1. For all federal programs, the Corporation used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.
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, OJVIB Circular A-133 Compliance Statement - Provisional 6/97.