

**LIFESCHOOL OF DALLAS**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

**LIFESCHOOL OF DALLAS**  
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LIFESCHOOL OF DALLAS  
CERTIFICATE OF BOARD  
AUGUST 31, 2014

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, 2014, at a meeting of the governing body the charter holder on the 21st day of January, 2015.

  
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, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LifeSchool of Dallas as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audits were 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 15, 2015, 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 15, 2015

**General-Purpose  
Financial Statements**

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**

Exhibit A-1

**STATEMENTS OF FINANCIAL POSITION  
AS OF AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 10,489,926	\$ 6,306,182
Cash and cash equivalents - restricted	44,366,603	9,282,947
Due from TEA and other governments	4,305,624	3,677,141
Prepaid expenses	265,839	15,502
Other receivables	129,989	94,433
Total Current Assets	<u>59,557,981</u>	<u>19,376,205</u>
Property and Equipment		
Land	5,632,137	3,689,850
Building and improvements	42,066,133	41,068,217
Furniture and equipment	1,995,357	1,995,357
Vehicles	394,215	394,215
Assets purchased under capital lease	708,252	427,491
Construction in progress	6,370,275	62,184
Less accumulated depreciation	(8,878,599)	(6,884,456)
Total Property and Equipment	<u>48,287,770</u>	<u>40,752,858</u>
Other Assets		
Restricted Investments -		
Bond Defeasance Escrow	46,447,599	-
Capitalized Bond Issuance Costs	2,450,876	991,558
Other Assets	1,000	1,000
	<u>48,899,475</u>	<u>992,558</u>
Total Assets	<u>\$ 156,745,226</u>	<u>\$ 61,121,621</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 2,930,234	\$ 1,323,501
Accrued wages payable	283,722	220,985
Payroll deductions and withholdings	561,010	393,990
Due to state government	5,062	7,129
Due to student groups	26,409	20,627
Accrued interest payable	1,316,197	120,998
Current portion of note payable	-	350,004
Current portion of capital leases payable	142,523	67,981
Current portion of bond payable	915,000	845,000
Total Current Liabilities	<u>6,180,157</u>	<u>3,350,215</u>
Long Term Debt (net of current portions)		
Note payable	-	6,649,996
Capital leases payable	134,989	71,123
Bonds payable	135,370,088	36,455,953
Total Long-Term Debt	<u>135,505,077</u>	<u>43,177,072</u>
Total Liabilities	<u>141,685,234</u>	<u>46,527,287</u>
Net Assets		
Unrestricted	1,036,783	991,467
Temporarily restricted	14,023,209	13,602,867
Total Net Assets	<u>15,059,992</u>	<u>14,594,334</u>
Total Liabilities and Net Assets	<u>\$ 156,745,226</u>	<u>\$ 61,121,621</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, 2014 AND 2013

	2014		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 45,630	\$ -	\$ 45,630
Food Service Activity	225,852	-	225,852
Athletic Activities	140,850	-	140,850
Rent	30,000	-	30,000
Interest and Other Income	367,643	-	367,643
Other Revenues	648,850	-	648,850
Total Local Support	1,458,825	-	1,458,825
State Program Revenues:			
Foundation School Program	-	36,599,050	36,599,050
Instructional Materials Fund	-	572,173	572,173
Food Service	-	8,703	8,703
Student Success Initiative	-	-	-
Total State Program Revenues	-	37,179,926	37,179,926
Federal Program Revenues:			
IDEA Part B, Formula	-	597,415	597,415
IDEA Part B, Preschool	-	1,859	1,859
ESEA Title I Part A Improving Basic Programs	-	875,492	875,492
ESEA Title II Part A Teacher and Principal Training	-	201,641	201,641
National School Breakfast and Lunch Program	-	1,087,002	1,087,002
Title III Part A - English Language Acquisition and Enhancement	-	47,415	47,415
Teacher Incentive Fund	-	403,396	403,396
Summer School LEP	-	2,226	2,226
Total Federal Program Revenues	-	3,216,446	3,216,446
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	39,976,030	(39,976,030)	-
Total Revenues	41,434,855	420,342	41,855,197
Expenses			
Program Services:			
Instruction and Instructional-Related Services	19,828,271	-	19,828,271
Instructional and School Leadership	2,618,737	-	2,618,737
Support Services:			
Administrative Support Services	3,415,337	-	3,415,337
Support Services - Non-Student Based	7,310,426	-	7,310,426
Support Services • Student (Pupil)	3,666,431	-	3,666,431
Ancillary Services	34,300	-	34,300
Debt Service	4,516,037	-	4,516,037
Fundraising	-	-	-
Total Expenses	41,389,539	-	41,389,539
Change in Net Assets	45,316	420,342	465,658
Net Assets, Beginning of Year	991,467	13,602,867	14,594,334
Net Assets, End of Year	\$ 1,036,783	\$ 14,023,209	\$ 15,059,992

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, 2014 AND 2013**

	2013		
	Unrestricted	Temporarily Restricted	Totals
<b>Revenues</b>			
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
<b>Expenses</b>			
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-3

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2014</u>	<u>2013</u>
Change in Net Assets	\$ 465,658	\$ 907,927
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	1,994,143	1,887,784
Amortization of Capitalized Bond Issuance Costs	265,788	(107,212)
(Increase) Decrease in Due from TEA and Other Governments	(628,483)	(684,084)
(Increase) Decrease in Prepaid Expenses	(250,337)	193,129
(Increase) Decrease in Other Receivables	(35,556)	34,616
Increase (Decrease) in Accounts Payable	1,606,733	1,182,257
Increase (Decrease) in Accrued Wages Payable	62,737	23,723
Increase (Decrease) in Due to State Government	(2,067)	7,090
Increase (Decrease) in Due to Student Groups	5,782	(1,418)
Increase (Decrease) in Accrued Interest Payable	1,195,199	1,504
Increase (Decrease) in Payroll Deductions and Withholdings	167,020	87,617
Unrealized Gain of Investments	(328,794)	-
Net Cash Provided (Used) by Operating Activities	<u>4,517,823</u>	<u>3,532,933</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(3,220,964)	(4,446,538)
Construction in Progress	(6,308,091)	(62,184)
Purchase of Restricted Investments - Escrow Account	(46,118,805)	-
Net Cash Provided (Used) by Investing Activities	<u>(55,647,860)</u>	<u>(4,508,722)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt (Net of issuance costs)	98,302,424	7,000,000
Principal Payments on Debt	(7,904,987)	(860,298)
Net Cash Provided (Used) by Financing Activities	<u>90,397,437</u>	<u>6,139,702</u>
Net Increase in Cash and Cash Equivalents	39,267,400	5,163,913
Cash and Cash Equivalents, Beginning of Year	<u>15,589,129</u>	<u>10,425,216</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$44,366,603 and \$9,282,947 at August 31, 2014 and 2013, respectively)	<u>\$ 54,856,529</u>	<u>\$ 15,589,129</u>
Interest Paid During the Years Ended August 31, 2014 and 2013	\$ 2,968,906	\$ 2,963,625
Income Taxes Paid During the Years Ended August 31, 2014 and 2013	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, 2014 AND 2013**

**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, 2014 AND 2013

**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, 2014 AND 2013**

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 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, 2014, the carrying amount of the charter holder's deposits (cash demand accounts and interest-bearing accounts included in cash and cash equivalents) was \$54,854,129, and the bank balance was \$55,431,496. The corporation's cash deposits at August 31, 2014, and during the year ended August 31, 2014, 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 \$8,706,319 of fully collateralized investments in TexPool accounted for as cash equivalents.

At August 31, 2013, the carrying amount of the charter holder's deposits (cash demand accounts and interest-bearing accounts included in cash and cash equivalents) 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.

The corporation has restricted cash and cash equivalents of \$44,366,603 and \$9,282,947 as of August 31, 2014 and 2013, respectively. These amounts are deposited with Region's Bank in short-term cash sweep accounts. As of August 31, 2014, \$41,165,902 of bonds payable and note payable proceeds are restricted for future construction projects. The remaining \$3,200,701 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, 2014 AND 2013**

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, 2014:

- a. Depository: Vintage Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$3,567,514.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$3,650,854 and occurred during the month of March 2014.
- 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, 2014 and 2013, 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](http://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, 2014 AND 2013**

State law provides for a member contribution rate of 6.4% for fiscal years 2014 and 2013, and a state contribution rate of 6.8% for fiscal year 2014 and 6.4% for fiscal year 2013. The charter school's employees' contributions to TRS for the years ended August 31, 2014 and 2013, were \$1,285,261 and \$1,102,323, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants for the years ended August 31, 2014 and 2013, were \$33,914 and \$24,836, respectively, equal to the required contributions for each year. For the years ended August 31, 2014 and 2013, the State of Texas contributed \$1,326,795 and \$1,021,250, 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](http://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 school employee contribution rates were 1.0% and 0.65% of school payroll, respectively, with the employer contributing a percentage of payroll set at 0.55% for fiscal year 2014. The State of Texas contribution rate was 0.5% in fiscal year 2013. For the years ended August 31, 2014 and 2013, the State's contributions to TRS Care were \$194,799 and \$84,108, respectively. The active member contributions were \$130,011 and \$111,894, respectively. The charter school's contributions were \$115,315 and \$96,671, 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, 2014 AND 2013**

**6. HEALTH CARE COVERAGE**

During the years ended August 31, 2014 and 2013, full-time employees of the charter school were covered by a health insurance plan (the Plan). For the years ended August 31, 2014 and 2013, the charter school contributed a minimum of \$397 and \$317, 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, 2014 and 2013, and as a result, there was no income tax liability.

**9. PROPERTY AND EQUIPMENT**

Property and Equipment at August 31, 2014, were as follows:

	<u>Balance</u> <u>9/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2014</u>
Land	\$ 3,689,850	\$ 1,942,287	\$ -	\$ 5,632,137
Buildings and Improvements	41,068,217	997,916	-	42,066,133
Furniture and Equipment	1,995,357	-	-	1,995,357
Vehicles	394,215	-	-	394,215
Capital Lease	427,491	280,761	-	708,252
Construction in Progress	62,184	6,308,091	-	6,370,275
Accumulated Depreciation	<u>(6,884,456)</u>	<u>(1,994,143)</u>	-	<u>(8,878,599)</u>
	<u>\$40,752,858</u>	<u>\$ 7,534,912</u>	<u>\$ -</u>	<u>\$48,287,770</u>

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

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>-</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>

Capital assets acquired with public funds received by the Corporation for the operation of LifeSchool Lancaster, LifeSchool Red Oak, LifeSchool Oak Cliff, LifeSchool Waxahachie, LifeSchool Cedar Hill, and LifeSchool Mountain Creek 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, 2014 and 2013, the charter holder earned revenue of \$36,599,050 and \$31,737,388, respectively, from the Texas Education Agency (TEA). This constitutes approximately 87.44% and 90.28%, 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, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Foundation School Program	\$13,143,576	\$12,926,302
Campus Activity Funds	187,754	101,913
Locally Funded SR Funds	-	4,607
ESEA Title I Part A, Improving Basic Programs	268,176	305,478
IDEA Part B, Formula	12,510	20,725
IDEA Part B, Preschool	-	1,062
State Textbook Fund	4,035	4,035
National School Lunch & Breakfast Program	<u>407,158</u>	<u>238,745</u>
	<u>\$14,023,209</u>	<u>\$13,602,867</u>

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

**12. BONDS PAYABLE**

In May 2014, the Corporation issued the following bond series:

Tax-Exempt Bonds – Series 2014A – par value \$85,645,000, interest rates from 2.0% to 5.0%  
 Qualified School Construction Bonds – Taxable – Series 2014Q – par value \$6,515,000, interest rate 4.56%

The bonds issued are guaranteed by the Texas Permanent School Fund.

Total proceeds from the bond issues, including premiums, were \$99,821,141. A portion of the proceeds, \$6,778,799, was used to pay off a note payable to Regions Bank taken out in March 2013. Additional proceeds were used to defease the Corporation's 2011A and 2011B outstanding bond series. \$48,116,315 was deposited in an escrow account and used to purchase government guaranteed securities. The escrow account will be used to provide for all future debt service on the 2011A and 2011B bond series. See Note 17 for further information regarding the restricted escrow account.

\$43,187,693 of the bond proceeds were deposited to a construction fund held by Regions Bank to fund construction projects. The primary construction project is the construction of a new high school building in Waxahachie, Texas.

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 through August 15, 2019, the call date of the bonds.

There are a number of limitations and restrictions contained in the bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2014.

A summary of bonds payable for the year ended August 31, 2014 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 09/01/13	Issued/ (Retired)	Amounts Outstanding 08/31/14	Amount due within one year
Education Revenue Tax-Exempt Bonds – Series 2011A	6.25%-7.50%	\$ 38,880,000	\$ 37,530,000	\$ (735,000)	\$ 36,795,000	\$ 505,000
Education Revenue Taxable Bonds – Series 2011B	7.00%	380,000	190,000	(110,000)	80,000	80,000
Education Revenue and Refunding Bonds – Series 2014A	2.00%-5.00%	85,645,000	-	85,645,000	85,645,000	330,000
QSCB's Taxable Bonds – Series 2014Q	4.56%	6,515,000	-	6,515,000	6,515,000	-
Total bonded debt payable			37,720,000	91,315,000	129,035,000	915,000
Bond Premium (Discount)			(419,047)	7,684,101	7,265,054	-
Total			\$ 37,300,953	\$ 98,999,101	\$ 136,300,054	\$ 915,000

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

Debt service requirements are as follows:

Years ending 31-Aug	Principal	Interest	Requirements
2015	\$ 915,000	\$ 8,023,651	\$ 8,938,651
2016	1,375,000	6,890,973	8,265,973
2017	1,950,000	6,840,523	8,790,523
2018	2,045,000	6,749,698	8,794,698
2019	36,070,000	6,654,286	42,724,286
2020-2024	8,675,000	19,425,367	28,100,367
2025-2029	11,075,000	17,028,117	28,103,117
2030-2034	21,050,000	13,672,544	34,722,544
2035-2039	20,385,000	8,256,000	28,641,000
2040-2044	25,495,000	3,139,000	28,634,000
Thereafter	-	-	-
	<u>\$ 129,035,000</u>	<u>\$ 96,680,159</u>	<u>\$ 225,715,159</u>

The Corporation established a Debt Service Reserve Account of \$3,200,000 using proceeds from the 2014 bond issue. The Debt Service Reserve Account is included in restricted cash and cash equivalents (see Note 2). The terms of the bond indenture provide that \$1,850,000 and \$1,350,000 of the reserve will be used to pay a portion of the required debt service in the years ended August 31, 2015 and 2016, respectively. In addition, the Corporation expects to receive a Qualified School Construction Bond subsidy of \$345,845 during the year ending August 31, 2015 and \$275,452 annually thereafter through August 31, 2033. This amount is subject to change.

### 13. OPERATING LEASES

The School leased facilities through three operating leases maturing between 2015 and 2024. The minimum monthly payment at August 31, 2014 was \$111,816. Rent expense was \$1,407,883 and \$937,326, respectively, for the years ended August 31, 2014 and 2013.

Future minimum payments under noncancellable operating leases as of August 31, 2014 are as follows:

2014-15	\$ 1,334,274
2015-16	1,251,762
2016-17	1,254,178
2017-18	1,256,643
2018-19	1,182,065
Thereafter	<u>1,680,139</u>
Total	<u>\$ 7,959,061</u>

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

**14. SUBSEQUENT EVENTS**

Management has evaluated the impact of all subsequent events on the Corporation through January 15, 2015, the date of financial statement issuance, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements.

**15. CAPITAL LEASES PAYABLE**

LifeSchool of Dallas leases various buses under capital lease agreements.

Description	Interest Rate	Date of Agreement	Original Property Value
Three school buses	4.75%	10/14/2011	\$ 272,270
Three school buses	4.00%	10/17/2013	280,761
Less accumulated depreciation			<u>(80,191)</u>
			<u>\$ 472,840</u>

The following schedule shows the future minimum lease payments under the capitalized leases, together with the present value of the net minimum lease payments as of August 31, 2014:

Years ending August 31,	Annual Lease Payments
2015	\$ 147,944
2016	74,372
2017	74,372
Thereafter	<u>-</u>
Total minimum lease payments	296,688
Less: amount representing interest	19,176
Present value of net minimum payments	<u>\$ 277,512</u>

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

**16. NOTE PAYABLE**

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

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 were 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.

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

The note payable was paid off in May 2014.

**17. RESTRICTED INVESTMENTS-BOND DEFEASANCE ESCROW**

In May 2014, the Corporation issued bonds (See Note 12) to provide construction funds and to refund (defease) the Corporations 2011A and 2011B bond series. To accomplish the defeasance, \$48,116,315 was deposited into a restricted escrow account held by Regions Bank. Amounts in the escrow account will be used to pay all future debt service payments on the 2011A and 2011B bond series.

The funds in the escrow account were invested in government-guaranteed bonds with maturities scheduled to match future payment requirements on the defeased debt. The investments are recorded in the Statements of Financial Position at fair value. Fair value is determined based on similar government securities with similar interest rates and maturities (Level Two measurements – other observable inputs). As of August 31, 2014, the fair value of the investments in the escrow account was \$46,447,599 and the cost basis was \$46,118,805.

**18. CONSTRUCTION COMMITMENTS**

As of August 31, 2014, the Corporation had entered into several construction contracts that were in progress as of August 31, 2014. The balance remaining to complete these contracts was \$28,097,654 as of August 31, 2014.

**Specific-Purpose  
Financial Statements**



**LIFESCHOOL OF DALLAS**

Exhibit B-1

**STATEMENTS OF FINANCIAL POSITION  
AS OF AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 10,489,926	\$ 6,306,182
Cash and cash equivalents - restricted	44,366,603	9,282,947
Due from TEA and other governments	4,305,624	3,677,141
Prepaid expenses	265,839	15,502
Other receivables	<u>129,989</u>	<u>94,433</u>
Total Current Assets	<u>59,557,981</u>	<u>19,376,205</u>
Property and Equipment		
Land	5,632,137	3,689,850
Building and improvements	42,066,133	41,068,217
Furniture and equipment	1,995,357	1,995,357
Vehicles	394,215	394,215
Assets purchased under capital lease	708,252	427,491
Construction in progress	6,370,275	62,184
Less accumulated depreciation	<u>(8,878,599)</u>	<u>(6,884,456)</u>
Total Property and Equipment	<u>48,287,770</u>	<u>40,752,858</u>
Other Assets		
Restricted Investments -		
Bond Defeasance Escrow	46,447,599	-
Capitalized Bond Issuance Costs	2,450,876	991,558
Other Assets	<u>1,000</u>	<u>1,000</u>
	<u>48,899,475</u>	<u>992,558</u>
<b>Total Assets</b>	<u>\$ 156,745,226</u>	<u>\$ 61,121,621</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 2,930,234	\$ 1,323,501
Accrued wages payable	283,722	220,985
Payroll deductions and withholdings	561,010	393,990
Due to state government	5,062	7,129
Due to student groups	26,409	20,627
Accrued interest payable	1,316,197	120,998
Current portion of note payable	-	350,004
Current portion of capital leases payable	142,523	67,981
Current portion of bond payable	<u>915,000</u>	<u>845,000</u>
Total Current Liabilities	<u>6,180,157</u>	<u>3,350,215</u>
Long Term Debt (net of current portions)		
Note payable	-	6,649,996
Capital leases payable	134,989	71,123
Bonds payable	<u>135,370,088</u>	<u>36,455,953</u>
Total Long-Term Debt	<u>135,505,077</u>	<u>43,177,072</u>
<b>Total Liabilities</b>	<u>141,685,234</u>	<u>46,527,287</u>
Net Assets		
Unrestricted	1,036,783	991,467
Temporarily restricted	<u>14,023,209</u>	<u>13,602,867</u>
<b>Total Net Assets</b>	<u>15,059,992</u>	<u>14,594,334</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 156,745,226</u>	<u>\$ 61,121,621</u>

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, 2014 AND 2013**

	2014		
	Unrestricted	Temporarily Restricted	Totals
<b>Revenues</b>			
Local Support:			
Contributions	\$ 45,630	\$ -	\$ 45,630
Food Service Activity	225,852	-	225,852
Athletic Activities	140,850	-	140,850
Rent	30,000	-	30,000
Interest and Other Income	367,643	-	367,643
Other Revenues	648,850	-	648,850
Total Local Support	1,458,825	-	1,458,825
State Program Revenues:			
Foundation School Program	-	36,599,050	36,599,050
Instructional Materials Fund	-	572,173	572,173
Food Service	-	8,703	8,703
Student Success Initiative	-	-	-
Total State Program Revenues	-	37,179,926	37,179,926
Federal Program Revenues:			
IDEA Part B, Formula	-	597,415	597,415
IDEA Part B, Preschool	-	1,859	1,859
ESEA Title I Part A Improving Basic Programs	-	875,492	875,492
ESEA Title II Part A Teacher and Principal Training	-	201,641	201,641
National School Breakfast and Lunch Program	-	1,087,002	1,087,002
Title III Part A - English Language Acquisition and Enhancement	-	47,415	47,415
Teacher Incentive Fund	-	403,396	403,396
Summer School LEP	-	2,226	2,226
Total Federal Program Revenues	-	3,216,446	3,216,446
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	39,976,030	(39,976,030)	-
Total Revenues	41,434,855	420,342	41,855,197
<b>Expenses</b>			
Program Services:			
Instruction and Instructional-Related Services	19,828,271	-	19,828,271
Instructional and School Leadership	2,618,737	-	2,618,737
Support Services:			
Administrative Support Services	3,415,337	-	3,415,337
Support Services - Non-Student Based	7,310,426	-	7,310,426
Support Services • Student (Pupil)	3,666,431	-	3,666,431
Ancillary Services	34,300	-	34,300
Debt Service	4,516,037	-	4,516,037
Fundraising	-	-	-
Total Expenses	41,389,539	-	41,389,539
Change in Net Assets	45,316	420,342	465,658
Net Assets, Beginning of Year	991,467	13,602,867	14,594,334
Net Assets, End of Year	\$ 1,036,783	\$ 14,023,209	\$ 15,059,992

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, 2014 AND 2013**

	2013		
	Unrestricted	Temporarily Restricted	Totals
<b>Revenues</b>			
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
<b>Expenses</b>			
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.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2014</u>	<u>2013</u>
Change in Net Assets	\$ 465,658	\$ 907,927
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	1,994,143	1,887,784
Amortization of Capitalized Bond Issuance Costs	265,788	(107,212)
(Increase) Decrease in Due from TEA and Other Governments	(628,483)	(684,084)
(Increase) Decrease in Prepaid Expenses	(250,337)	193,129
(Increase) Decrease in Other Receivables	(35,556)	34,616
Increase (Decrease) in Accounts Payable	1,606,733	1,182,257
Increase (Decrease) in Accrued Wages Payable	62,737	23,723
Increase (Decrease) in Due to State Government	(2,067)	7,090
Increase (Decrease) in Due to Student Groups	5,782	(1,418)
Increase (Decrease) in Accrued Interest Payable	1,195,199	1,504
Increase (Decrease) in Payroll Deductions and Withholdings	167,020	87,617
Unrealized Gain of Investments	<u>(328,794)</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>4,517,823</u>	<u>3,532,933</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(3,220,964)	(4,446,538)
Construction in Progress	(6,308,091)	(62,184)
Purchase of Restricted Investments - Escrow Account	<u>(46,118,805)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>(55,647,860)</u>	<u>(4,508,722)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt (Net of issuance costs)	98,302,424	7,000,000
Principal Payments on Debt	<u>(7,904,987)</u>	<u>(860,298)</u>
Net Cash Provided (Used) by Financing Activities	<u>90,397,437</u>	<u>6,139,702</u>
 Net Increase in Cash and Cash Equivalents	39,267,400	5,163,913
Cash and Cash Equivalents, Beginning of Year	<u>15,589,129</u>	<u>10,425,216</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$44,366,603 and \$9,282,947 at August 31, 2014 and 2013, respectively)	<u>\$ 54,856,529</u>	<u>\$ 15,589,129</u>
 Interest Paid During the Years Ended August 31, 2014 and 2013	\$ 2,968,906	\$ 2,963,625
Income Taxes Paid During the Years Ended August 31, 2014 and 2013	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, 2014 AND 2013

Expenses	<u>2014</u>	<u>2013</u>
6100 Payroll Costs	\$ 23,293,602	\$ 20,389,912
6200 Professional and Contracted Services	6,483,128	5,216,250
6300 Supplies and Materials	4,369,249	3,145,592
6400 Other Operating Costs	2,727,523	2,518,157
6500 Debt	<u>4,516,037</u>	<u>2,975,559</u>
Total Expenses	<u>\$ 41,389,539</u>	<u>\$ 34,245,470</u>

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

STATEMENT OF CAPITAL ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2014

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 5,632,137	\$ -
1520 Buildings and Improvements	55,597	42,010,536	-
1531 Vehicles	-	394,215	-
1539 Furniture and Equipment	4,750	1,426,629	523,783
1549 Furniture and Equipment	-	16,768	23,427
1559 Capital Lease	-	708,252	
1580 Construction in Progress	-	6,370,275	
1570 Less Accumulated Depreciation	(31,410)	(8,590,334)	(256,855)
Total Property and Equipment	<u>\$ 28,937</u>	<u>\$ 47,968,478</u>	<u>\$ 290,355</u>

Note: Accumulated depreciation of \$8,590,334 above on capital assets acquired with state funds includes \$262,639 accumulated depreciation on assets recorded under capital leases.

**LIFESCHOOL OF DALLAS**

Exhibit E-1

**BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 176,335	\$ 313,094	\$ 666,054	\$ 352,960
5750 Cocurricular and Enterprising Activities	233,789	722,497	792,771	70,274
Total Local Support	410,124	1,035,591	1,458,825	423,234
State Program Revenues:				
5810 Foundation School Program Act Revenues	35,099,100	35,099,100	36,599,050	1,499,950
5820 State Program Revenues Distributed by TEA	335,900	675,291	580,876	(94,415)
Total State Program Revenues	35,435,000	35,774,391	37,179,926	1,405,535
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	2,229,488	2,861,852	2,813,050	(48,802)
5940 Federal Revenues Distributed Directly from the Federal Government	-	24,870	403,396	378,526
Total Federal Program Revenues	2,229,488	2,886,722	3,216,446	329,724
Total Revenues	38,074,612	39,696,704	41,855,197	2,158,493
<b>Expenses</b>				
11 Instruction	17,539,385	19,625,812	19,133,987	491,825
12 Instructional Resources & Media Services	58,803	148,823	83,724	65,099
13 Curriculum & Instructional Staff Development	630,860	743,620	610,560	133,060
21 Instructional Leadership	403,433	536,932	377,913	159,019
23 School leadership	2,101,644	2,267,498	2,240,826	26,672
31 Guidance, Counseling, & Evaluation Services	830,420	986,682	857,210	129,472
33 Health Services	256,942	372,706	258,240	114,466
34 Student Transportation	-	50,000	-	50,000
35 Food Services	1,157,692	1,270,692	1,168,584	102,108
36 Cocurricular/Extracurricular Activities	1,034,840	1,711,858	1,382,396	329,462
41 General Administration	3,461,530	3,641,149	3,415,337	225,812
51 Plant Maintenance & Operations	5,462,203	5,849,650	5,354,965	494,685
52 Security & Monitoring Services	735,815	909,668	872,209	37,459
53 Data Processing Services	1,222,699	1,377,716	1,083,252	294,464
61 Community Services	23,597	44,644	2,161	42,483
71 Debt Service	3,753,600	3,078,590	4,516,036	(1,437,446)
81 Fundraising	5,000	60,510	32,139	28,371
Total Expenses	38,678,463	42,676,550	41,389,539	1,287,011
Change in Net Assets	(603,851)	(2,979,846)	465,658	3,445,504
Net Assets, Beginning of Year	14,594,334	14,594,334	14,594,334	-
Net Assets, End of Year	\$ 13,990,483	\$ 11,614,488	\$ 15,059,992	\$ 3,445,504

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



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

Members:  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC  
ACCOUNTANTS  
TEXAS SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

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**HANKINS, EASTUP, DEATON,  
TONN & SEAY**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014 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 15, 2015.

**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as findings 2014-001 and 2014-002.

### **LifeSchool of Dallas' Response to Findings**

LifeSchool of Dallas' response to the findings 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 15, 2015

Members:  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC  
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TEXAS SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

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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, 2014. 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, 2014.

## 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.

### LifeSchool of Dallas' Response to Findings

LifeSchool of Dallas' response to the findings 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.

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, PC  
A Professional Corporation  
Certified Public Accountants  
Denton, Texas

January 15, 2015

LIFESCHOOL OF DALLAS (THE CHARTER HOLDING)

Exhibit F-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2014

I. Summary of Auditor's Results

*Financial Statements*

Type of auditors' report issued

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?

Yes  No

Noncompliance material to financial statements noted?

Yes  No

*Federal Awards*

Internal control over major programs:

Material weaknesses identified?

Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?

Yes  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  No

Identification of major programs:

Special Education Cluster:

CFDA 84.027 - IDEA - Part B, Formula

CFDA 84.173 - IDEA - Part B, Preschool

CFDA 84.367A - ESEA, Title II, Part A - Teacher Principal Training

CFDA 84.374A - Teacher Incentive Fund

Dollar threshold used to distinguish between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

Yes  No

## II. Financial Statement Findings

### Finding 2014-001 – Expenses in Excess of Appropriations

#### *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 one functional category for the year as per Exhibit E-1.

#### *Cause*

Interest expense on outstanding debt was underestimated because of the new bond issue and bond refunding that was done in May 2014.

#### *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. Management has instituted budget monitoring processes and considers the 2014 overage an isolated occurrence due to the 2014 bond issue.

## III. Findings and Questioned Costs for State and Federal Awards

### Finding 2014-002 – Unallowable Costs – Teacher Incentive Fund (CFDA 84.374A)

#### *Criteria*

Charges to a federal grant for employee salaries should only be made for employees working on the grant and for amounts and time spent working on the grant.

#### *Condition*

In June 2014, an employee was transferred into a new position that was a position charged to the Teacher Incentive Fund grant. Beginning in July 2014, her salary was charged to the grant. However, because of her change in duties and a change to her annual work calendar, LifeSchool's payroll system incorrectly calculated the employee's salary for two months, and the employee was overpaid. The overpayment to the employee was incorrectly charged to the grant.

III. Findings and Questioned Costs for State and Federal Awards – continued

*Questioned Cost*

The overpayment originally charged to the grant was \$5,062. When the overpayment was discovered, the expenses charged to the grant were corrected, and the amount was repaid.

*Cause*

The employee's salary was incorrectly calculated when the employee was transferred to a new position and new work calendar in the payroll system. The system calculation error was not discovered when the payroll was run.

*Effect*

Expenses were charged to the grant in error. The incorrect expenses were reimbursed to the grant when the error was discovered.

*Recommendation*

Employee job changes and changes in salary should be manually verified prior to payment.

*Management Response*

LifeSchool of Dallas will initiate additional procedures to ensure that salaries are correctly calculated when job duty changes occur.



**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2014

CORRECTIVE ACTION PLAN:

Finding 2014-001 – Actual expenses in excess of appropriations

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

Contact Person: Jennifer Wilson, Chief Financial Officer

Finding 2014-002 – Unallowable costs

LifeSchool of Dallas will institute new procedures to review payroll calculations when an employee's job duties or work schedule change.

Contact Person: Jennifer Wilson, Chief Financial Officer

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2014

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.

*Status*

LifeSchool of Dallas amended its budget throughout the year ended August 31, 2014. However, actual expenses exceeded the final amended budget in one functional category for the year ended August 31, 2014. See current year finding 2014-001.

**LIFESCHOOL OF DALLAS**

Exhibit I-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2014**

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Program</u>			
Teacher Incentive Fund	84.374A	S374A120090	\$ 403,396
Total Direct Program			<u>403,396</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101057807	875,492
Total CFDA Number 84.010A			<u>875,492</u>
*IDEA - Part B, Formula	84.027	146600010578076600	597,415
*IDEA - Part B, Preschool	84.173	146610010578076610	1,859
Total Special Education Cluster (IDEA)			<u>599,274</u>
Title III, Part A - English Language Acquisition	84.365A	14671001057950	47,415
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	14694501057807	201,641
Summer School LEP	84.369A	69551302	2,226
Total Passed Through State Department of Education			<u>\$ 1,726,048</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>\$ 2,129,444</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401401	\$ 143,640
*National School Lunch Program - Cash Assistance	10.555	71301401	856,539
*National School Lunch Program - Non-Cash Assistance	10.555	057-807	86,823
Total CFDA Number 10.555			<u>943,362</u>
Total Child Nutrition Cluster			<u>1,087,002</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,087,002</u>
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<u>\$ 1,087,002</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,216,446</u>

\*Clustered Programs

**LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2014

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.