

LIFESCHOOL OF DALLAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2015

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LIFESCHOOL OF DALLAS
CERTIFICATE OF BOARD
AUGUST 31, 2015

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, 2015, at a meeting of the governing body the charter holder on the 13th day of January, 2016.


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, 2015 and 2014, 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, 2015 and 2014, 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 6, 2016, 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, 2016

**General-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-1

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,624,031	\$ 10,489,926
Cash and cash equivalents - restricted	12,377,330	44,366,603
Due from TEA and other governments	4,529,938	4,305,624
Prepaid expenses	299,135	265,839
Other receivables	49,109	129,989
Total Current Assets	<u>29,879,543</u>	<u>59,557,981</u>
Property and Equipment		
Land	5,632,137	5,632,137
Building and improvements	76,020,133	42,066,133
Furniture and equipment	3,651,388	1,995,357
Vehicles	394,215	394,215
Assets purchased under capital lease	708,252	708,252
Construction in progress	1,286,900	6,370,275
Less accumulated depreciation	(11,140,463)	(8,878,599)
Total Property and Equipment	<u>76,552,562</u>	<u>48,287,770</u>
Other Assets		
Restricted Investments -		
Bond Defeasance Escrow	44,432,793	46,447,599
Capitalized Bond Issuance Costs	2,243,230	2,450,876
Other Assets	1,000	1,000
	<u>46,677,023</u>	<u>48,899,475</u>
Total Assets	<u>\$ 153,109,128</u>	<u>\$ 156,745,226</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 3,572,989	\$ 2,930,234
Accrued wages payable	190,256	283,722
Payroll deductions and withholdings	700	561,010
Due to state government	-	5,062
Due to student groups	26,494	26,409
Unearned Revenues	461	-
Accrued interest payable	304,502	1,316,197
Current portion of capital leases payable	68,762	142,523
Current portion of bond payable	1,375,000	915,000
Total Current Liabilities	<u>5,539,164</u>	<u>6,180,157</u>
Long Term Debt (net of current portions)		
Capital leases payable	71,510	134,989
Bonds payable	133,809,158	135,370,088
Total Long-Term Debt	<u>133,880,668</u>	<u>135,505,077</u>
Total Liabilities	<u>139,419,832</u>	<u>141,685,234</u>
Net Assets		
Unrestricted	1,080,077	1,036,783
Temporarily restricted	12,609,219	14,023,209
Total Net Assets	<u>13,689,296</u>	<u>15,059,992</u>
Total Liabilities and Net Assets	<u>\$ 153,109,128</u>	<u>\$ 156,745,226</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, 2015 AND 2014

	2015		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 160,284	\$ -	\$ 160,284
Food Service Activity	245,642	-	245,642
Athletic Activities	183,620	-	183,620
Rent	35,000	-	35,000
Interest	63,869	-	63,869
Increase in fair value of investments	1,210,009	-	1,210,009
Other Revenues	733,315	-	733,315
Total Local Support	<u>2,631,739</u>	<u>-</u>	<u>2,631,739</u>
State Program Revenues:			
Foundation School Program	-	40,648,205	40,648,205
Instructional Materials Fund	-	284,985	284,985
Food Service	-	8,959	8,959
Total State Program Revenues	<u>-</u>	<u>40,942,149</u>	<u>40,942,149</u>
Federal Program Revenues:			
IDEA Part B, Formula	-	565,609	565,609
IDEA Part B, Preschool	-	-	-
ESEA Title I Part A Improving Basic Programs	-	798,135	798,135
ESEA Title II Part A Teacher and Principal Training	-	114,645	114,645
National School Breakfast and Lunch Program	-	1,017,651	1,017,651
Title III Part A - English Language Acquisition and Enhancement	-	40,594	40,594
Teacher Incentive Fund	-	709,516	709,516
Career & Technical - Basic Grant	-	30,736	30,736
Summer School LEP	-	1,107	1,107
Total Federal Program Revenues	<u>-</u>	<u>3,277,993</u>	<u>3,277,993</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>45,634,132</u>	<u>(45,634,132)</u>	<u>-</u>
Total Revenues	<u>48,265,871</u>	<u>(1,413,990)</u>	<u>46,851,881</u>
Expenses			
Program Services:			
Instruction and Instructional-Related Services	22,144,442	-	22,144,442
Instructional and School Leadership	3,011,767	-	3,011,767
Support Services:			
Administrative Support Services	3,182,860	-	3,182,860
Support Services - Non-Student Based	8,166,313	-	8,166,313
Support Services • Student (Pupil)	4,863,596	-	4,863,596
Ancillary Services	48,929	-	48,929
Debt Service	6,804,670	-	6,804,670
Total Expenses	<u>48,222,577</u>	<u>-</u>	<u>48,222,577</u>
Change in Net Assets	<u>43,294</u>	<u>(1,413,990)</u>	<u>(1,370,696)</u>
Net Assets, Beginning of Year	<u>1,036,783</u>	<u>14,023,209</u>	<u>15,059,992</u>
Net Assets, End of Year	<u>\$ 1,080,077</u>	<u>\$ 12,609,219</u>	<u>\$ 13,689,296</u>

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

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	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	38,849	-	38,849
Increase in fair value of investments	328,794	-	328,794
Other Revenues	648,850	-	648,850
Total Local Support	<u>1,458,825</u>	<u>-</u>	<u>1,458,825</u>
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
Total State Program Revenues	<u>-</u>	<u>37,179,926</u>	<u>37,179,926</u>
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
Career & Technical - Basic Grant	-	-	-
Summer School LEP	-	2,226	2,226
Total Federal Program Revenues	<u>-</u>	<u>3,216,446</u>	<u>3,216,446</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>39,976,030</u>	<u>(39,976,030)</u>	<u>-</u>
Total Revenues	<u>41,434,855</u>	<u>420,342</u>	<u>41,855,197</u>
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
Total Expenses	<u>41,389,539</u>	<u>-</u>	<u>41,389,539</u>
Change in Net Assets	<u>45,316</u>	<u>420,342</u>	<u>465,658</u>
Net Assets, Beginning of Year	<u>991,467</u>	<u>13,602,867</u>	<u>14,594,334</u>
Net Assets, End of Year	<u>\$ 1,036,783</u>	<u>\$ 14,023,209</u>	<u>\$ 15,059,992</u>

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
Change in Net Assets	\$ (1,370,696)	\$ 465,658
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	2,261,864	1,994,143
Amortization of Capitalized Bond Issuance Costs	207,646	265,788
(Increase) Decrease in Due from TEA and Other Governments	(224,314)	(628,483)
(Increase) Decrease in Prepaid Expenses	(33,296)	(250,337)
(Increase) Decrease in Other Receivables	80,880	(35,556)
Increase (Decrease) in Accounts Payable	642,755	1,606,733
Increase (Decrease) in Accrued Wages Payable	(93,466)	62,737
Increase (Decrease) in Due to State Government	(5,062)	(2,067)
Increase (Decrease) in Due to Student Groups	85	5,782
Increase (Decrease) in Unearned Revenues	461	-
Increase (Decrease) in Accrued Interest Payable	(1,011,695)	1,195,199
Increase (Decrease) in Payroll Deductions and Withholdings	(560,310)	167,020
Increase in fair value of investments	(1,210,009)	(328,794)
Net Cash Provided (Used) by Operating Activities	(1,315,157)	4,517,823
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(29,239,756)	(3,220,964)
Construction in Progress	(1,286,900)	(6,308,091)
Sale/(Purchase) of Restricted Investments - Escrow Account	3,224,815	(46,118,805)
Net Cash Provided (Used) by Investing Activities	(27,301,841)	(55,647,860)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt (Net of issuance costs)	-	98,302,424
Principal Payments on Debt	(1,238,170)	(7,904,987)
Net Cash Provided (Used) by Financing Activities	(1,238,170)	90,397,437
 Net Increase/(Decrease) in Cash and Cash Equivalents	(29,855,168)	39,267,400
 Cash and Cash Equivalents, Beginning of Year	54,856,529	15,589,129
 Cash and Cash Equivalents, End of Year (includes restricted cash of \$12,377,330 and \$44,366,603 at August 31, 2015 and 2014, respectively)	\$ 25,001,361	\$ 54,856,529
 Interest Paid During the Years Ended August 31, 2015 and 2014	\$ 7,677,807	\$ 2,968,906
Income Taxes Paid During the Years Ended August 31, 2015 and 2014	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, 2015 AND 2014

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 for kindergarten 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, and to 15,000 effective July 1, 2016. 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, 2015 AND 2014

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 forty 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, 2015 AND 2014

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.

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, 2015, the carrying amount of the charter holder's deposits (cash demand accounts and interest-bearing accounts included in cash and cash equivalents) was \$24,996,036, and the bank balance was \$25,704,483. The corporation's cash deposits at August 31, 2015, and during the year ended August 31, 2015, 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 \$12,206,294 of fully collateralized investments in TexPool accounted for as cash equivalents.

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.

The corporation has restricted cash and cash equivalents of \$12,377,316 and \$44,366,603 as of August 31, 2015 and 2014, respectively. These amounts are deposited with Region's Bank in short-term cash sweep accounts. As of August 31, 2015, \$11,024,685 of bonds payable and note payable proceeds are restricted for future construction projects. The remaining \$1,352,631 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, 2015 AND 2014

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit at InterBank during the year ended August 31, 2015:

- a. Depository: InterBank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$4,028,457.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$2,967,402 and occurred during the month of August 2015.
- 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, 2015 and 2014, 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. The charter school is legally a separate entity from the state and other entities that participate in TRS. 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. There is not a withdrawal penalty for leaving the TRS system.

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, 2015 AND 2014

As of August 31, 2014 (the most recent information available), TRS had total plan assets of \$132.8 billion and accumulated benefit obligation of \$159.5 billion, leaving a net pension liability of \$26.7 billion. TRS is 83.25% funded. There is not a collective-bargaining agreement that covers the plan.

State law provides for the following contribution rates for 2015 and 2014:

	2015	2014
Employees (members)	6.7%	6.4%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

For 2014, the employer contribution was required to be paid on salaries paid from federal grants, salaries paid new employees during their first 90 days of employment, and a contribution surcharge for certain employees who have retired from TRS. Beginning in 2015, the charter school also pays an additional 1.5% of covered employee salaries.

Contributions made by the Corporation and employees for 2015 and 2014 are shown below. Contributions made each year were equal to the required contributions.

	2015	2014
Employees (members)	\$1,533,665	\$1,285,261
Employers	\$ 455,664	\$ 100,068

C. Additional plans

Certain employees of the charter holder are also provided with Social Security and/or Medicare coverage. Under provisions of federal law, covered employees contribute 6.2% (Social Security) and/or 1.45% (Medicare) of their annual covered salary, and the charter holder contributes 6.2% (Social Security) and/or 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.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

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 years 2015 and 2014. For the years ended August 31, 2015 and 2014, the State's contributions to TRS Care were \$219,558 and \$194,799, respectively. The active member contributions were \$148,773 and \$130,011, respectively. The charter school's contributions were \$135,206 and \$115,315, respectively, which equaled the required contributions each year.

6. HEALTH CARE COVERAGE

During the years ended August 31, 2015 and 2014, full-time employees of the charter school were covered by a health insurance plan (the Plan). For the years ended August 31, 2015 and 2014, the charter school contributed a minimum of \$376 and \$397, 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, 2015 and 2014, and as a result, there was no income tax liability.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

9. PROPERTY AND EQUIPMENT

Property and Equipment at August 31, 2015, were as follows:

	<u>Balance</u> <u>9/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2015</u>
Land	\$ 5,632,137	\$ -	\$ -	\$ 5,632,137
Buildings and Improvements	42,066,133	33,954,000	-	76,020,133
Furniture and Equipment	1,995,357	1,656,031	-	3,651,388
Vehicles	394,215	-	-	394,215
Capital Lease	708,252	-	-	708,252
Construction in Progress	6,370,275	1,816,434	(6,899,809)	1,286,900
Accumulated Depreciation	<u>(8,878,599)</u>	<u>(2,261,864)</u>	<u>-</u>	<u>(11,140,463)</u>
	<u>\$48,287,770</u>	<u>\$35,164,601</u>	<u>\$(6,899,809)</u>	<u>\$ 76,552,562</u>

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>-</u>	<u>(8,878,599)</u>
	<u>\$40,752,858</u>	<u>\$ 7,534,912</u>	<u>\$ -</u>	<u>\$48,287,770</u>

Capital assets acquired with public funds received by the Corporation for the operation of LifeSchool Lancaster, LifeSchool Red Oak, LifeSchool Oak Cliff, Life High School Waxahachie, Life Middle School 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, 2015 and 2014, the charter holder earned revenue of \$40,648,205 and \$36,599,050, respectively, from the Texas Education Agency (TEA). This constitutes approximately 86.76% and 87.44%, 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.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended August 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Foundation School Program	\$11,724,204	\$13,143,576
Campus Activity Funds	217,184	187,754
ESEA Title I Part A, Improving Basic Programs	183,840	268,176
IDEA Part B, Formula	4,411	12,510
IDEA Part B, Preschool	1,069	-
State Textbook Fund	-	4,035
National School Lunch & Breakfast Program	478,511	407,158
	<u>\$12,609,219</u>	<u>\$14,023,209</u>

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, 2015.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

A summary of bonds payable for the year ended August 31, 2015 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 09/01/14	Issued/ (Retired)	Amounts Outstanding 08/31/15	Amount due within one year
Education Revenue Tax-Exempt Bonds – Series 2011A	6.25%-7.50%	\$ 38,880,000	\$ 36,795,000	\$ (505,000)	\$ 36,290,000	\$ 540,000
Education Revenue Taxable Bonds – Series 2011B	7.00%	380,000	80,000	(80,000)	-	-
Education Revenue and Refunding Bonds – Series 2014A	2.00%-5.00%	85,645,000	85,645,000	(330,000)	85,315,000	835,000
QSCB's Taxable Bonds – Series 2014Q	4.56%	6,515,000	<u>6,515,000</u>	<u>-</u>	<u>6,515,000</u>	<u>-</u>
Total bonded debt payable			<u>129,035,000</u>	<u>(915,000)</u>	<u>128,120,000</u>	<u>1,375,000</u>
Bond Premium (Discount)			<u>7,265,054</u>	<u>(200,896)</u>	<u>7,064,158</u>	<u>-</u>
Total			<u>\$ 136,300,054</u>	<u>\$ (1,115,896)</u>	<u>\$ 135,184,158</u>	<u>\$ 1,375,000</u>

Debt service requirements are as follows:

Years ending 31-Aug	Principal	Interest	Requirements
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	1,570,000	4,050,123	5,620,123
2021-2025	9,110,000	18,991,617	28,101,617
2026-2030	11,625,000	16,474,367	28,099,367
2031-2035	22,185,000	12,648,970	34,833,970
2036-2040	21,405,000	7,236,750	28,641,750
2041-2045	20,785,000	2,119,200	22,904,200
Thereafter	-	-	-
	<u>\$ 128,120,000</u>	<u>\$ 88,656,509</u>	<u>\$ 216,776,509</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 provided that \$1,850,000 of the reserve was used to pay a portion of the required debt service in the year ended August 31, 2015 and \$1,350,000 of the reserve will be used to pay a portion of the required debt service in the year ending August 31, 2016. In addition, the Corporation received a Qualified School Construction Bond subsidy of \$345,473 during the year ending August 31, 2015 and expects to receive \$275,452 annually through August 31, 2033. This amount is subject to change.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

13. OPERATING LEASES

The School leased facilities through three operating leases maturing between 2019 and 2035. The minimum monthly payment at August 31, 2015 was \$137,326. Rent expense was \$1,868,174 and \$1,407,883, respectively, for the years ended August 31, 2015 and 2014.

Future minimum payments under noncancellable operating leases as of August 31, 2015 are as follows:

2015-16	\$ 1,647,914
2016-17	1,753,330
2017-18	1,858,794
2018-19	1,887,216
2019-20	1,041,669
Thereafter	<u>6,958,757</u>
Total	<u>\$ 15,147,680</u>

14. 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	4.00%	10/17/2013	\$ 280,761
Less accumulated depreciation			<u>(53,813)</u>
			<u>\$ 226,948</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, 2015:

Years ending August 31,	Annual Lease Payments
2016	\$ 74,372
2017	74,372
Thereafter	<u>-</u>
Total minimum lease payments	148,744
Less: amount representing interest	8,472
Present value of net minimum payments	<u>\$ 140,272</u>

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

15. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Corporation through January 6, 2016, the date of financial statement issuance, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements.

16. 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, 2015, the fair value of the investments in the escrow account was \$44,432,793 and the cost basis was \$42,889,911.

17. CONSTRUCTION COMMITMENTS

As of August 31, 2015, the Corporation had entered into several construction contracts that were in progress as of August 31, 2015. The balance remaining to complete these contracts was \$3,153,235 as of August 31, 2015.

**Specific-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS

Exhibit B-1

**STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2015 AND 2014**

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,624,031	\$ 10,489,926
Cash and cash equivalents - restricted	12,377,330	44,366,603
Due from TEA and other governments	4,529,938	4,305,624
Prepaid expenses	299,135	265,839
Other receivables	49,109	129,989
Total Current Assets	29,879,543	59,557,981
Property and Equipment		
Land	5,632,137	5,632,137
Building and improvements	76,020,133	42,066,133
Furniture and equipment	3,651,388	1,995,357
Vehicles	394,215	394,215
Assets purchased under capital lease	708,252	708,252
Construction in progress	1,286,900	6,370,275
Less accumulated depreciation	(11,140,463)	(8,878,599)
Total Property and Equipment	76,552,562	48,287,770
Other Assets		
Restricted Investments -		
Bond Defeasance Escrow	44,432,793	46,447,599
Capitalized Bond Issuance Costs	2,243,230	2,450,876
Other Assets	1,000	1,000
	46,677,023	48,899,475
Total Assets	\$ 153,109,128	\$ 156,745,226
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 3,572,989	\$ 2,930,234
Accrued wages payable	190,256	283,722
Payroll deductions and withholdings	700	561,010
Due to state government	-	5,062
Due to student groups	26,494	26,409
Unearned Revenues	461	-
Accrued interest payable	304,502	1,316,197
Current portion of capital leases payable	68,762	142,523
Current portion of bond payable	1,375,000	915,000
Total Current Liabilities	5,539,164	6,180,157
Long Term Debt (net of current portions)		
Capital leases payable	71,510	134,989
Bonds payable	133,809,158	135,370,088
Total Long-Term Debt	133,880,668	135,505,077
Total Liabilities	139,419,832	141,685,234
Net Assets		
Unrestricted	1,080,077	1,036,783
Temporarily restricted	12,609,219	14,023,209
Total Net Assets	13,689,296	15,059,992
Total Liabilities and Net Assets	\$ 153,109,128	\$ 156,745,226

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, 2015 AND 2014

	2015		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 160,284	\$ -	\$ 160,284
Food Service Activity	245,642	-	245,642
Athletic Activities	183,620	-	183,620
Rent	35,000	-	35,000
Interest	63,869	-	63,869
Increase in fair value of investments	1,210,009	-	1,210,009
Other Revenues	733,315	-	733,315
Total Local Support	<u>2,631,739</u>	<u>-</u>	<u>2,631,739</u>
State Program Revenues:			
Foundation School Program	-	40,648,205	40,648,205
Instructional Materials Fund	-	284,985	284,985
Food Service	-	8,959	8,959
Total State Program Revenues	<u>-</u>	<u>40,942,149</u>	<u>40,942,149</u>
Federal Program Revenues:			
IDEA Part B, Formula	-	565,609	565,609
IDEA Part B, Preschool	-	-	-
ESEA Title I Part A Improving Basic Programs	-	798,135	798,135
ESEA Title II Part A Teacher and Principal Training	-	114,645	114,645
National School Breakfast and Lunch Program	-	1,017,651	1,017,651
Title III Part A - English Language Acquisition and Enhancement	-	40,594	40,594
Teacher Incentive Fund	-	709,516	709,516
Career & Technical - Basic Grant	-	30,736	30,736
Summer School LEP	-	1,107	1,107
Total Federal Program Revenues	<u>-</u>	<u>3,277,993</u>	<u>3,277,993</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>45,634,132</u>	<u>(45,634,132)</u>	<u>-</u>
Total Revenues	<u>48,265,871</u>	<u>(1,413,990)</u>	<u>46,851,881</u>
Expenses			
Program Services:			
Instruction and Instructional-Related Services	22,144,442	-	22,144,442
Instructional and School Leadership	3,011,767	-	3,011,767
Support Services:			
Administrative Support Services	3,182,860	-	3,182,860
Support Services - Non-Student Based	8,166,313	-	8,166,313
Support Services • Student (Pupil)	4,863,596	-	4,863,596
Ancillary Services	48,929	-	48,929
Debt Service	6,804,670	-	6,804,670
Total Expenses	<u>48,222,577</u>	<u>-</u>	<u>48,222,577</u>
Change in Net Assets	<u>43,294</u>	<u>(1,413,990)</u>	<u>(1,370,696)</u>
Net Assets, Beginning of Year	<u>1,036,783</u>	<u>14,023,209</u>	<u>15,059,992</u>
Net Assets, End of Year	<u>\$ 1,080,077</u>	<u>\$ 12,609,219</u>	<u>\$ 13,689,296</u>

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

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	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	38,849	-	38,849
Increase in fair value of investments	328,794	-	328,794
Other Revenues	648,850	-	648,850
Total Local Support	<u>1,458,825</u>	<u>-</u>	<u>1,458,825</u>
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
Total State Program Revenues	<u>-</u>	<u>37,179,926</u>	<u>37,179,926</u>
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
Career & Technical - Basic Grant	-	-	-
Summer School LEP	-	2,226	2,226
Total Federal Program Revenues	<u>-</u>	<u>3,216,446</u>	<u>3,216,446</u>
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>39,976,030</u>	<u>(39,976,030)</u>	<u>-</u>
Total Revenues	<u>41,434,855</u>	<u>420,342</u>	<u>41,855,197</u>
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
Total Expenses	<u>41,389,539</u>	<u>-</u>	<u>41,389,539</u>
Change in Net Assets	<u>45,316</u>	<u>420,342</u>	<u>465,658</u>
Net Assets, Beginning of Year	<u>991,467</u>	<u>13,602,867</u>	<u>14,594,334</u>
Net Assets, End of Year	<u>\$ 1,036,783</u>	<u>\$ 14,023,209</u>	<u>\$ 15,059,992</u>

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
Change in Net Assets	\$ (1,370,696)	\$ 465,658
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	2,261,864	1,994,143
Amortization of Capitalized Bond Issuance Costs	207,646	265,788
(Increase) Decrease in Due from TEA and Other Governments	(224,314)	(628,483)
(Increase) Decrease in Prepaid Expenses	(33,296)	(250,337)
(Increase) Decrease in Other Receivables	80,880	(35,556)
Increase (Decrease) in Accounts Payable	642,755	1,606,733
Increase (Decrease) in Accrued Wages Payable	(93,466)	62,737
Increase (Decrease) in Due to State Government	(5,062)	(2,067)
Increase (Decrease) in Due to Student Groups	85	5,782
Increase (Decrease) in Unearned Revenues	461	-
Increase (Decrease) in Accrued Interest Payable	(1,011,695)	1,195,199
Increase (Decrease) in Payroll Deductions and Withholdings	(560,310)	167,020
Increase in fair value of investments	(1,210,009)	(328,794)
Net Cash Provided (Used) by Operating Activities	(1,315,157)	4,517,823
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(29,239,756)	(3,220,964)
Construction in Progress	(1,286,900)	(6,308,091)
Sale/(Purchase) of Restricted Investments - Escrow Account	3,224,815	(46,118,805)
Net Cash Provided (Used) by Investing Activities	(27,301,841)	(55,647,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Debt (Net of issuance costs)	-	98,302,424
Principal Payments on Debt	(1,238,170)	(7,904,987)
Net Cash Provided (Used) by Financing Activities	(1,238,170)	90,397,437
Net Increase/(Decrease) in Cash and Cash Equivalents	(29,855,168)	39,267,400
Cash and Cash Equivalents, Beginning of Year	54,856,529	15,589,129
Cash and Cash Equivalents, End of Year (includes restricted cash of \$12,377,330 and \$44,366,603 at August 31, 2015 and 2014, respectively)	\$ 25,001,361	\$ 54,856,529
Interest Paid During the Years Ended August 31, 2015 and 2014	\$ 7,677,807	\$ 2,968,906
Income Taxes Paid During the Years Ended August 31, 2015 and 2014	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, 2015 AND 2014

Expenses	<u>2015</u>	<u>2014</u>
6100 Payroll Costs	\$ 26,829,422	\$ 23,293,602
6200 Professional and Contracted Services	7,252,315	6,483,128
6300 Supplies and Materials	4,248,185	4,369,249
6400 Other Operating Costs	3,087,985	2,727,523
6500 Debt	<u>6,804,670</u>	<u>4,516,037</u>
Total Expenses	<u>\$ 48,222,577</u>	<u>\$ 41,389,539</u>

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

STATEMENT OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2015

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 5,632,137	\$ -
1520 Buildings and Improvements	55,597	75,964,536	-
1531 Vehicles	-	394,215	-
1539 Furniture and Equipment	4,750	3,048,978	524,540
1549 Furniture and Equipment	-	16,768	56,352
1559 Capital Lease	-	708,252	-
1580 Construction in Progress	-	1,286,900	-
1570 Less Accumulated Depreciation	(36,970)	(10,801,637)	(301,856)
Total Property and Equipment	<u>\$ 23,377</u>	<u>\$ 76,250,149</u>	<u>\$ 279,036</u>

Note: Accumulated depreciation of \$10,801,637 above on capital assets acquired with state funds includes \$236,260 accumulated depreciation on assets recorded under capital leases.

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2015

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 57,000	\$ 364,735	\$ 529,669	\$ 164,934
5750 Cocurricular and Enterprising Activities	248,869	745,243	892,061	146,818
7959 Increase in fair value of investments	-	-	1,210,009	1,210,009
Total Local Support	<u>305,869</u>	<u>1,109,978</u>	<u>2,631,739</u>	<u>1,521,761</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	39,300,069	39,395,069	40,648,205	1,253,136
5820 State Program Revenues Distributed by TEA	215,068	416,090	293,944	(122,146)
Total State Program Revenues	<u>39,515,137</u>	<u>39,811,159</u>	<u>40,942,149</u>	<u>1,130,990</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	2,521,873	3,602,191	2,568,477	(1,033,714)
5940 Federal Revenues Distributed Directly from the Federal Government	<u>1,639,797</u>	<u>1,639,797</u>	<u>709,516</u>	<u>(930,281)</u>
Total Federal Program Revenues	<u>4,161,670</u>	<u>5,241,988</u>	<u>3,277,993</u>	<u>(1,963,995)</u>
Total Revenues	<u>43,982,676</u>	<u>46,163,125</u>	<u>46,851,881</u>	<u>688,756</u>
Expenses				
11 Instruction	21,460,175	22,753,171	20,989,160	1,764,011
12 Instructional Resources & Media Services	71,800	103,216	72,748	30,468
13 Curriculum & Instructional Staff Development	754,891	1,251,279	1,082,534	168,745
21 Instructional Leadership	522,297	617,618	539,249	78,369
23 School leadership	2,592,954	2,825,587	2,472,519	353,068
31 Guidance, Counseling, & Evaluation Services	950,939	1,193,290	1,020,401	172,889
33 Health Services	363,506	381,980	333,257	48,723
34 Student Transportation	315,000	335,000	282,230	52,770
35 Food Services	1,381,246	1,458,748	1,218,251	240,497
36 Cocurricular/Extracurricular Activities	953,587	2,062,896	2,009,456	53,440
41 General Administration	3,818,665	3,668,781	3,182,860	485,921
51 Plant Maintenance & Operations	6,109,349	6,383,750	5,990,011	393,739
52 Security & Monitoring Services	900,858	1,023,673	943,484	80,189
53 Data Processing Services	1,232,000	1,342,291	1,232,818	109,473
61 Community Services	15,383	16,961	3,067	13,894
71 Debt Service	3,215,000	8,688,740	6,804,670	1,884,070
81 Fundraising	<u>30,000</u>	<u>99,324</u>	<u>45,862</u>	<u>53,462</u>
Total Expenses	<u>44,687,650</u>	<u>54,206,305</u>	<u>48,222,577</u>	<u>5,983,728</u>
Change in Net Assets	<u>(704,974)</u>	<u>(8,043,180)</u>	<u>(1,370,696)</u>	<u>6,672,484</u>
Net Assets, Beginning of Year	<u>15,059,992</u>	<u>15,059,992</u>	<u>15,059,992</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 14,355,018</u>	<u>\$ 7,016,812</u>	<u>\$ 13,689,296</u>	<u>\$ 6,672,484</u>

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

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

902 NORTH LOCUST
P.O. BOX 977
DENTON, TX 76202-0977
TEL. (940) 387-8563
FAX (940) 383-4746

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, 2015 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, 2016.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, PC
A Professional Corporation
Certified Public Accountants
Denton, Texas

January 6, 2016

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, 2015. 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, 2015.

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, 2016

LIFESCHOOL OF DALLAS (THE CHARTER HOLDING)

Exhibit F-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2015

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:

Child Nutrition Cluster:

CFDA 10.553 - School Breakfast Program

CFDA 10.555 - National School Lunch Program

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

None

III. Findings and Questioned Costs for State and Federal Awards

None

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2015

CORRECTIVE ACTION PLAN:

None Required

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2015

Finding 2014-001 – Actual expenses in excess of appropriations

Status: All expenses were within budgeted amounts for the fiscal year ended August 31, 2015.

Finding 2014-002 – Unallowable costs

Status: Lifeschool of Dallas implemented new procedures to review payroll calculations. No findings were noted during the current audit related to payroll calculations and salary payments to employees.

LIFESCHOOL OF DALLAS

Exhibit I-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015**

(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	\$ 709,516
Total Direct Program			<u>709,516</u>
<u>Passed Through Region 10 Education Service Center</u>			
Career and Technical - Basic Grant	84.048	15420006057950	30,736
Title III, Part A - English Language Acquisition	84.365A	15671001057950	40,594
Total Passed Through Region 10 Education Service Center			<u>71,330</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101057807	798,135
Total CFDA Number 84.010A			<u>798,135</u>
*IDEA - Part B, Formula	84.027	156600010578076600	565,609
Total Special Education Cluster (IDEA)			<u>565,609</u>
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	15694501057807	114,645
Summer School LEP	84.369A	69551402	1,107
Total Passed Through State Department of Education			<u>1,479,496</u>
TOTAL DEPARTMENT OF EDUCATION			\$ 2,260,342
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401501	\$ 138,734
*National School Lunch Program - Cash Assistance	10.555	71301501	798,365
*National School Lunch Program - Non-Cash Assistance	10.555	71301501	80,552
Total CFDA Number 10.555			<u>878,917</u>
Total Child Nutrition Cluster			<u>1,017,651</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,017,651</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ 1,017,651
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,277,993

*Clustered Programs

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015

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.