

LIFESCHOOL OF DALLAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

**LIFESCHOOL OF DALLAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016**

TABLE OF CONTENTS

	<u>Page</u>
Certificate of Board.....	1
Independent Auditors' Report.....	2-3
General-Purpose Financial Statements	
A-1 Statements of Financial Position.....	4
A-2 Statements of Activities.....	5-6
A-3 Statements of Cash Flows.....	7
Notes to the Financial Statements.....	8-18
Specific-Purpose Financial Statements	
B-1 Statements of Financial Position.....	19
B-2 Statements of Activities.....	20-21
B-3 Statements of Cash Flows.....	22
Required Supplementary Information	
C-1 Schedule of Expenses.....	23
D-1 Schedule of Capital Assets.....	24
E-1 Budgetary Comparison Schedule.....	25
Reports on Compliance, Internal Controls, and Federal Awards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance.....	28-29
F-1 Schedule of Findings and Questioned Costs.....	30
G-1 Corrective Action Plan.....	31
H-1 Schedule of Prior Audit Findings.....	32
I-1 Schedule of Expenditures and Federal Awards.....	33
Notes to the Schedule of Expenditures of Federal Awards.....	34


LIFESCHOOL OF DALLAS
CERTIFICATE OF BOARD
AUGUST 31, 2016

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, 2016, at a meeting of the governing body the charter holder on the 18th day of January, 2017.


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)

This page left blank intentionally.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LifeSchool of Dallas
Red Oak, 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, 2016 and 2015, 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, 2016 and 2015, 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 the Uniform Guidance, 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 4, 2017, 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 4, 2017

**General-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)

Exhibit A-1

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,855,878	\$ 12,624,031
Cash and cash equivalents - restricted	3,950,954	12,377,330
Due from TEA and other governments	5,234,896	4,529,938
Prepaid expenses	486,778	299,135
Other receivables	74,535	49,109
Total Current Assets	<u>23,603,041</u>	<u>29,879,543</u>
Property and Equipment		
Land	5,642,748	5,632,137
Building and improvements	82,330,459	76,020,133
Furniture and equipment	4,379,830	3,651,388
Vehicles	394,215	394,215
Assets purchased under capital lease	708,252	708,252
Construction in progress	318,773	1,286,900
Less accumulated depreciation	(14,424,464)	(11,140,463)
Total Property and Equipment	<u>79,349,813</u>	<u>76,552,562</u>
Other Assets		
Capitalized Bond Issuance Costs	1,591,495	1,651,113
Other Assets	11,446	1,000
	<u>1,602,941</u>	<u>1,652,113</u>
Total Assets	<u>\$ 104,555,795</u>	<u>\$ 108,084,218</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,811,434	\$ 3,572,989
Accrued wages	571,492	190,256
Payroll deductions and withholdings	247,643	700
Due to state government	493	-
Due to student groups	36,111	26,494
Unearned revenues	2,879	461
Accrued employee benefits	10,446	-
Accrued interest expense	186,742	189,867
Current portion of capital leases payable	71,510	68,762
Current portion of bond payable	1,380,000	835,000
Total Current Liabilities	<u>4,318,750</u>	<u>4,884,529</u>
Long Term Debt (net of current portions)		
Capital leases payable	-	71,510
Bonds payable	96,701,555	98,336,926
Total Long-Term Debt	<u>96,701,555</u>	<u>98,408,436</u>
Total Liabilities	<u>101,020,305</u>	<u>103,292,965</u>
Net Assets		
Unrestricted	1,100,864	1,080,077
Temporarily restricted	2,434,626	3,711,176
Total Net Assets	<u>3,535,490</u>	<u>4,791,253</u>
Total Liabilities and Net Assets	<u>\$ 104,555,795</u>	<u>\$ 108,084,218</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, 2016 AND 2015

	2016		
	Unrestricted	Temporarily Restricted	Totals
Revenues			
Local Support:			
Contributions	\$ 60,365	\$ -	\$ 60,365
Food Service Activity	684,256	-	684,256
Athletic Activities	236,251	-	236,251
Rent	27,500	-	27,500
Interest	36,699	-	36,699
Other Revenues	619,239	-	619,239
Total Local Support	1,664,310	-	1,664,310
State Program Revenues:			
Foundation School Program	-	45,757,034	45,757,034
Instructional Materials Fund	-	935,888	935,888
Food Service	-	8,201	8,201
Total State Program Revenues	-	46,701,123	46,701,123
Federal Program Revenues:			
IDEA Part B, Formula	-	673,136	673,136
ESEA Title I Part A Improving Basic Programs	-	959,973	959,973
ESEA Title II Part A Teacher and Principal Training	-	176,272	176,272
National School Breakfast and Lunch Program	-	1,563,460	1,563,460
Title III Part A - English Language Acquisition and Enhancement	-	49,794	49,794
Teacher Incentive Fund	-	1,327,621	1,327,621
Career & Technical - Basic Grant	-	47,760	47,760
Summer School LEP	-	1,113	1,113
Total Federal Program Revenues	-	4,799,129	4,799,129
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	52,776,802	(52,776,802)	-
Total Revenues	54,441,112	(1,276,550)	53,164,562
Expenses			
Program Services:			
Instruction and Instructional-Related Services	27,495,427	-	27,495,427
Instructional and School Leadership	3,445,435	-	3,445,435
Support Services:			
Administrative Support Services	3,279,481	-	3,279,481
Support Services - Non-Student Based	10,078,686	-	10,078,686
Support Services - Student (Pupil)	6,059,521	-	6,059,521
Ancillary Services	167,379	-	167,379
Debt Service	3,894,396	-	3,894,396
Total Expenses	54,420,325	-	54,420,325
Change in Net Assets	20,787	(1,276,550)	(1,255,763)
Net Assets, Beginning of Year	1,080,077	3,711,176	4,791,253
Net Assets, End of Year	\$ 1,100,864	\$ 2,434,626	\$ 3,535,490

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, 2016 AND 2015

	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	29,920	-	29,920
Other Revenues	733,315	-	733,315
Total Local Support	1,387,781	-	1,387,781
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	-	40,942,149	40,942,149
Federal Program Revenues:			
IDEA Part B, Formula	-	565,609	565,609
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	-	3,277,993	3,277,993
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	44,003,438	(44,003,438)	-
Total Revenues	45,391,219	216,704	45,607,923
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	3,930,018	-	3,930,018
Total Expenses	45,347,925	-	45,347,925
Change in Net Assets	43,294	216,704	259,998
Net Assets, Beginning of Year	1,036,783	14,023,209	15,059,992
Prior Period Adjustment	-	(10,528,737)	(10,528,737)
Net Assets, End of Year	\$ 1,080,077	\$ 3,711,176	\$ 4,791,253

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, 2016 AND 2015

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
Change in Net Assets	\$ (1,255,763)	\$ 259,998
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	3,284,001	2,261,864
Amortization of Capitalized Bond Issuance Costs	59,618	59,618
(Increase) Decrease in Due from TEA and Other Governments	(704,958)	(224,314)
(Increase) Decrease in Prepaid Expenses	(187,643)	(33,296)
(Increase) Decrease in Other Receivables	(25,426)	80,880
(Increase) Decrease in Other Assets	(10,446)	-
Increase (Decrease) in Accounts Payable	(1,761,555)	642,755
Increase (Decrease) in Accrued Wages	381,236	(93,466)
Increase (Decrease) in Due to State Government	493	(5,062)
Increase (Decrease) in Due to Student Groups	9,617	85
Increase (Decrease) in Unearned Revenues	2,418	461
Increase (Decrease) in Accrued Employee Benefits	10,446	-
Increase (Decrease) in Accrued Interest Expense	(3,125)	(1,010,079)
Increase (Decrease) in Payroll Deductions and Withholdings	246,943	(560,310)
	45,856	1,379,134
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(5,925,388)	(29,239,756)
Construction in Progress	(155,864)	(1,286,900)
	(6,081,252)	(30,526,656)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Debt	(1,159,133)	(707,646)
	(1,159,133)	(707,646)
Net Increase/(Decrease) in Cash and Cash Equivalents	(7,194,529)	(29,855,168)
Cash and Cash Equivalents, Beginning of Year	25,001,361	54,856,529
Cash and Cash Equivalents, End of Year (includes restricted cash of \$3,950,954 and \$12,377,330 at August 31, 2016 and 2015, respectively)	\$ 17,806,832	\$ 25,001,361
Interest Paid During the Years Ended August 31, 2016 and 2015	\$ 4,259,984	\$ 5,358,145
Income Taxes Paid During the Years Ended August 31, 2016 and 2015	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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 AND 2015

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 its depository bank and other institutions. The depository bank is required to 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 bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2016, the carrying amount of the charter holder's deposits (cash demand accounts and interest-bearing accounts included in cash and cash equivalents) was \$17,798,302, and the bank balance was \$18,184,591. The corporation's cash deposits at August 31, 2016, and during the year ended August 31, 2016, 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 \$13,235,763 of fully collateralized investments in TexPool accounted for as cash equivalents.

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.

The corporation has restricted cash and cash equivalents of \$3,950,954 and \$12,377,330 as of August 31, 2016 and 2015, respectively. These amounts are deposited with Region's Bank in short-term cash sweep accounts. As of August 31, 2016, \$3,505,105 of bonds payable proceeds are restricted for future construction projects. The remaining \$445,849 is held in various reserve accounts and is restricted for debt service reserves by the corporation's bonds payable indentures.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

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, 2016:

- a. Depository: InterBank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$4,019,059.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$3,096,221 and occurred during the month of December 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, 2016 and 2015, 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, 2016 AND 2015

As of August 31, 2015 (the most recent information available), TRS had total net plan assets of \$128.5 billion and accumulated benefit obligation of \$163.8 billion, leaving a net pension liability of \$35.3 billion. TRS is 78.43% funded. There is not a collective-bargaining agreement that covers the plan.

State law provides for the following contribution rates for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Employees (members)	7.2%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

For 2015, 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 2016 and 2015 are shown below. Contributions made each year were equal to the required contributions.

	<u>2016</u>	<u>2015</u>
Employees (members)	\$1,999,979	\$1,533,665
Employers	\$ 580,431	\$ 455,664

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, 2016 AND 2015

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 2016 and 2015. For the years ended August 31, 2016 and 2015, the State's contributions to TRS Care were \$261,441 and \$219,558, respectively. The active member contributions were \$180,513 and \$148,773, respectively. The charter school's contributions were \$169,119 and \$135,206, respectively, which equaled the required contributions each year.

6. HEALTH CARE COVERAGE

During the years ended August 31, 2016 and 2015, full-time employees of the charter school were covered by a health insurance plan (the Plan). For the years ended August 31, 2016 and 2015, the charter school contributed a minimum of \$433 and \$376, 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, 2016 and 2015, 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, 2016 AND 2015

9. PROPERTY AND EQUIPMENT

Property and Equipment at August 31, 2016, were as follows:

	<u>Balance</u> <u>9/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/2016</u>
Land	\$ 5,632,137	\$ 10,611	\$ -	\$ 5,642,748
Buildings and Improvements	76,020,133	6,312,366	(2,040)	82,330,459
Furniture and Equipment	3,651,388	728,442	-	4,379,830
Vehicles	394,215	-	-	394,215
Capital Lease	708,252	-	-	708,252
Construction in Progress	1,286,900	155,863	(1,123,990)	318,773
Accumulated Depreciation	<u>(11,140,463)</u>	<u>(3,284,001)</u>	-	<u>(14,424,464)</u>
	<u>\$76,552,562</u>	<u>\$3,923,281</u>	<u>\$(1,126,030)</u>	<u>\$ 79,349,813</u>

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>(11,140,463)</u>
	<u>\$48,287,770</u>	<u>\$35,164,601</u>	<u>\$(6,899,809)</u>	<u>\$ 76,552,562</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, 2016 and 2015, the charter holder earned revenue of \$45,757,034 and \$40,648,205, respectively, from the Texas Education Agency (TEA). This constitutes approximately 86.07% and 89.13%, 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, 2016 AND 2015

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended August 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Foundation School Program	\$1,402,633	\$2,826,161
Campus Activity Funds	264,605	217,184
ESEA Title I Part A, Improving Basic Programs	156,869	183,840
IDEA Part B, Formula	-	4,411
IDEA Part B, Preschool	-	1,069
National School Lunch & Breakfast Program	610,519	478,511
	<u>\$2,434,626</u>	<u>\$3,711,176</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 16 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.

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, 2016.

\$35,750,000 in defeased bonds were outstanding at August 31, 2016.

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

A summary of bonds payable for the year ended August 31, 2016 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 09/01/15	Issued/ (Retired)	Amounts Outstanding 08/31/16	Amount due within one year
Education Revenue and Refunding Bonds – Series 2014A	2.00%-5.00%	85,645,000	85,315,000	(835,000)	84,480,000	1,380,000
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>91,830,000</u>	<u>(835,000)</u>	<u>90,995,000</u>	<u>1,380,000</u>
Bond Premium (Discount)			<u>7,341,927</u>	<u>(255,371)</u>	<u>7,086,556</u>	<u>-</u>
Total			<u>\$ 99,171,927</u>	<u>\$ (1,090,371)</u>	<u>\$ 98,081,556</u>	<u>\$ 1,380,000</u>

Debt service requirements are as follows:

Years ending 31-Aug	Principal	Interest	Requirements
2017	\$ 1,380,000	\$ 4,237,673	\$ 5,617,673
2018	1,440,000	4,182,473	5,622,473
2019	1,495,000	4,124,874	5,619,874
2020	1,570,000	4,050,123	5,620,123
2021	1,650,000	3,971,624	5,621,624
2022-2026	9,565,000	18,536,117	28,101,117
2027-2031	12,205,000	15,893,117	28,098,117
2032-2036	23,375,000	11,568,647	34,943,647
2037-2041	22,425,000	6,213,600	28,638,600
2042-2046	15,890,000	1,287,800	17,177,800
Thereafter	-	-	-
	<u>\$ 90,995,000</u>	<u>\$ 74,066,048</u>	<u>\$ 165,061,048</u>

The Corporation received a Qualified School Construction Bond subsidy of \$276,639 during the year ending August 31, 2016 and \$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, 2016 AND 2015

13. OPERATING LEASES

The School leased facilities through three operating leases maturing between 2019 and 2035. The minimum monthly payment at August 31, 2016 was \$145,770. Rent expense was \$2,118,450 and \$1,868,174, respectively, for the years ended August 31, 2016 and 2015.

Future minimum payments under noncancellable operating leases as of August 31, 2016 are as follows:

2016-17	\$ 1,749,242
2017-18	1,853,863
2018-19	1,881,441
2019-20	1,035,894
2020-21	1,038,514
Thereafter	<u>5,902,918</u>
Total	<u>\$ 13,461,872</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>(81,889)</u>
			<u>\$ 198,872</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, 2016:

Years ending August 31,	Annual Lease Payments
2017	\$ 74,372
Thereafter	<u>-</u>
Total minimum lease payments	74,372
Less: amount representing interest	2,862
Present value of net minimum payments	<u>\$ 71,510</u>

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

15. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Corporation through January 4, 2017, 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. BOND DEFEASANCE

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 Corporation has received a legal opinion that the 2011A and 2011B bond series are considered legally defeased. Accordingly, the Corporation has removed the liability for these bonds from its financial statements.

17. PRIOR PERIOD ADJUSTMENT

In May 2014, the Corporation defeased its 2011A and 2011B bond series as part of the Education Revenue and Refunding Bonds – Series 2014A (see Note 16). The Corporation has made a prior period adjustment to reflect the May 2014 refunding as a legal defeasance of the 2011A and 2011B bond series. The prior period adjustment accounts for the loss on refunding as an expense in fiscal year 2014. The change resulted in a decrease in total net assets as of August 31, 2014 of \$10,528,737. Additionally, the change in net assets previously reported for the fiscal year ended August 31, 2015 has increased by \$1,630,694.

**Specific-Purpose
Financial Statements**

LIFESCHOOL OF DALLAS

Exhibit B-1

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,855,878	\$ 12,624,031
Cash and cash equivalents - restricted	3,950,954	12,377,330
Due from TEA and other governments	5,234,896	4,529,938
Prepaid expenses	486,778	299,135
Other receivables	74,535	49,109
Total Current Assets	23,603,041	29,879,543
Property and Equipment		
Land	5,642,748	5,632,137
Building and improvements	82,330,459	76,020,133
Furniture and equipment	4,379,830	3,651,388
Vehicles	394,215	394,215
Assets purchased under capital lease	708,252	708,252
Construction in progress	318,773	1,286,900
Less accumulated depreciation	(14,424,464)	(11,140,463)
Total Property and Equipment	79,349,813	76,552,562
Other Assets		
Capitalized Bond Issuance Costs	1,591,495	1,651,113
Other Assets	11,446	1,000
	1,602,941	1,652,113
Total Assets	\$ 104,555,795	\$ 108,084,218
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,811,434	\$ 3,572,989
Accrued wages	571,492	190,256
Payroll deductions and withholdings	247,643	700
Due to state government	493	-
Due to student groups	36,111	26,494
Unearned Revenues	2,879	461
Accrued employee benefits	10,446	-
Accrued interest expense	186,742	189,867
Current portion of capital leases payable	71,510	68,762
Current portion of bond payable	1,380,000	835,000
Total Current Liabilities	4,318,750	4,884,529
Long Term Debt (net of current portions)		
Capital leases payable	-	71,510
Bonds payable	96,701,555	98,336,926
Total Long-Term Debt	96,701,555	98,408,436
Total Liabilities	101,020,305	103,292,965
Net Assets		
Unrestricted	1,100,864	1,080,077
Temporarily restricted	2,434,626	3,711,176
Total Net Assets	3,535,490	4,791,253
Total Liabilities and Net Assets	\$ 104,555,795	\$ 108,084,218

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, 2016 AND 2015

	2016		Totals
	Unrestricted	Temporarily Restricted	
Revenues			
Local Support:			
Contributions	\$ 60,365	\$ -	\$ 60,365
Food Service Activity	684,256	-	684,256
Athletic Activities	236,251	-	236,251
Rent	27,500	-	27,500
Interest	36,699	-	36,699
Other Revenues	619,239	-	619,239
Total Local Support	1,664,310	-	1,664,310
State Program Revenues:			
Foundation School Program	-	45,757,034	45,757,034
Instructional Materials Fund	-	935,888	935,888
Food Service	-	8,201	8,201
Total State Program Revenues	-	46,701,123	46,701,123
Federal Program Revenues:			
IDEA Part B, Formula	-	673,136	673,136
ESEA Title I Part A Improving Basic Programs	-	959,973	959,973
ESEA Title II Part A Teacher and Principal Training	-	176,272	176,272
National School Breakfast and Lunch Program	-	1,563,460	1,563,460
Title III Part A - English Language Acquisition and Enhancement	-	49,794	49,794
Teacher Incentive Fund	-	1,327,621	1,327,621
Career & Technical - Basic Grant	-	47,760	47,760
Summer School LEP	-	1,113	1,113
Total Federal Program Revenues	-	4,799,129	4,799,129
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	52,776,802	(52,776,802)	-
Total Revenues	54,441,112	(1,276,550)	53,164,562
Expenses			
Program Services:			
Instruction and Instructional-Related Services	27,495,427	-	27,495,427
Instructional and School Leadership	3,445,435	-	3,445,435
Support Services:			
Administrative Support Services	3,279,481	-	3,279,481
Support Services - Non-Student Based	10,078,686	-	10,078,686
Support Services - Student (Pupil)	6,059,521	-	6,059,521
Ancillary Services	167,379	-	167,379
Debt Service	3,894,396	-	3,894,396
Total Expenses	54,420,325	-	54,420,325
Change in Net Assets	20,787	(1,276,550)	(1,255,763)
Net Assets, Beginning of Year	1,080,077	3,711,176	4,791,253
Net Assets, End of Year	\$ 1,100,864	\$ 2,434,626	\$ 3,535,490

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, 2016 AND 2015

	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	29,920	-	29,920
Other Revenues	733,315	-	733,315
Total Local Support	<u>1,387,781</u>	<u>-</u>	<u>1,387,781</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
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>44,003,438</u>	<u>(44,003,438)</u>	<u>-</u>
Total Revenues	<u>45,391,219</u>	<u>216,704</u>	<u>45,607,923</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	3,930,018	-	3,930,018
Total Expenses	<u>45,347,925</u>	<u>-</u>	<u>45,347,925</u>
Change in Net Assets	<u>43,294</u>	<u>216,704</u>	<u>259,998</u>
Net Assets, Beginning of Year	<u>1,036,783</u>	<u>14,023,209</u>	<u>15,059,992</u>
Prior Period Adjustment	<u>-</u>	<u>(10,528,737)</u>	<u>(10,528,737)</u>
Net Assets, End of Year	<u>\$ 1,080,077</u>	<u>\$ 3,711,176</u>	<u>\$ 4,791,253</u>

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

LIFESCHOOL OF DALLAS

Exhibit B-3

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2016</u>	<u>2015</u>
Change in Net Assets	\$ (1,255,763)	\$ 259,998
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation and amortization	3,284,001	2,261,864
Amortization of Capitalized Bond Issuance Costs	59,618	59,618
(Increase) Decrease in Due from TEA and Other Governments	(704,958)	(224,314)
(Increase) Decrease in Prepaid Expenses	(187,643)	(33,296)
(Increase) Decrease in Other Receivables	(25,426)	80,880
(Increase) Decrease in Other Assets	(10,446)	-
Increase (Decrease) in Accounts Payable	(1,761,555)	642,755
Increase (Decrease) in Accrued Wages	381,236	(93,466)
Increase (Decrease) in Due to State Government	493	(5,062)
Increase (Decrease) in Due to Student Groups	9,617	85
Increase (Decrease) in Unearned Revenues	2,418	461
Increase (Decrease) in Accrued Employee Benefits	10,446	
Increase (Decrease) in Accrued Interest Expense	(3,125)	(1,010,079)
Increase (Decrease) in Payroll Deductions and Withholdings	246,943	(560,310)
	<u>45,856</u>	<u>1,379,134</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Land, Buildings, and Equipment	(5,925,388)	(29,239,756)
Construction in Progress	(155,864)	(1,286,900)
	<u>(6,081,252)</u>	<u>(30,526,656)</u>
Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Debt	(1,159,133)	(707,646)
	<u>(1,159,133)</u>	<u>(707,646)</u>
Net Cash Provided (Used) by Financing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	(7,194,529)	(29,855,168)
Cash and Cash Equivalents, Beginning of Year	<u>25,001,361</u>	<u>54,856,529</u>
Cash and Cash Equivalents, End of Year (includes restricted cash of \$3,950,954 and \$12,377,330 at August 31, 2016 and 2015, respectively)	<u>\$ 17,806,832</u>	<u>\$ 25,001,361</u>
Interest Paid During the Years Ended August 31, 2016 and 2015	\$ 4,259,984	\$ 5,358,145
Income Taxes Paid During the Years Ended August 31, 2016 and 2015	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, 2016 AND 2015

Expenses	<u>2016</u>	<u>2015</u>
6100 Payroll Costs	\$ 32,909,205	\$ 26,829,422
6200 Professional and Contracted Services	7,652,405	7,252,315
6300 Supplies and Materials	5,528,410	4,248,185
6400 Other Operating Costs	4,435,909	3,087,985
6500 Debt	<u>3,894,396</u>	<u>3,930,018</u>
Total Expenses	<u>\$ 54,420,325</u>	<u>\$ 45,347,925</u>

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

LIFESCHOOL OF DALLAS

Exhibit D-1

STATEMENT OF CAPITAL ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016

	Ownership Interest		
	Local	State	Federal
1510 Land and Improvements	\$ -	\$ 5,642,748	\$ -
1520 Buildings and Improvements	55,597	82,274,862	-
1531 Vehicles	-	394,215	-
1539 Furniture and Equipment	4,750	3,689,634	583,721
1549 Furniture and Equipment	-	16,768	84,957
1559 Capital Lease	-	708,252	-
1580 Construction in Progress	-	318,773	-
1570 Less Accumulated Depreciation	(42,530)	(13,967,359)	(414,575)
Total Property and Equipment	<u>\$ 17,817</u>	<u>\$ 79,077,893</u>	<u>\$ 254,103</u>

Note: Accumulated depreciation of \$13,967,359 above on capital assets acquired with state funds includes \$291,564 accumulated depreciation on assets recorded under capital leases.

LIFESCHOOL OF DALLAS

Exhibit E-1

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	\$ 60,000	\$ 266,931	\$ 265,272	\$ (1,659)
5750 Cocurricular and Enterprising Activities	257,190	1,385,628	1,399,038	13,410
Total Local Support	317,190	1,652,559	1,664,310	11,751
State Program Revenues:				
5810 Foundation School Program Act Revenues	43,275,367	47,149,467	45,757,034	(1,392,433)
5820 State Program Revenues Distributed by TEA	585,000	1,163,510	944,089	(219,421)
Total State Program Revenues	43,860,367	48,312,977	46,701,123	(1,611,854)
Federal Program Revenues:				
5920 Federal Revenues Distributed by TEA	2,534,592	4,308,895	3,471,508	(837,387)
5940 Federal Revenues Distributed Directly from the Federal Government	1,767,982	1,767,982	1,327,621	(440,361)
Total Federal Program Revenues	4,302,574	6,076,877	4,799,129	(1,277,748)
Total Revenues	48,480,131	56,042,413	53,164,562	(2,877,851)
Expenses				
11 Instruction	23,974,562	27,319,694	25,800,908	1,518,786
12 Instructional Resources & Media Services	99,765	177,327	134,731	42,596
13 Curriculum & Instructional Staff Development	1,890,522	1,894,146	1,559,788	334,358
21 Instructional Leadership	683,820	712,137	619,426	92,711
23 School leadership	2,760,771	2,974,782	2,826,009	148,773
31 Guidance, Counseling, & Evaluation Services	1,117,303	1,334,551	1,211,328	123,223
33 Health Services	437,778	500,421	425,092	75,329
34 Student Transportation	29,841	42,041	35,345	6,696
35 Food Services	1,168,250	2,505,486	2,126,616	378,870
36 Cocurricular/Extracurricular Activities	1,525,934	2,537,190	2,261,140	276,050
41 General Administration	3,517,806	4,268,690	3,279,481	989,209
51 Plant Maintenance & Operations	7,491,894	7,564,244	6,987,982	576,262
52 Security & Monitoring Services	1,226,583	1,268,541	1,073,805	194,736
53 Data Processing Services	1,357,086	2,105,627	2,016,899	88,728
61 Community Services	13,220	12,262	1,786	10,476
71 Debt Service	7,400,000	8,000,000	3,894,396	4,105,604
81 Fundraising	53,155	293,001	165,593	127,408
Total Expenses	54,748,290	63,510,140	54,420,325	9,089,815
Change in Net Assets	(6,268,159)	(7,467,727)	(1,255,763)	6,211,964
Net Assets, Beginning of Year	4,791,253	4,791,253	4,791,253	-
Net Assets, End of Year	\$ (1,476,906)	\$ (2,676,474)	\$ 3,535,490	\$ 6,211,964

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

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

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

To the Board of Directors
LifeSchool of Dallas
Red Oak, 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, 2016 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 4, 2017.

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

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

January 4, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
LifeSchool of Dallas
Red Oak, 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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. 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 4, 2017

LIFESCHOOL OF DALLAS (THE CHARTER HOLDING)

Exhibit F-1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

I. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weaknesses identified? ___ Yes X No

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

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

Material weaknesses identified? ___ Yes X No

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

Type of auditors' report issued on compliance for major programs Unmodified

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

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? X 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, 2016

CORRECTIVE ACTION PLAN:

None Required

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

No prior audit findings.

LIFESCHOOL OF DALLAS

Exhibit I-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

(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	\$ 1,327,621
Total Direct Program			<u>1,327,621</u>
<u>Passed Through Region 10 Education Service Center</u>			
Title III, Part A - English Language Acquisition	84.365A	16671001057950	45,544
Title III, Part A - English Language Acquisition	84.365A	17671001057950	4,250
Total CFDA Number 84.365A			<u>49,794</u>
Total Passed Through Region 10 Education Service Center			<u>49,794</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101057807	912,687
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101057807	47,286
Total CFDA Number 84.010A			<u>959,973</u>
*IDEA - Part B, Formula	84.027	156600010578076600	5,430
*IDEA - Part B, Formula	84.027	166600010578076600	646,909
*IDEA - Part B, Formula	84.027	176600010578076600	20,797
Total Special Education Cluster (IDEA)			<u>673,136</u>
Career and Technical - Basic Grant	84.048	16420006057807	47,760
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501057807	165,446
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17694501057807	10,826
Total CFDA Number 84.367A			<u>176,272</u>
Summer School LEP	84.369A	69551502	1,113
Total Passed Through State Department of Education			<u>1,858,254</u>
TOTAL DEPARTMENT OF EDUCATION			<u>\$ 3,235,669</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401601	\$ 318,837
*National School Lunch Program - Cash Assistance	10.555	71301601	1,157,322
*National School Lunch Program - Non-Cash Assistance	10.555	71301601	87,301
Total CFDA Number 10.555			<u>1,244,623</u>
Total Child Nutrition Cluster			<u>1,563,460</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,563,460</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$ 1,563,460</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,799,129</u></u>

*Clustered Programs

LIFESCHOOL OF DALLAS (THE CHARTER HOLDER)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

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 the Uniform Guidance.